Discussion of:

What Do $40 Trillion of Portfolio Holdings Say about Monetary Policy Transmission?

Chuck Fang (Drexel) & Kairong Xiao (Columbia GSB, NBER)

Melina Papoutsi
European Central Bank

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Research Question & Answer

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Using \$40tn of granular holdings data, the authors show the demand shift *does not reverse*, it is absorbed by *new issuance*.

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Bottom line

The yield effect fades, but the real impact – corporate and mortgage borrowing – persists.
Decoupling reflects a shift from the *price* margin to the *quantity* margin, not weaker transmission.

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Implication

The demand shift persists and it is the *new issuance* that ultimately clears the market.

Methodology & Key Results

Demand system

Koijen–Yogo (2019) style asset demand system, with **random coefficients** (Berry, Levinsohn, Pakes, 1995): substitution is *"localized"* to bonds with similar duration/rating.

Identification

Instruments: bond characteristics (own & peer) and flow-induced trading by other investors (Lou, 2012) focusing on the idiosyncratic component of flows (PC).

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Headline results

- Investors' "helping hand" is **4**$\times$ as important as the risk-free rate for corporate/mortgage issuance.
- 10Y term spread comoves 19bp with short rate; demand side amplifies by 48bp, issuance offsets 39bp.
- QE: for every \$1 Fed buys, private investors buy additional 40 cents.

What I Liked

Rich and flexible methodology

The random-coefficients demand system is a strong contribution:
captures "localized" substitution that standard fixed-coefficient demand models cannot

Impressive data work

546-mil.investor-bond-quarter-observation data across five investor types from 2003-2024;
$40 tril. in portfolio holdings.

New insight on decoupling

Low-frequency decoupling does **not** mean the high-frequency response was noise.
The persistent demand shift has migrated from the **price margin** to the **quantity margin**,
with real consequences for how we read high-frequency event studies.

Sample Period and Asymmetry

- Paper's framing is "as the short rate falls" while the sample period is 2003–2024.
- **Mortgage convexity is one-sided:** refinancing surges when rates fall, but no equivalent "extension scramble" when rates rise.
- **Retail flows** may respond asymmetrically: inflows when rates fall vs. outflows in hiking cycles are not symmetric.

Question for the authors

Do the estimates hold up symmetrically across the easing vs. the 2022–23 hiking cycle?
What happened in the ZLB period?
The euro area's negative-rate period offers a rich laboratory to test different periods.

Foreign Investors & Foreign-Issued Assets

Foreign investors only partially modeled

- Foreign-domiciled *mutual funds* are included, but foreign official/private holders (foreign central banks, sovereign wealth funds, foreign banks/insurers) are part of the "residual" sector, outside the structural demand system.
- Foreign official Treasury holdings are large and partly reserve-management driven, different than domestic institutional demand.

Foreign bonds treated as an outside asset

- Sensible for duration purposes, but it means cross-border rebalancing (Hau–Rey; Camanho, Hau & Rey) into/out of euro-area or other foreign bonds isn't structurally captured.

European relevance

US monetary policy's yield effects may be partly transmitted *through* European investor reallocation – more than a purely domestic demand system suggests.

Within-Sector Heterogeneity

- **Mutual funds – retail vs. institutional share classes:** same fund, same portfolio, different investor base. If flows are return-chasing, the effect should be stronger in retail share classes.
- **Banks – HTM vs. AFS:** does duration extension concentrate in HTM-heavy banks? Potential accounting-arbitrage hiding risk from mark-to-market (SVB)?
- **Banks – distance to regulatory capital minimums:** do capital-constrained banks participate in the "helping hand" less than well-capitalized banks?
- **Insurers:** use a continuous measure of annuity-heavy vs. traditional liability mix; does an annuity heavy insurer extend duration more?

Why this matters

These identify *within* investor categories using data the paper already has.

Further Extensions – Using Existing US Data

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- **Real outcomes:** match corporate issuance to firm-level investment (Compustat).

A European Lens I – MBS Convexity Channel

US Setting, Assumptions & Result

Setting: agency MBS pass-through pools, prepayment option embedded, sold to an investor base.

Assumption: as rates fall, refinancing propensity rises $\Rightarrow$ MBS duration shortens mechanically.

Result: banks/insurers offset by extending Treasury/corporate duration.
This channel is the largest amplifying force of the total demand-side amplification.

European Institutional Detail

Institutional detail: mortgages are funded via bank balance sheets (deposits) and covered bonds; prepayment sensitivity is far lower.

Question for the authors: would you expect the "helping hand" to be structurally weaker in the euro area absent this channel?

A European Lens II — Insurer Duration Matching

US Setting, Assumptions & Result

Setting: US insurers are regulated at the state level under RBC rules.

Assumption: duration matching is a largely voluntary hedging response to liability convexity.

Result: life insurers extend Treasury/corporate duration.

European Institutional Detail

Institutional detail: Solvency II (binding EU since 2016) is a **market-consistent, fair-value** regime, directly capturing asset-liability duration mismatch.

Question for the authors: would you expect this channel to be quantitatively *stronger* and more uniform across European insurers than the US life/P&C heterogeneity?

A European Lens III — Sovereign Issuance

US Setting, Assumptions & Result

Setting: a single Treasury issuer with a deep, liquid market; corporate and mortgage issuance absorb demand.

Assumption: issuance can expand elastically along a single benchmark curve as demand rises.

Result: net issuance reaches 0.86% of the market annually, matches cumulative demand by quarter 7, and dampens the term spread by 39bp.

European Institutional Detail

Institutional detail: sovereign issuance is split across issuer countries with different credit risk.

Why different: there is no single "euro-area Treasury" that can flexibly expand aggregate supply the way the US Treasury does.

Question for the authors: would the marginal clearing mechanism shift from issuance *volume* to relative sovereign *spreads*?

Further Extensions – Using EU Data

- **European replication:** re-estimate the demand system using ESCB Securities Holdings Statistics (SHS) to directly test the MBS, Solvency II, and fragmented-issuance predictions.
- **Model foreign investors:** use cross-border holdings to explore how US MP transmits through European investor reallocation.
- **ZLB/negative-rate laboratory:** test the asymmetry channel more cleanly.

Closing Remarks

Congratulations to the authors on an outstanding contribution.

Three contributions in one paper: flexible new empirical toolkit, ambitious data effort, and a novel, convincing answer to a puzzle.

Questions to leave with the room:

Would the same "decoupling" conclusion hold in the euro area?
Would the balance between *price absorption* and *quantity absorption* look different in Europe?
What would that imply for how the ECB should read the speed of its MP transmission?

Thank you and Congratulations to all ChaMPions!