

Understanding „The Rise of Carry“: A Critical Analysis of Volatility, Risk, and Financial Instability in Global Markets – Book Review

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Book Title: The Rise of Carry: The Dangerous Consequences of Volatility Suppression and the New Financial Order of Decaying Growth and Recurring Crisis

Authors: Tim Lee, Jamie Lee, and Kevin Coldiron

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Abstract

This book review critically examines *The Rise of Carry: The Dangerous Consequences of Volatility Suppression and the New Financial Order of Decaying Growth and Recurring Crisis* by Tim Lee, Jamie Lee, and Kevin Coldiron (McGraw-Hill, 2020). The authors present a compelling thesis on the rise of “carry trades” and how their proliferation contributes to systemic fragility within modern financial systems. This review explores the

central themes of volatility suppression, distorted incentives in monetary policy, and the long-term macroeconomic consequences of a financial system increasingly reliant on stability as an illusion. The review offers a scholarly assessment of the book’s empirical foundations, its theoretical contributions, and its relevance for academics and policymakers interested in macro-financial stability. It also reflects on the implications of “carry dynamics” during post-crisis monetary regimes and considers how the book adds to the broader literature on speculative bubbles, market-based risk, and financial globalization.

Keywords: carry trade; financial stability; volatility suppression; macroeconomic risk; systemic fragility; monetary policy; speculative dynamics; global finance; financial crises; risk management

1. Introduction

Published in 2020 by McGraw-Hill, *The Rise of Carry* is a timely and thought-provoking contribution to the literature on financial economics. Written by Tim Lee, Jamie Lee, and Kevin Coldiron, the book

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offers a sobering exploration of how carry trades—investment strategies that seek to profit from relatively stable conditions—have become deeply woven into global financial markets. While such strategies often appear profitable and low-risk in the short term, the authors argue that they create underlying vulnerabilities that may ultimately threaten the stability of the financial system.

At the heart of the book is the idea that suppressing volatility, whether through central bank interventions or investor behavior, might generate a false sense of security. Rather than eliminating risk, these dynamics push it beneath the surface, allowing it to accumulate until it manifests in more severe and widespread ways. The book challenges conventional perspectives by suggesting that a seemingly calm market environment may actually signal deeper structural weaknesses.

This review seeks to critically engage with the book's core arguments and assess their relevance within the broader context of financial and macroeconomic theory. By situating the rise of carry strategies within historical and contemporary market developments, the review aims to highlight the book's strengths, identify areas that may benefit from further scrutiny, and discuss its implications for future research and policy.

In addition, the review reflects on how *The Rise of Carry* aligns with, and in some ways departs from, established literature on topics such as speculative bubbles, monetary policy, and global capital flows. The recent episodes of financial instability triggered by events like the COVID-19 pandemic and geopolitical tensions serve to underscore the timeliness of the book's insights. Ultimately, this review considers the work not merely as a commentary on market phenomena, but as a significant scholarly resource for

understanding the complexities and risks of today's financial systems.

2. Core Concepts and Analytical Approach

One of the book's most notable contributions is its framing of "carry" not simply as a trading strategy, but as a fundamental force shaping the architecture of global finance. The authors define carry trades broadly, encompassing any investment that generates regular income while appearing to carry minimal risk. These include familiar strategies like borrowing in low-interest currencies to invest in higher-yielding assets, as well as more complex expressions such as volatility selling and shorting insurance-like instruments.

Crucially, the book argues that the prevalence of carry trades has transformed the behavior of both market participants and policymakers. Investors, encouraged by prolonged periods of low volatility and accommodative monetary policy, increasingly rely on the stability that carry trades seem to promise. Central banks, in turn, often feel compelled to intervene whenever market instability emerges, reinforcing the cycle of volatility suppression and risk mispricing.

The analytical lens adopted by the authors draws from historical precedents, theoretical constructs from macro-finance, and practical insights from market behavior. They contextualize their analysis with reference to events such as the 2008 financial crisis, the European sovereign debt crisis, and more recent market dislocations. This allows them to present a cohesive argument: that carry-driven dynamics have become self-reinforcing and dangerously central to the modern financial system.

Articles

Rather than relying heavily on mathematical modeling, the book focuses on intuitive frameworks and real-world examples to build its case. This approach makes the content accessible to a broader audience while still offering depth for academic and policy-oriented readers. At the same time, it opens space for critical examination of the assumptions that underpin the authors’ narrative, particularly regarding the inevitability and scale of systemic breakdowns linked to carry regimes.

3. Evaluation of Strengths and Weaknesses

One of the book’s major strengths lies in its clarity and accessibility. The authors succeed in articulating a complex set of ideas without relying on technical jargon or overly theoretical frameworks. This makes the book approachable for a wide range of readers, including financial professionals, policy analysts, and academics. The use of historical case studies and real-world financial episodes strengthens the credibility of their arguments and reinforces the practical relevance of the carry trade framework.

The authors also present a compelling critique of monetary policy and its unintended consequences. By linking central bank actions to the rise and persistence of carry trades, they provide a fresh perspective on how policy decisions shape market expectations and behavior. This emphasis on reflexivity—the idea that market participants and institutions co-create financial realities—is a valuable contribution to macro-financial thinking.

Another important strength is the interdisciplinary character of the book. While rooted in financial theory, it draws insights from behavioral finance, history, and institutional economics. This multidisciplinary approach

helps illuminate how carry dynamics evolve not only through technical mechanisms but also through shifts in psychology and governance. It offers readers a more holistic understanding of the phenomena under analysis.

The writing style is also worth commenting. The authors manage to maintain a balance between analytical depth and narrative flow, allowing the reader to engage with the arguments without losing sight of the broader implications. This makes the book not only informative but also engaging, which is a rare achievement in literature dealing with such a technical subject matter.

However, the book is not without its limitations. While the narrative is persuasive, it occasionally lacks empirical rigor in terms of data-driven analysis. Some claims about the inevitability of systemic breakdowns could benefit from stronger quantitative backing or alternative interpretations. Additionally, the book’s focus on the dangers of carry trades may overshadow other structural issues that contribute to financial instability, such as regulatory gaps or fiscal imbalances.

Another potential weakness is the book’s limited engagement with counterarguments. Although the authors briefly acknowledge alternative views, the discussion remains largely one-sided. A more balanced treatment of the debates surrounding volatility, risk-taking, and financial innovation could have enriched the analysis and broadened its academic impact.

Finally, the book’s practical policy implications, while implied, are not fully developed. Readers seeking concrete proposals for regulatory or monetary reform may find the discussion somewhat incomplete. Expanding this aspect could enhance the book’s usefulness for policymakers and regulatory agencies.

Overall, while *The Rise of Carry* is a thought-provoking and insightful work, its strengths lie more in conceptual innovation, narrative coherence, and interdisciplinary perspective than in exhaustive empirical analysis or policy prescription. Nevertheless, the book offers a valuable framework for understanding modern financial dynamics and raises important questions that merit further exploration.

4. Conclusion and Contribution to the Literature

The Rise of Carry makes a meaningful contribution to the literature on financial stability and macroeconomic risk by identifying and explaining a powerful yet often overlooked force shaping the modern financial system. By positioning the carry trade not just as a market strategy but as a systemic phenomenon, the book encourages readers to reconsider the foundations of what constitutes risk, stability, and intervention in financial markets.

The book's most important contribution lies in its conceptual reframing of volatility. Rather than viewing volatility as a threat to be eliminated, the authors argue that some degree of fluctuation is essential to the long-term resilience of financial systems. This view challenges prevailing assumptions among market participants and central bankers, many of whom have operated under the belief that stability itself is inherently beneficial.

In addition, the book offers valuable insights into the unintended consequences of well-intentioned policies. By showing how monetary accommodation can reinforce speculative behaviors, it prompts a deeper examination of the role of central banks in shaping financial cycles. This is especially relevant in a post-pandemic world where stimulus policies continue to dominate macroeconomic agendas.

From a scholarly perspective, the book stands out for its interdisciplinary and intuitive approach. While it may not satisfy readers looking for detailed econometric models, its strength lies in its ability to synthesize complex dynamics into an accessible and persuasive narrative. It also opens doors for future empirical work to test and expand upon its core claims.

Overall, *The Rise of Carry* should be considered essential reading for those seeking to understand the evolving nature of global finance. Its critical insights, though not without limitations, provide a strong foundation for further research and debate in academic, regulatory, and investment circles alike.

References

- Lee, T., Lee, J., & Coldiron, K. (2020). *The rise of carry: The dangerous consequences of volatility suppression and the new financial order of decaying growth and recurring crisis*. McGraw-Hill.