Online Appendix for 'Shorting the Dollar When Global Stock Markets Roar: The Equity Hedging

Appendix A Theoretical Motivation

$\P Q_t$

it would be able to earn absent this requirement (i.e., $kQ_{t,GA}i_{t+1,W}$). This haircut-induced cost has merit in producing a violation of CIP that accords with that we see in our data[2] in that it exists

Relation Between A_t and

Specification of Uninformative Prior. We follow the conventional approach of specifying a

We use a weak prior, i.e., $v_0 = 0$, $N_0 =$

We assume the following smooth trend, state-space model for X

Specification of Uninformative Prior.

these residuals for Bartik shock case (both shocks are standardized to have a unit variance), and feed it into the estimation of Equation (C.2

We use a weak prior, i.e.,

Third, truncating the baseline sample at 2 / 19 / 2020 so as to exclude the COVID-19 period.[13] And fourth, altering the lag specification underlying the MSCI index regression. The presentation of all of the results follows the same exposition and structure underlying the baseline results from Figures 5-9 from the text.

D.1 Using IIs' Actual Foreign Equity Portfolio Return

One concern arising from our baseline MSCI return series, from which we identify the foreign equity innovation, is that this series may not be a good proxy for the actual return of IIs' foreign equity portfolio. To address this concern, we turn to BOI micro II-level data on regional portfolio weights. In particular, we construct [illegible] (not)-nBs7(not)(act16(undernot)a16(undernogood)-ot)tote

therefore allocate this residual share to the MSCI ACWI Index (our baseline MSCI index).

While these four caveats are noteworthy, they do not devoid the value of this robustness check. There is still a major share of data availability (roughly 60%) across the cross-sectional dimension,

availability of IIs' forward flow data.

Estimation Results. Figures D.1-D.5 present the results from replacing the baseline MSCI re-

D.3 Excluding the COVID-19-Period

While the COVID-19-related period clearly provides increased volatility to our baseline sample and thus has the potential of improving identification of the equity hedging channel, one may also argue that its uniqueness makes the case for showing that the baseline results are not driven by its inclusion. Toward this end, Figures D.11-D.15 present the results from truncating the baseline sample at February 19, 2020. These figures follow the same exposition and structure as the

Figure D.1:

Figure D.2:

Figure D.3:

Figure D.4: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: Replacing MSCI Return with a Micro-Based Foreign Equity Return: Banking and Real Sectors' Forward Flows Versus IIs' Forward Flows**.

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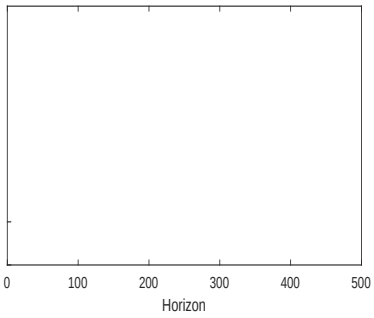
Figure D.5:

Figure D.6: **Impulse Responses to a One Standard Deviation S&P 500 Index Innovation: S&P 500 and Interest Rates**.

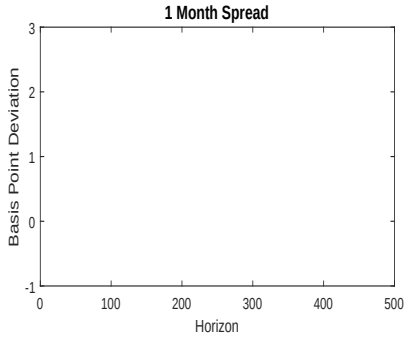


Notes: This figure presents the impulse responses of the S&P 500 index and 1-, 3-, 6-, and 12-month U.S. (Libor) and Israeli (Telbor) interest rates to a one standard deviation S&P 500 index innovation from replacing MSCI return with S&P 500 return in the model described by Equations (1) and (2) from the text. Responses are in terms of deviations from pre-shock values (percentage deviation for stock prices and basis point deviation

Figure D.8: **Impulse Responses to a One Standard Deviation S&P 500 Index Innovation: Non-II Sectors' Spot and Forward Flows**.

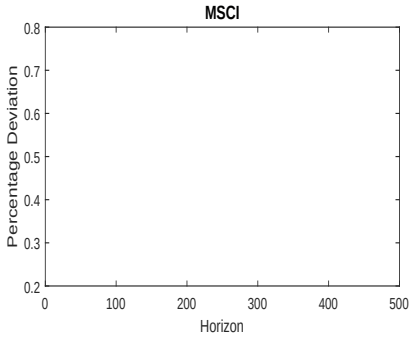
Notes: This figure presents the impulse responses of spot and forward flows of the real, banking, foreign, and financial sectors to a one standard deviation S&P 500 index innovation from replacing MSCI return with S&P 500 return in the model described by Equations (1) and (2) from the text. Responses are in terms of deviations from pre-shock values (in million of dollar terms). Horizon (on x-axis) is in days.

Figure D.10: **Impulse Responses to a One Standard Deviation S&P 500 Index Innovation: Interest Rate Spreads and Cross-Currency Basis**.



Notes: This figure presents the impulse response differences across U.S. (Libor) and Israeli (Telbor) interest rate responses and the associated USD/ILS cross-currency basis responses to a one standard deviation S&P 500 index innovation from replacing MSCI return with S&P 500 return in the model described by Equations (1) and (2) from the text. Responses are in terms of basis point deviation from pre-shock values. Horizon is in days.

Figure D.11: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: MSCI and Interest Rates: Excluding the COVID-19-Related Period**.



Notes: This figure presents the impulse responses of MSCI and 1-, 3-, 6-, and 12-month

Figure D.12:

Figure D.13: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: Non-II Sectors' Spot and Forward Flows: Excluding the COVID-19-Related Period**.

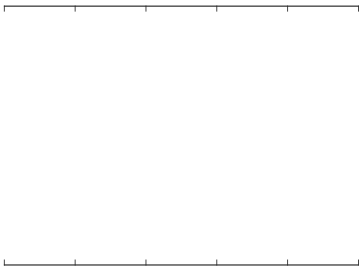


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Figure D.14: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: Banking and Real Sectors' Forward Flows Versus IIs' Forward Flows: Excluding the COVID-19-Related Period**.

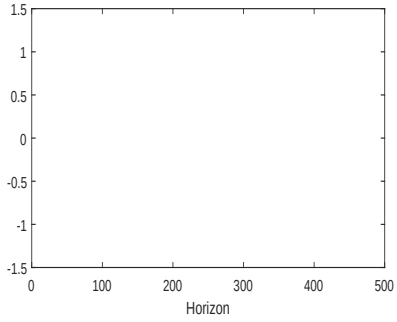

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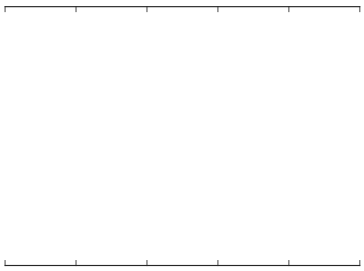
Figure D.15: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: Interest Rate Spreads and Cross-Currency Basis: Excluding the COVID-19-Related Period**.



Notes: This figure presents the impulse response differences across U.S. (Libor) and Israeli (Telbor) interest rate responses and the associated USD / ILS cross-currency basis responses to a one standard deviation MSCI index innovation from the model described by Equations (1) and (2) from the text, where the baseline sample is truncated at February 19, 2020. Responses are in terms of basis point deviation from pre-shock values. Horizon is in days.

Figure D.16: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: MSCI and Interest Rates: 10 Lags**.

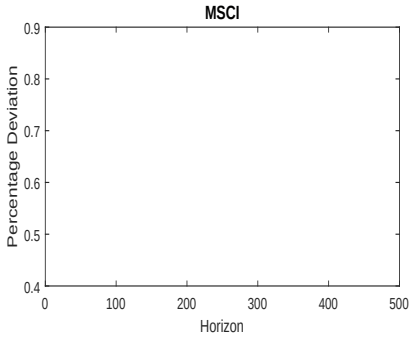


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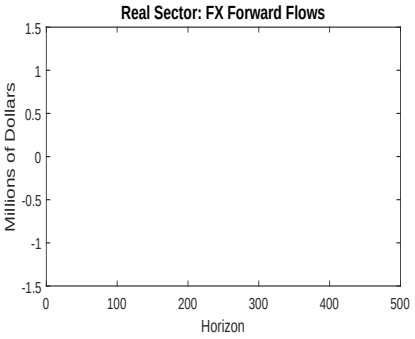
Figure D.18: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: Non-II Sectors' Spot and Forward Flows: 10 Lags**.



Notes: This figure presents the impulse responses of spot and forward flows of the real, banking, foreign, and financial sectors to a one standard deviation MSCI index innovation1(MSCI)-novr

Figure D.19:

Figure D.20:

Figure D.21: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: MSCI and Interest Rates: 30 Lags**.

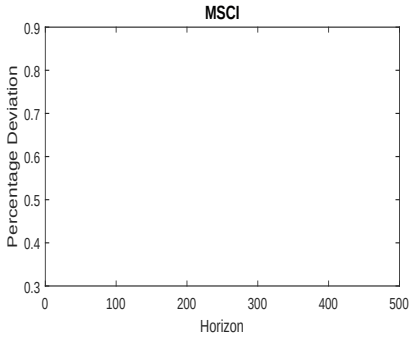


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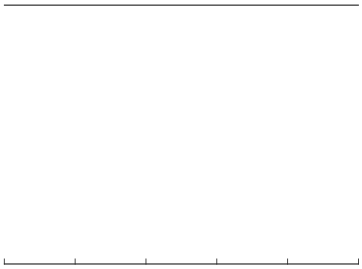
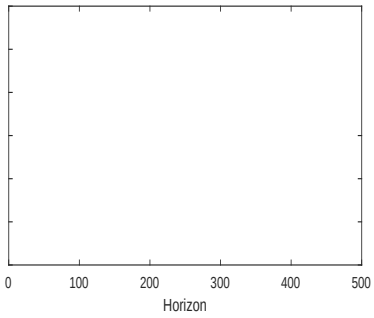
Figure D.23: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: Non-II Sectors' Spot and Forward Flows: 30 Lags**.



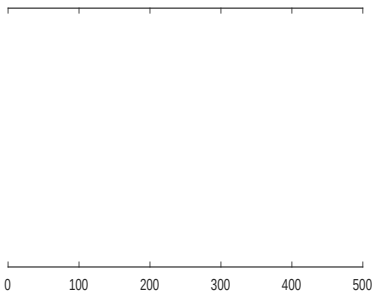
Notes: This figure presents the impulse responses of spot and forward flows of the real, banking, foreign, and financial sectors to a one standard deviation MSCI index innovation1(MSCI)-novr

Figure D.24: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: Banking and Real Sectors' Forward Flows Versus IIs' Forward Flows: 30 Lags**.



Notes: This figure presents the difference between raw and accumulated (in absolute terms) response of IIs' forward flows and the summed responses of the banking and real sectors' raw and accumulated forward flows, respectively, to a one standard deviation MSCI index innovation from the model described by Equations (1) and (2) from the text, where a 30-lag specification is assumed in Equation (1) instead of the baseline 20-lag specification. (For completeness, responses themselves (both raw and accumulated) for all three sectors are also shown in the figure.) Responses are in terms of deviations from pre-shock values (in million of dollar terms). Horizon (on x-axis) is in days.

Figure D.25: **Impulse Responses to a One Standard Deviation MSCI Index Innovation: Interest Rate Spreads and Cross-Currency Basis: 30 Lags**.



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References

Alvarez, F. and Lippi, F.: 2022, The analytic theory of a monetary shock, *Econometrica* **90**(4), 1655–1680.

Miranda-Agrippino, S. and Ricco, G.: 2021, The transmission of monetary policy shocks, *American Economic Journal: Macroeconomics* **13**(3), 74–107.

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