

UNCONVENTIONAL MONETARY POLICY SPILLOVERS AND THE (IN)CONVENIENCE OF TREASURIES

BY KARLYE DILTS STEDMAN AND ANDREW HANSON

Discussion by Amy W. Huber

The Wharton School

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THIS PAPER

- Key findings:
 - US Treasury yields are affected by ECB's monetary policy surprises.
 - The strength of spillover co-moves with the Treasury's convenience yield.
- Key insight:
 - Treasury yields reflect both supply and demand; that demand is more elastic when convenience yield is low, which allows an ECB-induced portfolio rebalance to have a larger price impact.

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 - Highlight that even in deep, liquid, and altogether efficient Treasury market, quantities—and not just information—matter.
 - Propose natural link between spillover and demand elasticity, formalized in a model.

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- What I really like:
 - Highlight that even in deep, liquid, and altogether efficient Treasury market, quantities—and not just information—matter.
 - Propose natural link between spillover and demand elasticity, formalized in a model.
- One broad comment: Can we infer demand elasticity from the level of the convenience yield?
 - A side comment: Do we care about absolute or relative elasticity?

DEMAND AND CONVENIENCE YIELD

- Convenience yield is an equilibrium object that summarizes the imbalance between supply and demand.
 - Typical drivers include both supply shifters (e.g., issuance) and demand shifters (e.g., inflation anchoring).
- In a (GRV) model where supply is effectively fixed, high convenience yield reflects low demand elasticity.
- But in reality, both supply and demand simultaneously move: higher convenience yield \neq inelastic demand.
 - E.g., high convenience yield due to limited issuance, even though investors remain elastic and willing to substitute into foreign bonds.

WHY BOTHER?

- The relationship between strength of spillover and convenience yield relies on investors' portfolio rebalancing, and thus behavior of demand.
- But convenience yield is an equilibrium object that reflects the confluence of supply and demand.
- Using convenience yield as a bellwether for spillover strength may misguide policy if supply and demand forces are not disentangled.
 - Consider: demand is elastic, but convenience yield rises because supply is dramatically reduced.
 - The resulting high convenience yield may suggest low spillover when in reality, spillover is strong.

ABSOLUTE VS. RELATIVE ELASTICITY

- Elasticity (of substitution) is a two-way street.
 - If the U.S. faces high elasticity, it stands more to lose but also more to gain.
- More generally, in financial markets, agents allocate globally.
 - If U.S. is susceptible to spillover from others, then it is also capable of spilling over to others.
- What truly matters is the relative “reallocation exposure”.
 - [An and Huber \(2026\)](#) formalize this idea and empirically measure countries’ reallocation exposure to each other in the geoeconomic competition for global FX funding.

CONCLUSION

- Great paper on an important topic.
- Natural to link the strength of the spillover to demand elasticity.
- Food for thought:
 - Can we really infer demand elasticity from the level of convenience yield?
 - Do we care about the absolute level of elasticity or the relative reallocation exposure across countries?
- Looking forward to the next version!

An, Y., and A. W. Huber. 2026. Geoeconomic competition and capital reallocation in global fx funding. Working Paper.