

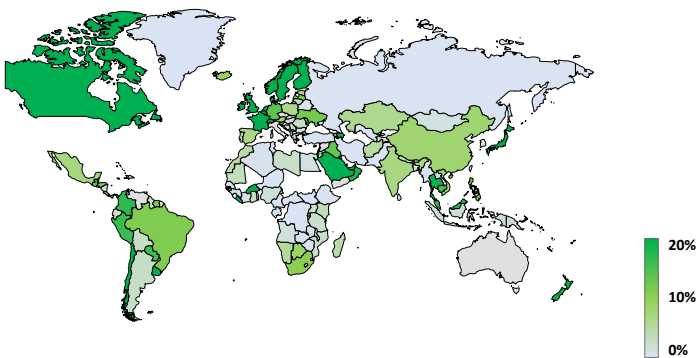
Economic & Market Watch Intelligence Brief

Briefing

- Even though the federal debt is growing, it comprises a smaller share of foreign investment. In 2012, 39% of foreign investment was held in U.S. Treasuries. That share has steadily declined such that, as of 2023, 27% of foreign investment was held in U.S. Treasuries (Figure 1).
- In 2012, 42% of foreign money invested in the U.S. was held in equities and corporate debt. By 2023, this share had grown to 54% (Figure 2).
- Since the U.S. dollar's exchange rate floats (i.e., it is determined by market forces), dollars leaving the U.S. due to trade deficits, by definition, return as foreign investment in U.S. securities. Over time, as the trade deficit has worsened, foreign investment in U.S. securities has grown (Figure 3).
- Accounting rules restrict the definition of "exports" to goods and services, thereby excluding financial transactions from trade calculations. This means that one of America's greatest exports isn't counted as an export at all: entrepreneurship. When Americans sell ownership of U.S. companies to foreigners, Americans are exporting the fruits of their entrepreneurial activities. Excluding foreign investment from trade calculations gives the false impression that trade deficits mean a net outflow of U.S. dollars to the rest of the world.

Chart of the Week

Levels of Foreign Portfolio Investment in US Securities Relative to Foreign Countries' GDPs



Commentary

Foreign investors invest in U.S. businesses through direct investment and portfolio investment. Foreign direct investment involves foreigners founding new businesses in the U.S. or purchasing at least a 10% stake in existing U.S. businesses. Foreign portfolio investment typically involves foreigners purchasing publicly traded stocks or bonds issued by U.S. companies. Foreign investment can also involve governments—both foreign governments purchasing U.S. securities and foreigners purchasing U.S. government securities (largely U.S. Treasuries). Foreign portfolio investment in the U.S. is four times the size of foreign direct investment in the U.S.

As of 2023, the largest foreign portfolio investors were the United Kingdom (\$2.6 trillion), Japan (\$2.5 trillion) and the Cayman Islands (\$2.3 trillion). Despite its tiny economy (0.2% of the size of the UK's and Japan's) the Cayman Islands play a prominent role in foreign investment due to their special status as a tax-neutral jurisdiction and their investor-friendly regulations. Most of the investment money coming from the Caymans originates elsewhere.

Relative to their economies, the largest foreign portfolio investors in the U.S. (excluding the Caymans) are Luxembourg (24 times its GDP), Ireland (2.7), Kuwait (2.3), Norway (1.4), Singapore (1.3) and Switzerland (1.2) (Chart of the Week).

Snapshots

Figure 1. Fraction of Foreign Investment in the US that is Held in US Treasuries

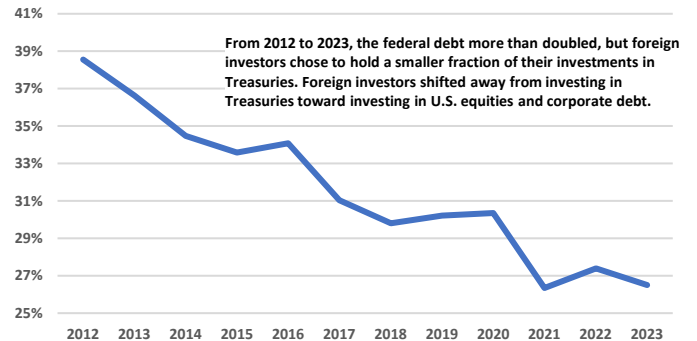


Figure 2. Change in Components of Foreign Investment in the US

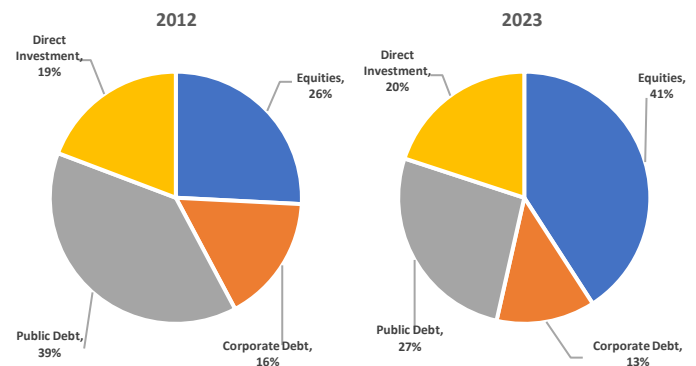
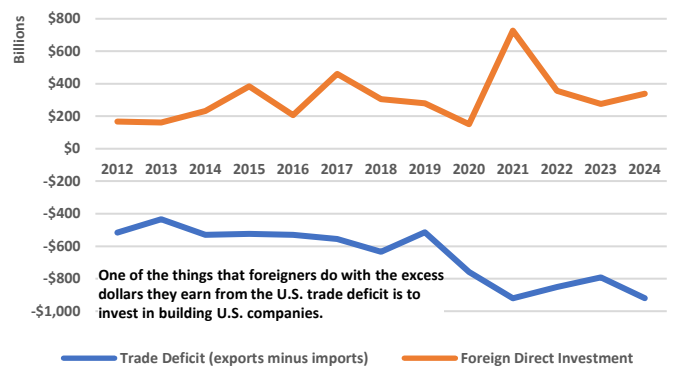


Figure 3. Trade Deficits Fund Foreign Investment



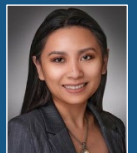
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Economic & Market Watch Dashboard

Key Indicators

INTEREST RATES¹

		2025				2026	
	Current	Q2	Q3	Q4	Q1	Q2	
Fed Funds Target ² (%)	4.50	4.25	3.75	3.50	3.25	3.25	
SOFR (%)	4.32	4.15	4.00	3.80	3.65	3.45	
2Y UST (%)	3.77	3.95	3.90	3.85	3.75	3.65	
5Y UST (%)	3.95	4.10	4.05	4.00	3.95	3.85	
10Y UST (%)	4.38	4.30	4.30	4.25	4.20	4.15	
30Y UST (%)	4.88	4.60	4.55	4.50	4.50	4.45	

ECONOMY

		2025				2026	
	Current	Q2	Q3	Q4	Q1	Q2	
PCE Inflation (YoY %)	2.5	2.6	2.3	2.5	2.4	2.5	
CPI Inflation (YoY %)	2.8	3.2	2.6	2.7	2.8	2.8	
Real GDP (QoQ %)	2.4	0.8	0.6	1	1.5	1.7	
Unemployment (%)	4.1	4.0	4.2	4.1	4.1	4.2	
Consumer Spending (QoQ %)	4.0	0.8	0.7	1	1.4	1.6	
Industrial Production (YoY %)	1.4	0.0	(0.4)	(0.2)	1.1	0.7	

Equities & Currency

	Current	Year ago
DJIA	38,675	38,240
Nasdaq	16,002	15,451
S&P 500	5,210	5,010
US Dollar Index	\$1,213.94	\$1,264.28

Commodities

	Current	Year ago
Crude Oil (Per Barrel)	\$63.09	\$81.47
Natural Gas (Per MMBtu)	\$3.17	\$2.01
Coal (Per Short Ton)	\$9.51	\$13.76
Gold (Per Ounce)	\$3,417.50	\$2,319.60
Corn (Per Bushel)	\$4.85	\$4.50
Soybean (Per Bushel)	\$10.40	\$11.52

Industry

	Current	Year ago
Natural Gas Storage (Billion Cubic Feet)	1,846	2,326
U.S. Daily Power Consumption (MWh)	9,768,363	9,812,953
World Container Index (Per 40ft)	\$2,192	\$2,795

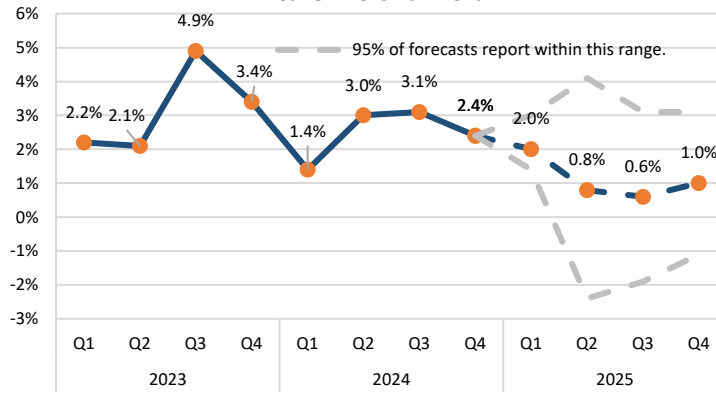
¹ Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters² Target rate forecast is based on futures market contracts

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.

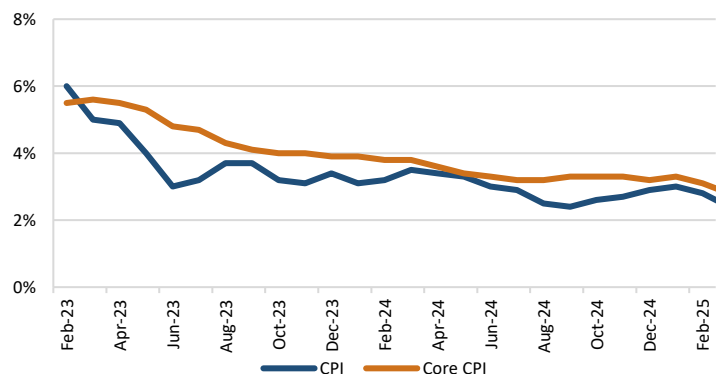
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Forecasts

Real GDP Growth Trend



Headline vs. Core Inflation



10-Year U.S. Treasury vs. Fed Funds Trend

