GLOBAL OR REGIONAL SAFE ASSETS:
EVIDENCE FROM BOND SUBSTITUTION PATTERNS
Global or Regional Safe Assets: Evidence from Bond Substitution Patterns

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Granular Look at Global Bond Markets

- Role of Global & Regional Safe Assets in International Monetary Policy Transmission
- New perspective: demand elasticities of international bond investors
  - Own elasticities → degree of portfolio rebalancing
  - Substitution elasticities → composition of portfolio rebalancing
  - Estimated at detailed bond level for ~57% of global debt securities
- Lessons:
  o Different Fed vs ECB spillovers: global (US Treasuries) vs regional safe assets (German Bunds)
  o Less substitution between safe and risky assets during financial crises → QE less effective

Bond Demand Model & Elasticities

- Bond demand function captures funds’ heterogeneous:
  ✓ Portfolio return maximization
  ✓ Risks: credit, duration, liquidity, country, FX
  ✓ Mandates: geographic, asset type
  ✓ Time-varying risk aversion
  → Builds on Koijen & Yogo (2019, 2020): flexible substitution patterns
- Instruments for bond returns:
  o Fed & ECB shocks to different maturities spill over heterogeneously by bond country, currency
  (Miranda-Agrippino & Nenova, 2022)

Substitution elasticities:

\[
\eta_{ij}(k) = \frac{\partial \log(w_{ij}(k))}{\partial \text{predicted excess return of bond } k} \times 100
\]

US Treasuries: Global Safe Asset Spillovers

German Bunds: Regional Safe Asset Spillovers

Flights to Safety Impair Monetary Policy Transmission

- US Treasuries: Global Safe Asset Spillovers
- German Bunds: Regional Safe Asset Spillovers

... between global safe and risky assets

... within euro area sovereign bond market