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The shortage of safe assets in the US investment portfolio: Some international evidence[☆]

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Abstract

This paper develops a Bayesian Global VAR (GVAR) model to track the international transmission dynamics of two stylized shocks, namely a supply and demand shock to US-based safe assets. Our main findings can be summarized as follows. First, we find that (positive) supply-sided shocks lead to pronounced increases in economic activity which spills over to foreign countries. The impact of supply-sided shocks can also be seen for other quantities of interest, most notably equity prices and exchange rates in Europe. Second, a demand-sided shock leads to an appreciation of the US dollar and generally lower yields on US securities, forcing investors to shift their portfolios towards foreign fixed income securities. This yields sizable positive effects on US output, equity prices and a general decrease in financial market volatility.

JEL classification: C32, E23, E32

Keywords: Safe Assets, Zero Lower Bound, Treasury Bonds, Shortage, Global VAR.

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