

The Risky Capital of Emerging Markets_

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Abstract

We use macroeconomic data to build a panel of international capital returns over a long horizon across both developed and developing countries. We document two facts: poor and emerging markets exhibit (1) high average returns to capital and (2) high betas on US returns. We quantitatively explore whether consumption-based risk faced by a US investor can reconcile these patterns. Long-run risks lead to return disparities at least 55% as large as those in the data. Fact (2), although not a sufficient statistic, is informative about the extent of long-run risk in foreign capital, and so about fact (1).

JEL Classification: O4, E22, F21, G12

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