

Quarterly Update: Foreign Ownership of U.S. Assets

January 21, 2015

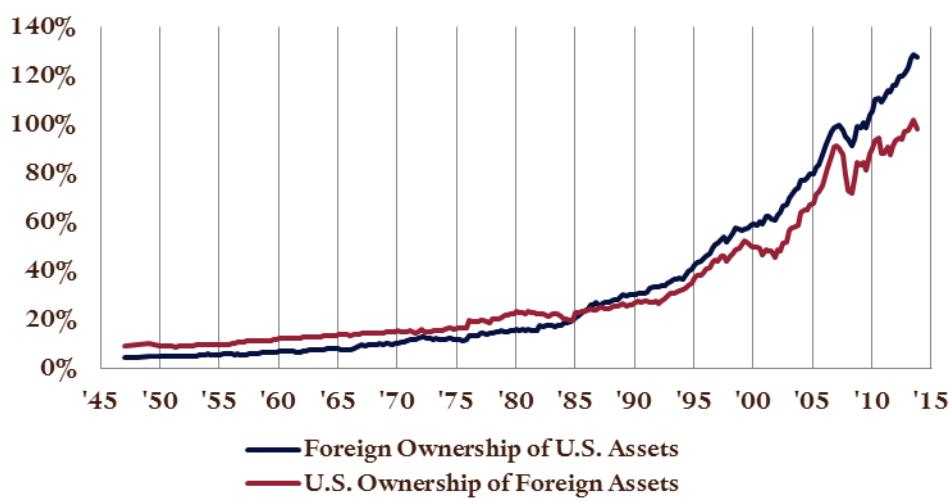
Dinah Walker, Analyst

Foreign ownership of U.S. assets has increased significantly since 1945, growing especially quickly over the past two decades. This growth is the result of a general increase in cross-border investment, with rising foreign ownership of U.S. assets nearly matched by rising U.S. ownership of assets abroad.

These graphs reflect the following shifts:

- U.S. ownership of foreign assets fell 2.3 percent in the third quarter of 2014, the first decline in over a year.
- Foreign ownership of U.S. bonds issued by government-sponsored enterprises (agencies) rose 2.4 percent in the third quarter of 2014, driven by a 4.8 percent increase in private holdings of agencies. Foreigners hold about half as many agency securities as they did in 2008.
- Foreign ownership of treasuries rose 1.1 percent in the third quarter of 2014. Both private and official sector holdings increased.

FIGURE 1: OWNERSHIP OF FINANCIAL ASSETS (PERCENTAGE OF U.S. GDP)



- Cross-border investment has grown as financial markets have become increasingly globalized.
- Since 1985, foreigners have consistently owned more U.S. assets than Americans own foreign assets.
- Between the third quarter of 2013 and the third quarter of 2014, U.S. ownership of foreign assets increased 6 percent and foreign ownership of U.S. assets increased 10 percent.

Data Source: Federal Reserve, Bureau of Economic Analysis

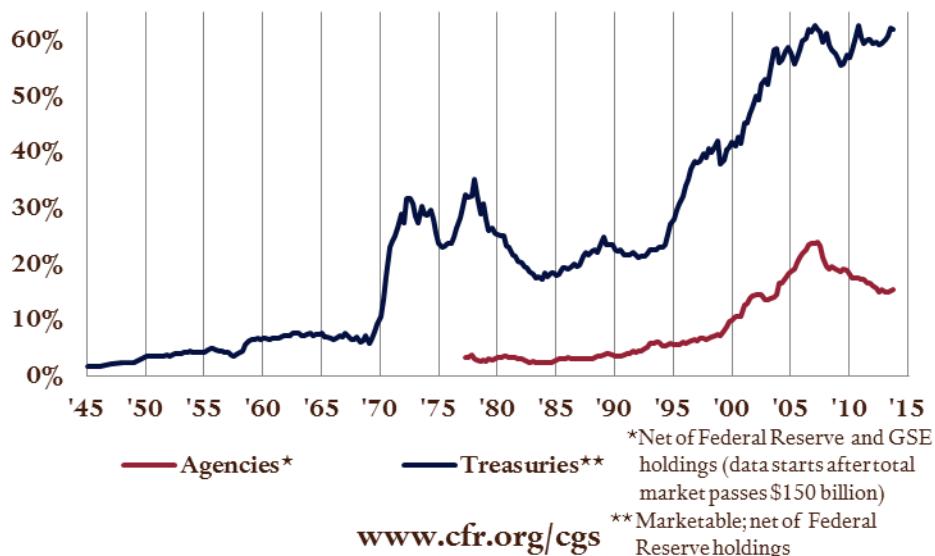
FIGURE 2: MARKET SIZE* (PERCENTAGE OF U.S. GDP)



Data Source: Federal Reserve, Bureau of Economic Analysis

- If the Federal Reserve's holdings are excluded, foreigners own nearly 60 percent of outstanding marketable treasuries.
- Foreigners own less-significant portions of other asset markets.
- Their holdings of equities, though large in dollar terms, are small relative to the size of the equity market.

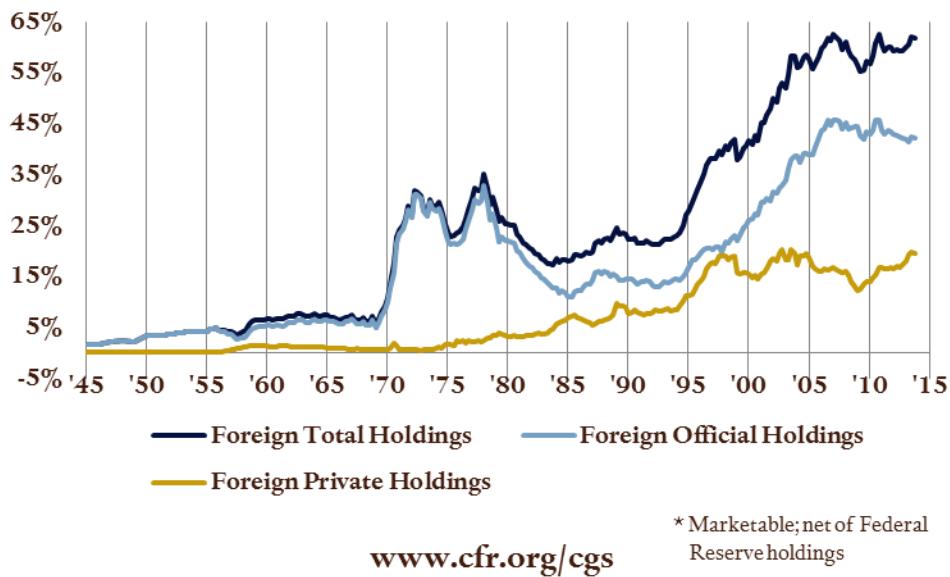
FIGURE 3: FOREIGN OWNERSHIP OF U.S. TREASURIES AND AGENCIES (PERCENTAGE OF TOTAL MARKET)



Data Source: Federal Reserve

- Foreign ownership of U.S. treasuries has risen considerably since the middle of the 1990s and has been keeping pace with the growth of the market since 2012.
- Before 2008, foreign ownership of the agency market was growing at a relatively rapid pace.
- Since 2008, foreign holdings of agencies have declined steadily.

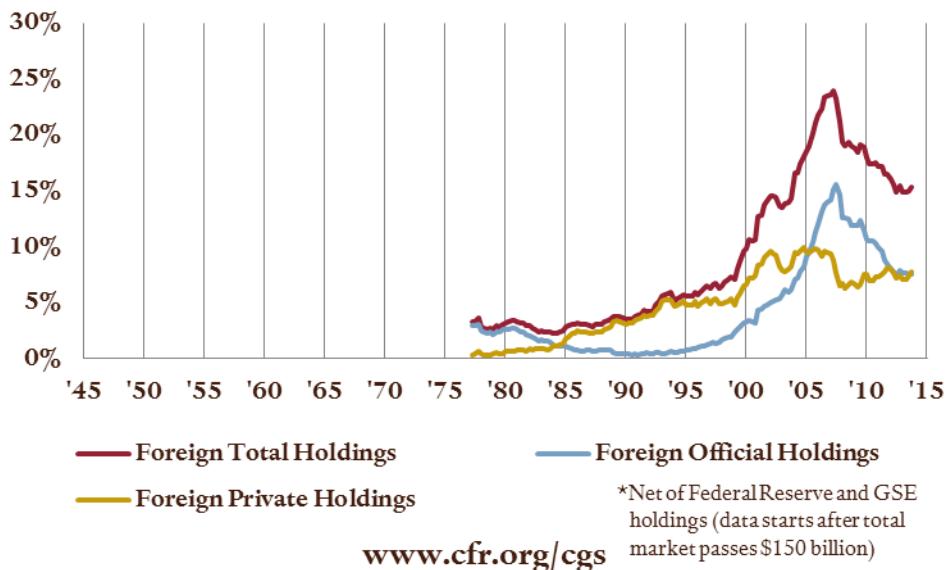
FIGURE 4: FOREIGN OWNERSHIP OF U.S. TREASURIES*
 (PERCENTAGE OF TOTAL MARKET)



Data Source: Federal Reserve

- The growth in foreign ownership of treasuries has come from official buyers (i.e., foreign central banks and sovereign wealth funds).
- Foreign private holdings have not grown as a share of the market over the past ten years.
- The much-discussed “flight to safety,” which is presumed to underpin the dollar, largely reflects the huge policy-driven demand for dollar reserves from emerging-market central banks, rather than the preferences of private sector investors.

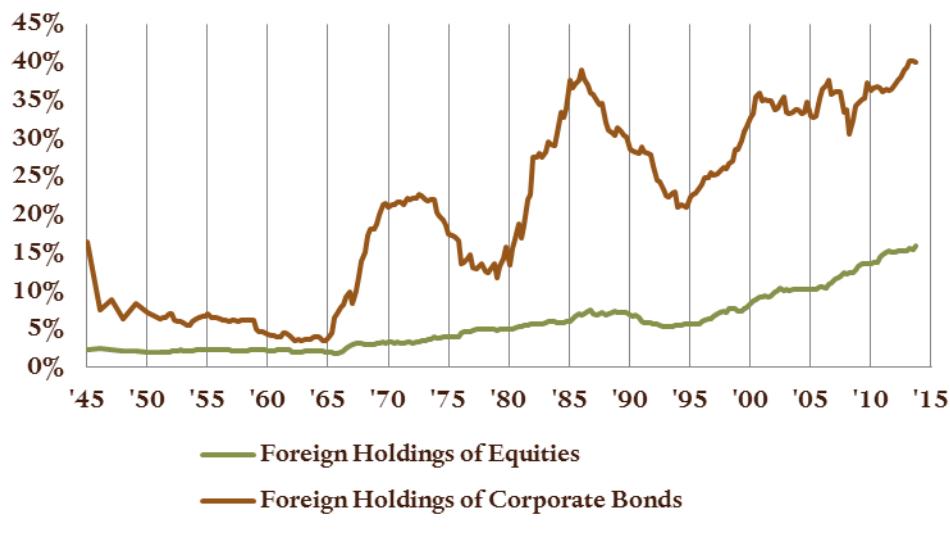
FIGURE 5: FOREIGN OWNERSHIP OF U.S. AGENCIES*
 (PERCENTAGE OF TOTAL MARKET)



Data Source: Federal Reserve

- A significant portion of growth in foreign ownership of agencies prior to 2008 was driven by official buyers.
- Since 2008, foreign official buyers have dramatically reduced their holdings of agency securities, from nearly 16 percent of the market to 8 percent.
- Private foreign holdings of agencies rose 5 percent in the third quarter of 2014.

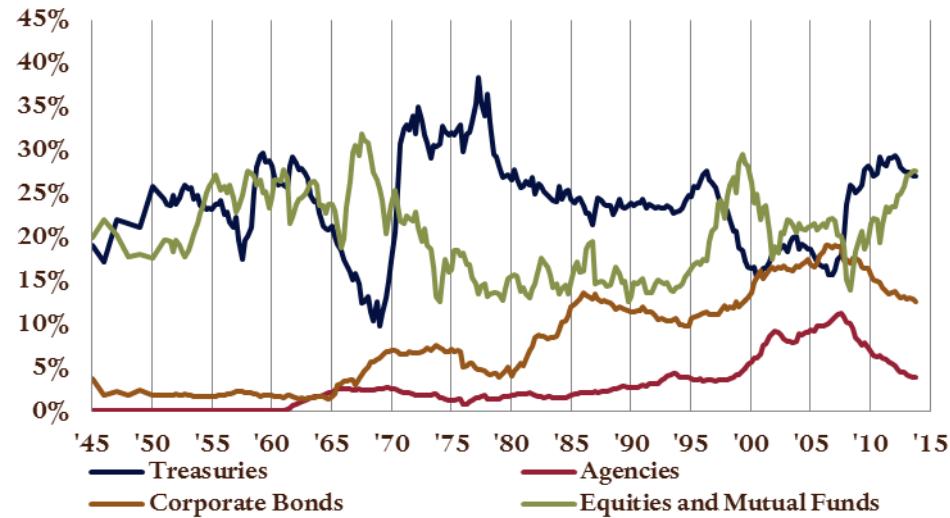
**FIGURE 6: FOREIGN OWNERSHIP OF U.S. CORPORATE BONDS AND EQUITIES
(PERCENTAGE OF TOTAL MARKET)**



www.cfr.org/cgs

Data Source: Federal Reserve

**FIGURE 7: FOREIGNERS' U.S. PORTFOLIOS
(PERCENTAGE OF TOTAL FOREIGN HOLDINGS)**



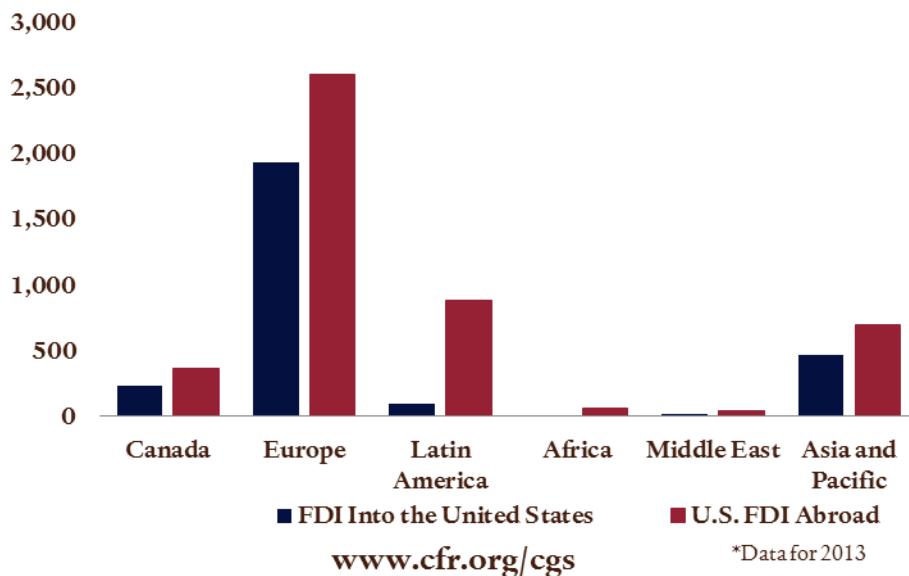
www.cfr.org/cgs

Data Source: Federal Reserve

- Foreign ownership of corporate bonds as a percentage of the total market has grown since 1945. Although growth has been modest over the past two decades, foreign holdings are now at levels not seen since the late 1980s.
- Foreign ownership of U.S. equities has grown slowly but steadily since the 1970s.

- The foreign preference for treasury ownership had been waning over the past forty years but has returned since the crisis.
- Since the crisis, foreigners have allocated a declining share of their U.S. portfolios to corporate bonds and agencies.
- Their allocation to equities and mutual funds has rebounded since 2008 and is now close to the 2000 peak.

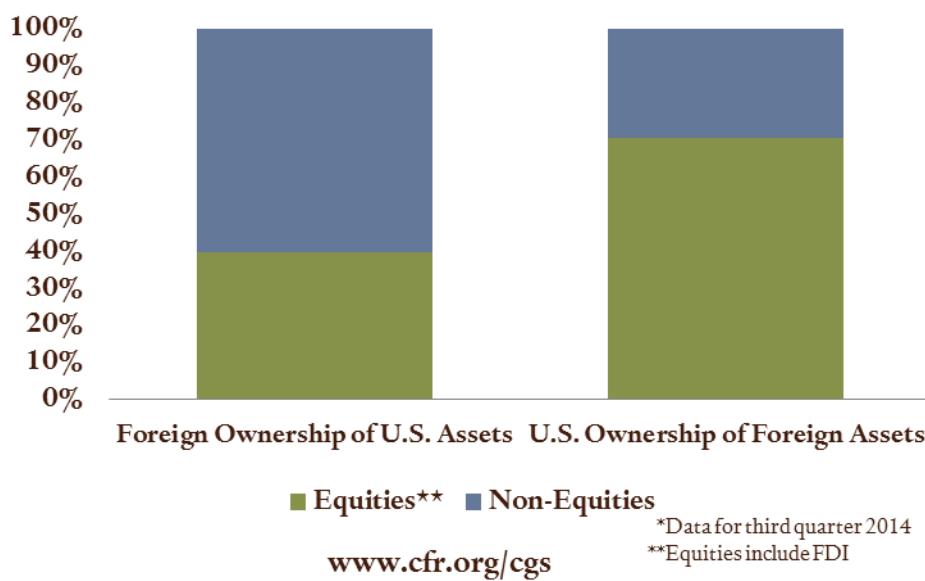
FIGURE 8: FOREIGN DIRECT INVESTMENT (FDI) BY REGION*
 (BILLIONS OF U.S. DOLLARS)



- The United States invests more directly into foreign enterprises abroad than foreigners do into the United States.
- The sharpest contrast is in Latin America.

Data Source: Bureau of Economic Analysis

FIGURE 9: PORTFOLIO RISK* (PERCENTAGE OF TOTAL PORTFOLIO)



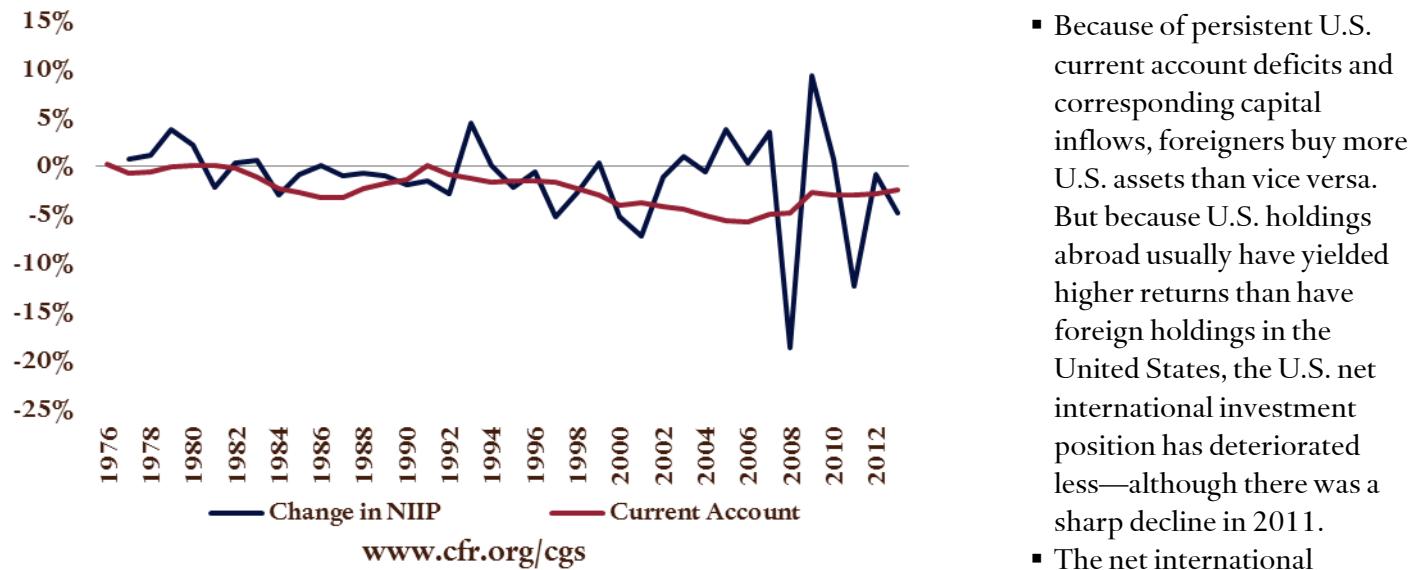
- The United States tends to hold riskier assets abroad (equities) than foreigners hold in the United States.

Data Source: Federal Reserve

*Data for third quarter 2014

**Equities include FDI

**FIGURE 10: U.S. NET INTERNATIONAL INVESTMENT POSITION (NIIP)
VERSUS CURRENT ACCOUNT (PERCENTAGE OF GDP)**



Data Source: Bureau of Economic Analysis

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