FX Carry: Nineteen Years, Five Cents, and One Very Bad Month

Gaurav Gupta · Research note · 23 October 2026 · G6 currency carry through deposit-paying currency trusts, April 2007 – October 2026 (235 months)

$1.05
Value of $1 after 19.5 years, after costs (low $0.69, Jan 2009)

−14.4%
October 2008: about 23 years of average monthly income

0.65
Sharpe since 2022, vs −0.07 in the zero-rate decade

−$8.9M
Oct 2008 replay on $1bn, vol-scaled book (−$17.1M at constant size)

Rule, Apr 2007 – Oct 2026	Return / yr	Vol	Sharpe	Max DD	Worst month
A. Carry: long top 2 yields, short bottom 2	0.62%	8.4%	0.07	−36.7%	−14.4% (Oct 2008)
B. A, only when yield spread ≥ 1 point	0.64%	7.1%	0.09	−36.7%	−14.4% (Oct 2008)
C. A, scaled to 8% volatility	0.63%	8.4%	0.08	−28.4%	−7.6% (Nov 2016)
D. Momentum (12-1), same structure	−0.56%	7.2%	−0.08	−35.4%	−7.9% (Sep 2011)
E. Long all six vs USD	0.13%	7.5%	0.02	−34.8%	−6.8% (Oct 2008)

After an illustrative 10 bp per unit of turnover. Sharpe = annual return ÷ annual volatility (dollar-neutral book). Carry by era, 2007–11 / 2012–21 / 2022–26: return 0.06% / −0.53% / 3.58% a year, Sharpe 0.00 / −0.07 / 0.65, yield spread 3.6 / 1.1 / 1.8 points. S&P 500's worst 10% of months: carry −0.9%, S&P −8.0%.



Growth of $1 after costs. Constant carry fell to $0.69 (Jan 2009) and ended at $1.05; the vol-scaled book took a shallower hole.

SOURCES

- Six CurrencyShares trusts and SPY: daily closes and distributions, Yahoo Finance via huggingface.co/datasets/defeatbeta/yahoo-finance-data (ODC-BY), sha256-pinned
- Daily exchange rates, same dataset (data check only)
- Brunnermeier, Nagel & Pedersen (2008); Lustig, Roussanov & Verdelhan (2011); Menkhoff et al. (2012); Moreira & Muir (2017)

METHOD

- Trust total return = price + distributions: carry an investor could hold, net of fees
- Carry yield = 91 days of distributions × 365/91 ÷ price
- Long top 2, short bottom 2, dollar neutral; rules fixed before results
- Three rate eras; worst months; equity sell-offs; look-ahead tests; FX data check (corr 0.95–0.98)

KEY CALCULATIONS

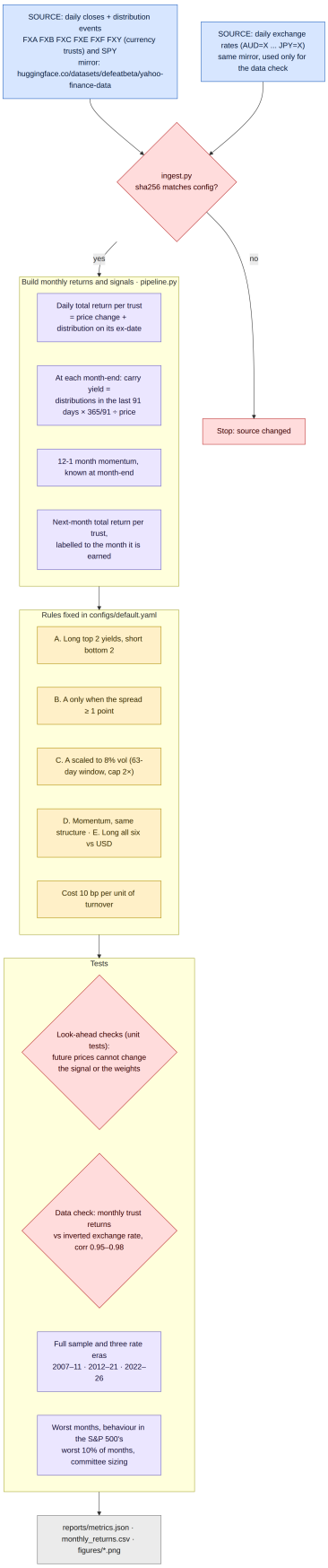
- Gross = 1% × $1bn ÷ 8.4% vol = $118M
- Expected P&L ≈ $118M × 0.63% ≈ $0.75M a year
- Oct 2008 replay: −$17.1M constant; −$8.9M vol-scaled
- Worst month = 278 average months (145 vol-scaled)

RECOMMENDATIONS

- Own carry as a regime trade: hold while the top-vs-bottom yield gap is at least 1 point, flat below. Today: long GBP (2.1%) and AUD (1.6%), short CHF and JPY (0%).
- Run it volatility-scaled: same return, half the crash month, shallower drawdown.
- Size from the crash: at 1% of NAV volatility on $1bn, approve a ~$9M October-2008 loss before approving the book.
- Count it as risk-on exposure, not a diversifier; monitor FX volatility, the yield spread and crowding.

Independent research on public data; not investment advice; not deployed. Dollar figures illustrative. Full article: guptagaurav.info/articles/fx-carry-five-cents-in-nineteen-years · Code: github.com/guptagaurav-info/fx-carry-crash-risk

Pipeline: data, checksum gate, signals, rules, tests, outputs.



The trade, the rate regimes and the sizing decision.

