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Carry[☆]

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Abstract

We apply the concept of carry, which has been studied almost exclusively in currency markets, to any asset. A security's expected return is decomposed into its "carry," an ex-ante and model-free characteristic, and its expected price appreciation. Carry predicts returns cross-sectionally and in time series for a host of different asset classes, including global equities, global bonds, commodities, US Treasuries, credit, and options. Carry is not explained by known predictors of returns from these asset classes, and it captures many of these predictors, providing a unifying framework for return predictability. We reject a generalized version of Uncovered Interest Parity and the Expectations Hypothesis in favor of models with varying risk premia, in which carry strategies are

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