**US Wealth Shares, the Dollar and Global Risk Premia**

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**Motivation: EP Theory**

**EP**: Exorbitant privilege (EP) theory emphasises a tight connection between the US wealth share, the dollar, the global economy and global risk premia:

1. US wealth share is procyclical w.r.t global economy  
2. Dollar strength is procyclical w.r.t global economy

**Risk Sharing**: Underpinning these joint dynamics is a risk sharing mechanism: as the world’s most risk tolerant nation, the US insures the ROW during global recessions (Gourinchas et al, 2017; Maggiori, 2017)

**Challenge**: Whilst the prediction of a procyclical dollar is well known to be counterfactual, why the US stock market outperforms ROW during global recessions?

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**US Wealth Share, the Dollar and Global Economy**

![Figure 1: US Wealth Share and Global Economy](image)

**Description**: This figure plots US wealth share growth $\Delta W^S_t$ (blue) against various measures of the global economy (red) from 1994Q1 - 2018Q4.

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**US Equity Outperformance**

![Figure 2: US Wealth Share and Dollar](image)

**Description**: This figure plots US wealth share growth and US relative wealth growth: $\Delta W^S_t$, $\Delta W^R_t$ (blue) against the dollar carry trade return (red).

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**US Equity Outperformance**

![Figure 3: Countercyclical US Equity Outperformance](image)


**Interpretation**: Each global recession is associated with US stock market outperformance vis-a-vis the ROW

**Theory**: All potential resolutions must explain why the US stock market outperforms ROW during global recessions.

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**Model Overview**

![Figure 4: Model IRF to 1 SD bad global shock](image)

**Model**: Frictionless two country, two good model

**Overview**: Model reproduces both the countercyclical US wealth share and the countercyclical dollar.

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**Risk Sharing vs Risk Premia**

**Risk Sharing**: EP theory cannot reproduce either the countercyclical US wealth share or the countercyclical dollar

**Risk Premia**: I show that a global risk premium story can formally account for both patterns.

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**Concluding Remarks**

**Bottom Line**: risk premia, not risk sharing, is the key economic force driving the joint dynamics between US wealth share, dollar and global economy.

**Moving Forward**: Enrich model setting to include portfolio choice and richer menu of shocks.