US and HK: Intricacies of Monetary Policy and Portfolio Flows

A devastating recession, the collapse of large financial institutions, downturns in stock markets around the world–the 2008 financial crisis was a time of panic and uncertainty, the worst of which the U.S. has overcome. Nevertheless, residual effects of the crisis still burden the U.S., along with other members of the international community. Monetary policies implemented by the Federal Reserve had particularly significant global consequences.

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In his research article, Rex Lam, undergraduate at the Massachusetts Institute of Technology, examines the response in portfolio flows to Hong Kong following the Federal Reserve's announcements of an unconventional monetary policy. As he begins, the effects can be seen in the numbers: "Since Ben Bernanke's testimony, weekly equity fund flow out of emerging markets has averaged a staggering $3.4 billion" (Lam 1).

Monetary policy in the form of open market operations is usually implemented to achieve a target interest rate. However, in response to the 2008 financial crisis, the Federal Reserve adopted unconventional measures, making significantly larger asset purchases as well as acquiring mortgage-backed securities and government bonds with longer maturities.

Studying the effects of these monetary decisions in Hong Kong is both valid and extremely useful because its economy is heavily influenced by conditions in the United States, and because it is an entry point into China, as an "offshore market for many Chinese assets" (Lam 4). That is, economic activity in Hong Kong is driven by domestic and global conditions, especially those of its neighboring country, China. Thus, investors study conditions in Hong Kong to better understand and predict changes in both the Chinese and American market when making transactional decisions.

Lam ultimately concludes that contemporary data on Hong Kong portfolio flows confirm recent studies on portfolio flows into the United States. He propounds the notion that investors ought to view Hong Kong as a proxy to the U.S. As such, investors it is possible to view Hong Kong as a source of induction as they build investment portfolios.

While this article's findings do not supplant existing literature, they do provide a meaningful extension to previous research on investor behavior and convey a critical message: the decisions made by the United States Federal Reserve have a global, multifaceted impact, and the scope of the influence of its decisions more than merit future investigation on the subject.