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How quickly do investors react to analyst reports? Evidence from reports released outside trading hours

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Abstract

We investigate whether and how investors immediately respond to analyst reports using reports released outside trading hours. We find that opening prices significantly underreact revisions in target prices when their release time is closer to the market opening time (especially when a report is released within two hours before the market opens). The influence of publication timing, which reflects the limitation of investors, immediate responses to the reports, is substantial, especially when there are earnings announcements and multiple reports are released (when investors are required to process more information). Furthermore, the influence is irrelevant to stock liquidity, the different trading environments on NYSE and NASDAQ, and positive or negative revisions (short sales constraints). Hence, the limitation of investors? immediate responses is likely to be attributed to investors' limited attention rather than trading constraints.

Who Knows Best? Evaluation of Social Media Skills

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Abstract

This paper focuses on the skills of social media users in issuing investment recommendations. On average, the recommendations of users translate into positive abnormal returns. The cross-section of skills across stocks outperforms, on average, the cross-section of skills across users. Modeling users? performance with Gaussian mixture distributions for several skill groups shows that the large majority of users exhibit positive skills, outperforming the skills of qualified financial website authors. Social media user communities demonstrate heterogeneous skills due to several determinants, including analyzing news events, experience, the number of recommendations issued, and the number of users? followers.

Optimal Dynamic Contract with a Shock on the Benefit of Cash Flow Diversion

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Abstract

This paper explores a continuous-time principal-agent model where the agent can divert cash flow. The novelty is that the benefit of cash-flow diversion is subject to an exogenous and persistent shock that can be interpreted as a new regulation on the executive pay that limits the usage of fringe benefits or perquisites out of the owner?s sight. First, our results suggest that the bonuses are compressed following the shock: the expected future bonuses of a good performer increase while those of a poor performer decrease. Second, our analysis also predicts the regulation-induced retention of a poor performer, defined as maintaining an agent in place while his poor performance would have induced his dismissal in the absence of the shock on the benefit of cash-flow diversion.

The Impact of different Financial Intermediaries on Housing Market Cycles

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Abstract

Housing markets display several correlations to multiple economic sectors of an economy. Their enormous impact on economies? health, wealth, and stability is uncontroversial. Interestingly, the forms of financing residential property vary widely between the different countries in terms of both, the available product types and the institutions offering them. This research examines the implications of different financial intermediaries on housing market cycles with special emphasis on two institutional types, conventional banks and building and loan associations. Introducing a heterogeneous agent-based model, the interactions of buyers, sellers, and the two types of credit institutions are assessed in an artificial economy. It is elaborated whether financial institutions are able to smooth housing market cycles and, therefore, increase stability using different mortgage granting policies.

Liquidity pressure, ECB?s interventions, and sovereign creditworthiness: The last rise of the Black Swan

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Abstract

This study aims to investigate the direct impact of the Euribor-OIS and its liquidity component on sovereign CDS spreads. Using a cross-country sample covering 22 European economies from July 2012 to January 2021, we find that a widening of the Euribor-OIS spread for the euro area or the corresponding liquidity spreads for the non-euro area leads to a widening of sovereign CDS spreads, consistent with theory. After removing the impact of banking sector counterparty risk from the Euribor-OIS spread and equivalents, we show that the liquidity risk component also has a significant and positive impact on sovereign credit risk. Moreover, the results show that liquidity injections from ECB shift risk from the banking sector to the sovereign sector by evoking a doom loop scenario and reducing sovereign debt sustainability.

Score-driven equity plus gold portfolios before and during the COVID-19 pandemic

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Abstract

We study the out-of-sample performances of portfolios, for which the mean and covariance matrix of returns are updated using score-driven filters. To the best of our knowledge, the present paper provides the most complete analysis on score-driven portfolios in the literature. We compare the performances of 2,720 portfolios for score-driven copulas, 40 portfolios for DCC (dynamic conditional correlation) models, and the naive portfolio. For the score-driven portfolios, we use eight score-driven copulas (Clayton; rotated Clayton; Frank; Gaussian; Gumbel; rotated Gumbel; Plackett; Student's t), four portfolio optimization strategies (minimum-variance; Sharpe ratio-based mean-variance; two utility function-based mean-variance), five portfolio weight updating frequencies (weekly; monthly; quarterly; semi-annual; annual), and 17 combinations of (i) AR (autoregressive)-t-GARCH (generalized autoregressive conditional heteroskedasticity), (ii) QAR (quasi-AR)-Beta-t-EGARCH (exponential GARCH), (iii) QAR-Beta-Gen-t-EGARCH (generalized t-distribution), (iv) QAR-exponential generalized beta distribution of the second kind (EGB2)-EGARCH, and (v) QAR-normal-inverse Gaussian (NIG)-EGARCH. For the DCC-based portfolios we use AR-Gaussian-GARCH and AR-t-GARCH marginals. In the empirical application we study the performances of equity plus gold portfolios. The full sample period is from November 2004 to September 2021. The full investment period is from October 2014 to September 2021, which is divided into the pre-COVID-19 (pre-coronavirus disease of 2019) and the COVID-19 periods. Our results provide suggestions on the choice of the econometric model specifications and portfolio strategies for equity-gold portfolio investors. Several score-driven portfolios statistically outperform the naive and DCC portfolios, and the superiority of score-driven portfolios is more important for the COVID-19 period than for the pre-COVID-19 period.

Bank regulation, lending and patenting: Evidence from the EBA Capital Exercise

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Abstract

We analyze the impact of decreases in available lending resources on quantitative and qualita- tive dimensions of firms? patenting activities. We thereby make use of the European Banking Authority?s capital exercise to carve out the causal effect of bank lending on firm innovation. In order to do so we combine various datasets to derive information on firms? financials, their patenting behaviors, as well as their relationships with their lenders. Building on this self-generated dataset, we provide support for the ?less finance, less innovation? view. At the same time, we show that lower available financial resources for firms lead to improvement in the qualitative dimensions of their patents. Hence, we carve out a ?less finance, less but better innovation? pattern.

Spillovers of Senior Mutual Fund Managers? Capital Raising Ability

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Abstract

This paper documents a sizeable spillover effect of senior mutual fund managers? capital raising ability on their colleagues. I find that when a junior fund manager has new senior colleagues in a fund, the junior manager?s other funds also have substantial capital inflows. To identify the cause of these capital inflows, I extend the active investment skill in the Berk and Green model with capital raising ability. Empirical evidence shows that a fund manager?s performance in other funds (measured by net or gross alphas) decreases significantly after having new senior colleagues, and value added from the active investment does not increase. This is consistent with a spillover effect of senior managers? capital raising ability rather than active investment skill.

Ex-ante determinants of voluntary target delisting after a M&A

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Abstract

This paper carries out an empirical analysis of the reasons for a new controlling shareholder either to delist the acquired firm or to maintain it as a separate listed company after an M&A. This choice is complex as it combines with the success of the transaction and with the acquirer?s decision to announce a will to delist. We show that the delisting announcement at the start of the transaction is a piece of the transaction package and is not a relevant signal to assess the effective ex-post delisting decision. We show that cumulated abnormal returns (CARs) around the M&A announcement are a good indicator of a future delisting decision after the M&A announcement: the lower the CAR, the higher the probability to delist. Governance and ownership structure are also a keystone of the surviving decision. We demonstrate that the control structure of the target before the transaction continues to play a persistent role after a successful acquisition. A high controlling stake by an incumbent corporate shareholder favors a surviving over a delisting decision.

Do Anglo-Saxons affect corporate policies?

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Abstract

Individuals with an Anglo-Saxon cultural background are customarily considered to be less risk-averse than other individuals. The validity of this assumption appears to be borne out in the world of corporate finance. We investigate the risk-related corporate decisions of the board of directors, CEOs, and shareholders of Anglo-Saxon cultural heritage at Swiss listed corporations. Using a sample of 1?556 firm-year observations from 2005 to 2015 and performing fixed effects, random effects, and pooled regressions controlling for various firm and corporate governance characteristics, we find empirical evidence supporting our three hypotheses: Anglo-Saxons increase leverage, decrease dividend payments, and conduct more mergers and acquisitions. Furthermore, we show that while boards of directors affect capital structure and dividend policies, CEOs drive takeovers. Additionally, firm characteristics are important determinants of Anglo-Saxons in the corporate governance of Swiss firms and CEOs are more likely to be Anglo-Saxons in the presence of Anglo-Saxon directors and shareholders.

Why do CEOs donate stock? - CEO stock gifts and voluntary disclosure

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Abstract

This paper explores voluntary disclosure around CEO stock gifts. We find that firms with a stock donating CEO are more likely to issue management earnings guidance of beating or meeting analysts? forecasts before rather than after CEOs donate stock. Firms with CEO stock gifts have a significantly higher likelihood of releasing positive management earnings guidance than their propensity-score-matched firms. Firms that voluntarily release good news on their future earnings experience a greater stock price run-up for the pre-gift period and a more significant price drop for the post-gift period. Furthermore, we find that these firms significantly underperform in the long run. Lastly, CEOs that strategically manage voluntary disclosure to time their stock gifts not only enjoy a larger tax deduction but also gain more board seats outside their companies as compared to other stock-donating CEOs. Overall, our findings are consistent with the voluntary disclosure hypothesis that CEOs manage corporate voluntary disclosure to time their stock gifts at peak prices and ultimately maximize private benefits from their stock gifts.

EXPLORING THE RELATIONSHIP BETWEEN THE PERFORMANCE OF THE GLOBAL FINANCIAL MARKETS AND ART MARKET SENTIMENT

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Abstract

This article examines the relationship between art market sentiment and the financial markets. A specialised art market sentiment index is developed in this article and is analysed against a selection of international financial market indices. A relationship is observed between art market sentiment and financial market performance. This article uses data collected from the Twitter application programming interface (API) and applies Valence Aware Dictionary for sEntiment Reasoning (VADER) to determine the sentiment scores. The data show that increasing levels of digitalisation has resulted in the art market becoming a more popular alternative investment within the financial market to hedge against market risk. This would imply that the art market may be an effective hedging instrument within financial investment portfolios. The sentiment analysis proved to be statistically robust and, due to its consistency, provides evidence that the art market sentiment analysis developed in this article is an effective market analytics tool.

Do Related Party Transactions Influence Risk of Group Affiliated Firms in India

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Abstract

Listed firms prop-up earnings using connected transactions, mostly in weaker economic institutions (Jian and Wong, 2010). The paper studies the impact of Related Party Transactions on Firm Value, Profitability, and Risk. While prior findings suggest that connected transactions lead to lower firm value and profitability (Lei & Song, 2011), this study finds that group affiliated firms are positively impacted by such transactions and the shareholders do not face the heat of such transactions.

Forms Of Cooperation And Competition Between Banks And Non-Banking Entities

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Abstract

Financial stability is essential for the functioning of the economy, and competition between banks is seen as an essential factor for their stability. Reframing the conflict and each party's goals in such a way that they are mutually dependent increases a party's chances of reaching an agreement. This study investigates the relationship between bank size and the institution's stability. Government regulators and anyone else's ability to keep an eye on the entire financial system is jeopardized when large portions of it are left largely unregulated. Price competition (marginal-cost pricing) reduces the market power of a single firm as the number of firms in an industry grows. Since the 1990s, the banking industry, according to previous studies, has been experiencing concentration and competition. Some argue that the lack of technology in small banks may put them at an advantage in terms of customer satisfaction, but this is not necessarily the case. According to Stein (2002), small banks have more agency problems than large banks, because information cannot be softly transmitted among all levels of management. Banks typically gained a competitive advantage through geographical expansions and acquisitions.

The Role of Institutional Investors in Financial Distress Resolution

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Abstract

We analyze the distressed firm's decision between Chapter 11 and an exchange offer. We construct a comprehensive data set on the financial characteristics and capital structure at 269 distressed firms, which, unlike previous studies, uses quarterly information and includes exhaustive data on equity and bond ownership by institutional investors. Logit and lasso regressions indicate several novel findings. We uncover strong relationships between (i) share ownership one quarter before restructuring and an exchange offer; (ii) between bond ownership one year before restructuring and Chapter 11. The timing of equity ownership differs across investors: corporations, governments, insurance companies, and pension fund effects occur early in the process, while hedge fund, individual, investment advisor, and venture capital/private equity effects occur late in the process. We also find that aggregate hedge fund share holdings are significantly related to exchange offers while aggregate hedge fund bond holdings are significantly associated with Chapter 11.

Behavioral Heuristics and the Predictability of Stock Returns

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Abstract

The traditional tests of the random walk hypothesis weight stock returns by their objective probabilities. We show empirically that the existing evidence against the random walk model may stem from the fact that the objective probabilities of large stock returns of either sign overstate their subjective probabilities that reflect the investor's attitudes towards anticipated changes in the return volatility. As the investor's overconfidence (caused by the anticipated decrease in the return volatility and/or anchoring in the assessment of the subjective probability distribution) is factored in, the evidence against the random walk model becomes much weaker or even almost disappears.

Predicting Recessions Using VIX-Yield-Curve Cycles

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Abstract

The VIX index and the spread between long- and short-term Treasury bond yields co-move in counterclockwise cycles that align with the business cycle. Based on this empirical fact, I predict U.S. recessions using an indicator of the economy?s location on the VIX-yield-curve cycle. The proposed indicator significantly outperforms the yield-curve spread in predicting U.S. recessions from 1990?2021 both in- and out-of-sample using both static and dynamic probit models. VIX-yield-curve cycles also contain predictive power above and beyond other leading economic indicators.

Foreign capital flows, financial regulation and optimal credit development

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Abstract

We investigate the optimal credit development and examine the role of foreign capital flows. We use data from 87 countries to estimate plausible econometric models. We find evidence of four regimes of credit development. We show the existence of an optimal credit development region consistent with the financial stability perspective. We also use disaggregated foreign capital flows to investigate the role of financial openess in this optimal credit allocation region. We find that the impact of foreign capital flows depends on the type of capital flows, the credit allocation regime and the level of economic development.

Overnight Returns: Investor Sentiment or Investor Attention?

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Abstract

What are the behavioural characteristics of overnight returns? This paper explores whether overnight trading activity exhibits behavioural elements of investor sentiment or investor attention. Overnight returns are employed as a proxy of investor sentiment, and absolute overnight returns are used a proxy of investor attention. Using M&As as a testing framework, we find that pre-acquisition announcement absolute overnight returns are positively associated with bidder short-run performance. In line with the predictions of the investor attention hypothesis, this relationship is reversed and becomes negative for negative signalling deals such as stock-financed acquisitions of public targets. The market overreaction is stronger for harder-to-value deals and those with lower institutional ownership, while it is reversed in the long run. There is no relationship between pre-acquisition announcement overnight returns and bidder short-run performance. We unveil that overnight trading activity exhibits behavioural elements of an investor attention rather than an investor sentiment measure.

Bankruptcy Prediction Model for the Banking Sector in Mozambique

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Abstract

In Mozambique there are no studies on the prediction model of bankruptcy developed using domestic economic context except those developed in foreign economic contexts and while that back to 2016, the national banking sector suffered economic shocks that resulted to Central Bank of Mozambique intervention in two banks (Moza Banco, S.A and Nosso Banco, S.A) due to the deterioration of their financial and prudential indicators. As so, there is a need to innovate bankruptcy risk prediction methods derived from the national economic context. So this research proposes a bankruptcy prediction model to attend this issue through innovations of methods already disseminated internationally. The construction of the model assumed two assumptions: (i) the composition of the samples and (ii) robust forecasting indicators frequently cited in the bank sector literature, namely, the capital structure, return on assets and concentration of assets. The model is based on Multivariate Analysis using multiple linear regressions with 3 zones classifications, namely the high risk bankruptcy zone, the grey zone and the lowest bankruptcy risk zone. Beside 4 samples banks used to develop the model, more 6 commercial banks were selected toward to test the robustness resulting however on level of accuracy of 75% before testing. The precision offers a recommended safety margin for the use of the model by national banks and other stakeholders helping them with more accurate result on predicting the company economic health. Moreover, this model to the national banks may give much flexibility and reliable prediction results against many different financial techniques actually in usage.

Women in the banking system: The glass ceiling in Italy

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Abstract

Many studies indicate the existence of financial constraints for women-owned businesses. These difficulties can be either the result of supply side discrimination, or the lower credit demand of female firms than male counterparts. This paper aims at analyzing gender differences in bank loan access through large dataset of Italian firms. To address this issue, we estimate both an univariate test and a multivariate logistic regression model to understand if and how firm owners? gender is correlated with the probability of getting loans. Our findings revealed, after controlling for specific firm characteristics and performance, female-owned firms have ceteris paribus a lower probability of access to credit than male-owned firms. In other words, the research highlights how there is still presence of a glass ceiling in credit markets. In this sense, a lot of work to do either by governments and policy makers in order to achieve equality in the credit markets.

Dancing to the Same Tune: Commonality in Securities Lending Fees

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Abstract

We document that there is commonality in the loan fees that short sellers pay, and the common component of loan fees explains a significant amount of loan fee variation. While the top principal component of stock returns only explains 28.3% of their variation, we find that the top principal component of loan fees explains 45.6% of their variation. The time series of the loan fee common component is highly correlated with several well-documented asset pricing and macro factors, suggesting that loan fee commonality is associated with states of the world that are consequential to investors. At the asset level, we compute sensitivities of stocks? loan fees to the loan fee common component and document that stocks with high loan fees tend to also exhibit high sensitivity to the loan fee common component. While controlling for other priced short-selling factors, we document a statistically significant negative relationship between the systematic volatility of loan fees (with respect to the loan fee common component) and stock returns, indicating that this commonality is priced in the cross-section of stock returns. In addition to this pricing implication, we present evidence that loan fee commonality is associated with lower price efficiency, suggesting that loan fee commonality is an important limit to arbitrage. Finally, we present evidence that loan demand may be the primary driver of the observed fee commonality.

A quasi-optimal technique for rebalancing a cryptocurrency wallet

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Abstract

The cryptocurrency market is developing very dynamically on the one hand, and the other not enough to provide liquidity to instruments listed on crypto exchanges. It makes it possible to use arbitrage strategies both within and between exchanges. Although, not all initiated actions based on arbitration have a chance of successful finalization. It is mainly due to the growing competition from other market participants and a strict time restriction in the real-time crypto-world. Nevertheless, the imperfection of the cryptocurrency market is a fact. The automation of arbitrage strategies may exploit that. Thus, (crypto) currencies that do not belong to the group of desired financial instruments remain in the portfolio. Their replacement is necessary to restore the assumed portfolio structure. In the case of continuously operating exchanges, dynamically changing order sheets, various fee structures and the variety of available instruments on the market, achieving the assumed portfolio structure while limiting losses resulting from currency exchange costs is not a trivial task. The paper aimed to present the rebalancing technique in the portfolio of players using arbitrage on two cryptocurrency exchanges. The limiting conditions related to the change of the portfolio structure use econometric methods based on the analysis of time series. They also take into account the imposed fee structure. The optimization task itself belongs to the class of linear programming tasks. It is pretty well understood on the theoretical background, however, in the field of cryptocurrencies, it should be considered innovative. Computer simulations to verify the developed solutions are an integral part of the study. They confirm the effectiveness of the proposed solution, measured by the minimization of currency exchange costs. The proposed solution is universal for straightforward generalization and scalability to any cryptocurrency exchange. The quasi-optimal techniques for restoring the assumed portfolio structure, resulting from the adverse effects of, e.g. arbitration strategies, seem to be of great practical importance and potentially a considerable group of institutions and people interested in using them.

Asymmetric Garch-EVT-Copula Portfolio Optimization of Equity Factors

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Abstract

Systematic risk factors can be used to create portfolios free of idiosyncratic risks, but are not usually orthogonal to each other. Does accounting for the dependence structure among systematic factors then improve traditional portfolio optimization techniques? To answer this question, I use asymmetric GARCH models combined with EVT-copula specifications to perform out-of-sample forecasts and simulate one-day-ahead of Fama-French five factors (FF5) returns. In addition to ARMA-GARCH, I also use ARMA-eGARCH and ARMA-gjrGARCH, which allow for asymmetric effects of positive and negative shocks. eGARCH and gjrGARCH results show that the volatilities of MKT, SMB, and CMA factors are asymmetric. To investigate the relevance of the effects in practice, I construct optimal portfolios based on the minimum conditional value-at-risk (Min-CVaR) and certainty equivalence tangency (CET) criteria and model the dependence structure of FF5 factors by employing elliptical (Student-t and Gaussian) copulas. MinCVar ARMA-eGARCH specifications are the only capable of significantly improving the performance of both risk and cumulative return in comparison to the equally weighted portfolio.

Application of IFRS 9 in the Portuguese Banking Sector

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Abstract

IFRS 9, International Financial Reporting Standard 9, is the name of the new standard that came into force on January 1, 2018. Based on the concerns shown by the banks with the implementation of IFRS 9 and the consequent impacts on results, namely on credit losses, since the current impairment charges are based on losses incurred, the main motivation for choosing the theme is to understand that how the implementation of this standard has an impact on capital ratios and how it influences the levels of credit granted. In order to analyze the impact of the implementation of IFRS 9, the Balance Sheets and Income Statements from 2015 to 2019 will be analyzed, made available by the Portuguese Association of Banks and the Report and Accounts of the respective Banks. The methodology used will be the collection of management reports / annual accountability documents from 2015 to 2019 from banks and subsequent treatment of the information obtained, being a methodology of a quantitative nature. Based on the results obtained, the reflected evolution of impairment losses to customers after the implementation of IFRS 9 will be analyzed. After collecting and processing the data, it is necessary to proceed with the analysis, interpretation of the results obtained and identification of the limitations resulting from the empirical study.

The intertemporal relationship between working capital policies and dynamics of corporate cash holdings? Evidence from emerging and developed economies

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Abstract

In this study we use a sample of firms from both developed and emerging countries and provide new evidence that although the relationship between cash holdings and NWC is non-linear (i.e. firms have a target NWC ratio), it is heterogenous for firms in developed and emerging countries. This relationship is U-shaped in developed countries while inverted U-shaped in emerging countries. We attribute this heterogeneity to the preculier characteristics of emerging economies like underdeveloped financial markets, to relatively poor quality of working capital (high positive change in NWC but lower or decreasing cash flows) , higher cost of external financing.

Evaluation of various Public Policy Schemes & Microfinance initiatives on economic welfare of people in India

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Abstract

This paper aims at exploring the impact of COVID 19 on the microfinance business owned by the entrepreneurs. Many of the entrepreneurs do not have any source of income and lack physical collateral. These entrepreneurs get access to microcredit through various sources such as the Self help groups, Microfinance institutions, Banks, Non-Banking Finance companies, Shops and Moneylenders. The objective of this study is to evaluate the impact microfinance on the per capita income and consumption expenditure of the households. During the recent COVID 19 economic crisis, access to microfinance was a major challenge. Moreover, in the existing context their exists a divide between the rural and the urban regions. The outcomes of Microfinancing on the welfare of the households also depend on the gender equality, whether the household is female dominated or male dominated. Indian Government introduced various curbs in form of unorganized and informal legislations. This included the social norms and social distancing, including the requirement to Work from Home (WFH). This study aims to evaluate the impact of various microfinancing interventions on the income and consumption of the household using the panel data from CMIE for the period Jan 2019 to Apr 2020 as the control group and April 2020 afterwards as the Post treatment period. As part of this study, we have also tried to model the probability of borrowing from the Self Help Groups, depending on the various other sources of finance such as banks, microfinance institutions, non-banking finance companies, shops, moneylenders etc. We also assess the impact of heterogeneity in households in terms of regional and gender disparity in reaping economic and social benefits. During COVID 19 the Government of India introduced special interventions in rural India to promote SHGs borrowing. We use Difference in Difference and heterogeneity tests for gender inequality to measure impact of COVID 19 on borrowings from SHGs and Bank. Various Government interventions such as PMJDY (Pradhan Mantri Jan Dhan Yojana) and Government transfer were introduced by the Government. Using the CMIE dataset for Peopledx we evaluate the impact of various schemes for Rural India such as PMJDY, DAY NRLM introduced during COVID 19 on Bank Accounts and Kisan Credit Card ownerships using the data for the period Jan 2019 to Sep 2021.

Tunneling Through Trademarks

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Abstract

This study documents how trademarks can be used to benefit controlling families at the expense of outside minority shareholders. Using a sample of business groups in Korea from 2017 to 2020, we find evidence to support this. First, firms are more likely to be licensor firms if the controlling family holds higher cash flow rights. Second, the sensitivity of being a licensee firm with respect to sales volume increases if the controlling family?s cash flow rights in the firm diverge further below those in the licensor firm (i.e., higher cash flow rights differentials). Third, the elasticity of trademark royalty payments to sales volume increases and the elasticity of shareholder distribution (dividend payouts and stock repurchases) to trademark royalty payments decreases if the controlling family?s cash flow rights differentials widen. Fourth, the share prices of licensee firms react negatively on the day when the full disclosure of trademark royalty payments became mandatory, and that this tendency is stronger in firms with higher trademark royalty payments and higher cash flow rights differentials. Finally, these results manifest more significantly in pure holding company groups, where alternative tunneling channels are limited.

The Heterogeneous Effects of Bank Mergers and Acquisitions on Credit to Firms: Evidence from Italian Macro-regions

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Abstract

Empirical studies have proved that bank mergers and acquisitions (M&As) are beneficial in the long-run, increasing bank efficiency and generating spillovers on pricing and credit allocation. However, in the medium- short-run a vast literature has pointed out that bank consolidations may produce some transition costs, generating a temporary reduction of credit extended by target banks, due to credit re-allocation among consolidated and non-consolidated intermediaries. Using bank-firm matched data the main aim of the paper is to investigate if M&As involving Italian banks over the period 2009-2019, during the grave economic and financial crisis, could have generated heterogeneous effects on firm credit. To this end, we investigate differential effects over the crisis and the recovery periods, during a 3-year time window after each deal, through the type of consolidations and the main purpose of each deal, as well as according to the role of some specific bank- and firm-level characteristics. In the analysis, a special focus is devoted to examine the relevance of the geographical reach of banks and firms in explaining heterogeneous effects of bank consolidations on credit to firms located in Southern regions relative to those headquartered in other areas. While the benefits of M&As tend to surface in the long-run, in the short-term and over the examined period, characterized by a generalized credit crunch due to the crises or by a slow credit dynamics during the subsequent recovery, we detect some reduction of credit towards firms by target banks involved in M&As, in line with previous evidence. When we focus on the bank-firm geographical reach, we find that this effect is stronger towards Southern borrowing firms, especially if they are smaller and riskier, independently of bank location. We suggest that this ?South negative effect? ? other things being equal ? may mainly underline a further ?risk

premium? that Southern firms have to face, related to some negative externalities for which such firms are more likely to be subject to a more severe selection after a bank reorganization.

The impact of wind and solar power generation on the level and volatility of wholesale electricity prices in Greece

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Abstract

The impact of wind and solar power generation on the level and volatility of wholesale electricity prices remains an empirical question as previous findings differ. The empirical study investigates this impact in the Greek electricity market from August 2012 to December 2018. In the context of a GARCH-in-Mean model the empirical findings suggest the existence of the merit-order effect which is stronger in the case of wind power. Moreover, controlling for regulatory mechanisms that may affect price volatility, we find that while overall renewables have decreased price volatility, wind power tends to increase it and solar power tends to decrease it. Furthermore, wind and solar power generation tend to decrease price volatility during peak hours, supporting the hypothesis that renewables' output reduces the volatility of wholesale electricity prices when it is positively correlated with the electricity load. Finally, we find that the increase in the price-cap of the Greek wholesale electricity market was associated with a reduction in the volatility of wholesale electricity prices. This finding highlights the importance of the market structure and the degree of vertical integration of the participants in liberalized electricity markets, which determines their behavior while also affecting market price volatility.

Extreme Severity Modeling using a GLM-GPD Combination: Application to an Excess of Loss Reinsurance Treaty

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Abstract

This article studies the model proposed by Laudagé et al. (2019) and examines whether the combination between a Generalized Linear Model (GLM) and a Generalized Pareto Distribution (GPD) is valid for modeling claims severity in a practical framework. For this, we consider a real fire insurance dataset and fit the proposed model to these data. In this modeling, the threshold is of great importance since it separates the data into two parts and represents the point from which the observations become extremes. Therefore, in order to guarantee the correct choice of this threshold, one extra method is adopted in addition to that used by Laudagé et al. (2019). Furthermore, we build on the authors' results and extend them by fitting the attritional data to three well-known distributions. The results of this study show that the GLM-GPD combination outperforms the benchmark model (classical GLM) in terms of predictive power. In addition, the application of an excess of loss reinsurance treaty to these two models proves that it is more interesting for an insurer to adopt a GLM-GPD combination so as not to underestimate the risk and go bankrupt. This justifies that the combined modeling is reasonably good to describe insurance claim costs.

A Comprehensive Analysis of the Market-to-Book Ratio of EU Banks

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Abstract

In this paper we examine the evolution of the market-to-book ratio of European banks before, during and after the Global Financial Crisis (GFC) and the Euro sovereign debt crisis. We employ a panel of 115 EU listed banks, which we analyse over the period 2006-2017. Clearly, their market-to-book ratio has been substantially, and persistently, lower in recent time when compared to its pre-crisis levels. To better evaluate this phenomenon, we use two main blocks of indicators, bank-specific and country-specific. We find bank fundamentals, such as return on equity, volatility of stock returns, and bank size to be important determinants of the market-to-book ratio. We also find that bank business mix variables, such as NPLs and trading assets are also important. On the country-specific front, we find GDP growth to be significant, as well as the intensity of government support to the banking system. We moreover find that differences in the market-to-book ratio of large banks are due to variables such as return on equity and volatility, and business mix measures, as well as the intensity of government intervention, while for small banks, differences are due to return on equity, size and non-performing loans.

THE ROLE OF FINANCIAL DEVELOPMENT ON FOREIGN BANKS PRESENCE AND INCLUSIVE GROWTH NEXUS IN AFRICA

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Abstract

While theory suggests that, foreign bank presence (FBE) can either dampen or heighten economic growth and despite an influx of foreign banks in Africa over the last few decades, not much is known on FBE and inclusive growth (IG) nexus in Africa. We empirically tested the moderating role of financial development on FBE- IG nexus in Africa using 28 countries from the period 2005 to 2018. Using a two-stage system (GMM), we found a positive effect of FBE on IG. While financial development magnifies the positive effect of the FBE-IG nexus, it has a direct effect on IG. A financial system must be developed to reduce the cream-skim behavior of foreign banks.

The perception of Brexit uncertainty and how it affects markets

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Abstract

We empirically study the perception of political uncertainty by UK's financial markets, covering the entire Brexit period from January 2013 to March 2020. We find that indices dominated by the largest capitalized companies anticipate negative events already prior to the actual event, whereas positively events only effect them on the event day or following. In contrast, the FTSE 250, composed of medium-sized companies, tends to move prior to positively perceived events. Furthermore, we investigate the daily perception of Brexit measured by a metric based on Google Trends. Our results show that perception significantly affects all major UK indices.

Do Community Banks Play a Role in Housing Bubbles?

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Abstract

This paper examines the influence that community bank residential mortgage lending has on regional housing prices and ultimately the housing price bubble that culminated with the Great Recession of 2007-09. Previous research suggests that because community banks face more financial intermediation frictions, such as difficulty attracting uninsured deposits compared to large banks, they play an important role in the implementation of monetary policy. We extend those findings and contribute to the line of literature examining the impact that community banks exert on housing prices. Specifically, we find that while community bank residential mortgage holdings are marginally related to housing price cycles, their mortgage lending does not contribute in an economically meaningful way to housing price bubbles. Even though bank liquidity, defined as the ratio of securities-to-assets, plays a role in the degree of community bank residential mortgage lending, it is not sufficiently strong enough to influence housing prices.

Not Just a Seat at the Table? The Impact of Female Directors' Inclusion on Firm Performance

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Abstract

This paper studies the controversial issue of female directors' representation in boardrooms. Using a policy-based inclusion measure, we demonstrate that firms can have equally gender-diverse boards but divergent performance paths depending on their inclusion efforts. Channels for the outperformance of high-diversity-high-inclusion (?Authentic Diversity") firms relative to high-diversity-low-inclusion (?Symbolic Diversity?) firms are mirrored in corporate governance. ?Authentic Diversity" firms pay more attention to board members' skills and show greater directors' participation in decision-making than ?Symbolic Diversity" firms. Moreover, more inclusive firms exhibit better monitoring through a higher fraction of independent directors. Thus, the positive impact of female directors on corporate governance seems to diminish when inclusion is lacking, making diversity a necessary but not a sufficient condition for better corporate governance. Besides, "Authentic Diversity" firms also foster strategies that promote Environmental, Social, and Governance (ESG) contributions compared to female-led firms that lack inclusive policies. Our results suggest that ?Symbolic Diversity" firms seem to perceive female directors as mere tokens, hiring them out of external pressure to increase their representation. Regulators should therefore ensure that firms have adequate policies and practices for the inclusion of female directors before mandating gender quotas to enable them to break through the glass ceiling.

The Rise of Regional Financial Cycle and Domestic Credit Markets in Asia

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Abstract

This paper documents the emergence of a regional financial cycle in Asia, evidenced by commonality in regional bank flows, and its impact on domestic credit. Using a dataset of 24,169 non-financial Indian firms for the period 2001-2019, we establish that the regional financial cycle has a positive and significant impact on domestic corporate debt, as opposed to an insignificant effect on foreign currency corporate debt, after controlling for the global financial cycle. We find that both interbank markets and monetary policy conditions in the region act as transmission channels for this effect. We show that transparent firms which have lower monitoring costs are relatively more exposed to the regional financial cycle, suggesting that affiliates of foreign banks play an important role. However, the exposure of domestic credit markets reduces once regulators institute more stringent policy actions such as macroprudential policies, selective capital controls and floating currency regimes.

Managerial Overconfidence and M&A performance: Evidence from the UK

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Abstract

This paper examines the relationship between managerial overconfidence and merger performance based on a sample of 754 mergers and acquisitions (M&A) deals in the UK from 2002 to 2018. Employing two proxies to measure overconfidence, namely, fraction of male directors on the board and frequent acquisitions, our results suggest that both a higher fraction of male directors on the board and frequent acquisitions lead to poor M&A performance both in the short run and long run, measured by cumulative abnormal returns and buy and hold abnormal returns, respectively. The results are robust across both uni-variate and multiple regression analyses. The policy implication of the results of this study is that board gender diversity with a balanced ratio of male directors relative to female directors could reduce managerial overconfidence and enhance M&A performance.

Inflation Targeting Policy and Stock Price

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Abstract

Inflation Targeting Policy and Stock Price March 10, 2022 JEL Classification: E10, E12 and E44 Keunho Lee, Ph.D. Professor of Economics Northern State University Aberdeen, South Dakota 57401 (605) 626-2576 (office) keun.lee@northern.edu Abstract The Fed has recently announced that it will soon tweak its present monetary policy stance and raise the interest rate to keep the inflation rate at bay. But it could lead to a severe fall in the stock price with little effect on the general price inflation. At any rate, the stock price must fall significantly before the Fed can bring the price inflation under control, if at all. In Keynes?s theory of asset demand, people direct asset demand to those with the greatest return. If the Fed raises the interest rate, it will lower the return from consumption goods and capital goods or stocks relative to money. Thus, people will direct the demand for assets to money away from consumption goods and capital goods or stocks, lowering the consumer price and the stock price. But the effect of the interest rate fall on demand for assets will be much greater for capital assets or stocks than consumption goods. Thus, the stock price will have to fall greatly before the consumer price, leading to a sharp fall in the stock price and possibly accompanying an economic slump. It is not to deny the importance of keeping inflation at bay by raising the interest rate. But it is equally important to keep in perspective the possible cost of slowing down the economy led by a steep fall in the stock market.

Do Energy Markets Drive Private Capital Flows?

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Abstract

This paper examines the effect energy markets on private capital flows employing dynamic panel models for forty-three (43) countries globally from 1990 to 2015. It establishes the role of energy markets in driving private capital flows. Decomposing flows into their various forms, the paper confirms that oil and gas prices affect foreign direct investments, international debt and private equity investments. The paper points to economies to design climate smart energy bonds to tap into international green bond markets.

ENVIRONMENTAL PERFORMANCE RATINGS VERSUS CREDIT RATINGS IN ENVIRONMENTAL RISK MANAGEMENT

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Abstract

This study investigates whether environmental performance rating and credit rating mitigate the probability of occurrence of firm's adverse environmental events. Based on a unique database, we find that a good corporate behavior, in terms of environmental risk management (High environmental performance rating), can significantly reduce the probability of the occurrence of adverse environmental events. This suggests that the environmental performance ratings can be used as a tool to assess exposure to firms? environmental risks. By contrast, we observe that credit ratings struggle to anticipate the occurrence of adverse environment events. The informational content in terms of environmental risk of credit ratings, that generally focus on the financial health of issuers, therefore appears to be more limited. These results are robust to several tests, including endogeneity tests

Your Land is My Land: Civil Conquest, Asset Protection, and Real Estate Value

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Abstract

I explore the impact of changes to adverse possession laws, which govern the security of real estate, on home values. Contrary to legal theory favoring adverse possession, lowering legal protections lowers real estate asset value. Using housing price panel data and the quasi-random shock of a change in Pennsylvania adverse possession law, I confirm the financial hypothesis that strong legal protections are causally related to economic value of residential real estate assets. My findings cast doubt on the legal hypothesis that redistributing underutilized real estate increases economic value by creating incentives to improve the land for its owners or occupiers.

Internal Control and Firm Value: Evidence from China

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Abstract

We investigate the impact of internal control on firm value. Relying on regulatory change for identification, we find that firms value increases after the implementation of internal control. Furthermore, the results are more pronounced for firms suffering from severe information asymmetry. In addition, we explore how internal control affects firm value. We find that after the implementation of internal control, its cost of debt reduces and corporate investment increases. These findings support evidence about the impact of internal control on firm value and help explain why internal control can enhance firm value.

Investor Sentiment Contagion under ?Informational Cycle Cascade? among Industries: Evidence from China

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Abstract

This paper uses A shares week data of second GICS industries category in China?s capital market from January, 2007 to December, 2017 to compute and extract investor sentiment factor from industry log turnover and industry log stocks volume with factor analysis method. There are five big up or down phases of investor sentiment contagion for industry average at whole period. Two typical phases of industry average are chosen to compute and analyze the flowing velocity, flowing direction and space distribution of ?informational cycle cascade?. Bad information contagion under the influence of global finance crisis and good information contagion under the influence of economic stimulating plan of big scale show that finite element is a good tool to express the running theory of investor sentiment contagion intuitively. Bad/good information contagion of ?informational cycle cascade? is clockwise/anticlockwise and information contagion is multi directions at the same time.

A Framework for Unleashing the Statement of Financial Position potential for Sustainable Assets in European Banks

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Abstract

Abstract: Purpose: The objective of the research is to render empirical evidence concerning the feasibility of a speedy reconfiguration of European bank statements of financial position (previously the balance sheet) to predominantly ?green? assets through the deployment of a climate risk-tranched closed loop securitisation framework. Design/methodology/approach: Longitudinal data of securitisation issuance in Europe covering the period 2010-2019 were collected. Furthermore, data relating to the commitments to extend financing towards green activities by 2030 by the 40 largest banks in Europe since 2016 were collected. Where commitments or deployment of funding were restricted to shorter periods, it was proportionated to 2030. Regression analysis were employed to test the relationship between aggregate securitisations issues and estimated commitments. Issuances and estimated commitments to measure the coverage ratio were used which was defined as the capacity of banks to generate funds from securitisation issues to finance green loans. Findings: The results, which are robust to the feasibility of using the climate risk-tranched closed securitisation loop framework which incorporates brown backed securitised assets demonstrate that although there is a weak however, a positive relationship between bank asset size and green financing commitments to the year 2030, banks can speedily achieve green financing targets by increasing green finance coverage, that is, by issuing more high-quality brown backed securitised assets and maintain the current estimated green commitments. Furthermore, they can reach their targets by increasing the current estimated green commitments with a disproportionate increase in brown backed securitised assets using the Climate risk-tranched closed securitisation loop framework. This can be achieved only if the proceeds from brown asset backed securitisation are redirected to green financing activities. Hence, banks can unleash the statements of financial positions potential for sustainable assets. Originality/value: This work contributes to the literature in two (2) ways. First, according to the researchers no previous such evidence exists for the use of a climate risk-tranched securitisation closed loop to transform the bank statements of financial position to green. The second contribution is that, unlike previous studies which advocate for green backed assets, in the current work brown backed assets for securitisation issues was applied. These issues have very high credit ratings (AAA, AA and A) with climate risks which are not included in determining credit risk. The aim is to ensure that the feasibility of banks to quickly reduce climate-risk related assets from their statements of financial position and replacing them with non-climate risk related loans is strong.

Economic policy uncertainty and IPO underpricing: Evidence from China

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Abstract

This paper examines the impact of economic policy uncertainty on initial public offering (IPO) underpricing using a large sample of IPO firms in China. We find that heightened economic policy uncertainty leads to increasing IPO underpricing. Our results are robust to a battery of sensitivity tests and after controlling for endogeneity. We also find that the positive relation between economic policy uncertainty and IPO underpricing is more salient for small firms, firms with less analyst attention and firms with lower stock liquidity. This relation is less pronounced for firms underwritten by prestigious underwriters and audited by high-quality auditors, but more prominent for firms backed by venture capitalists. Elevated economic policy uncertainty also exerts a stronger adverse impact on IPO underpricing for financially constrained firms, non-state-owned firms, and firms in competitive industries. Our findings also suggest that heightened economic policy uncertainty has adverse implications for IPO firms? stock returns in the near term and operational efficiency in the long run.

A model of early stage finance

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Abstract

In recent years, we have witnessed a mini-revolution around early-stage financing. In some places, like the UK, more money is raised on Equity Crowdfunding (ECF) platforms than by angels and VCs combined. In this paper we provide a simple theoretical framework for early-stage financing. In particular, we examine how the decision of the entrepreneurs to opt for equity crowdfunding instead of funding with angel investors - who add value but take more equity - affects the failure rate of a startup and its future value. We show that for startups where there may be little a priori support, because, for example, the entrepreneurs are inexperienced or because the idea is very di¤erent from anything out there, a successful ECF campaign can result in a significant increase in value. We specify the general conditions that determine whether entrepreneurs are better o¤ opting for angel investments or for an ECF campaign as a function of various parameters, including the wisdom (or lack thereof) of the crowds.

CEO PERSONALITY AND EXECUTIVES PERSONALITY DIFFERENCES EFFECT ON CASH HOLDINGS: EVIDENCE FROM TEXTUAL ANALYSIS

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Abstract

In this paper, I investigate the association of CEO personality and the difference of CEO and CFO personality on the level of cash holdings. Based on a sample of US publicly listed firms for 2002-2019, I find first that CEOs three personality traits (conscientiousness, extraversion and agreeableness) positively affect cash holdings. While the other two traits (openness and neuroticism) negatively affects a firms cash holding. Second, the CEOs tenure and financial distress of a firm affects this relationship. Third, I also find that CEO and CFO personality differences are negatively associated with firm cash holdings, and the negative association is more pronounced when there is low similarity between CEO and CFO. Further analysis reveals that the negative association between CEO and CFO personality and cash holdings is less pronounced in financial constrained firms and in firms with no CEO duality, smaller boards, smaller proportion of independent directors and higher gender ratio. The study is robust to different regression specifications, multiple sets of control variables, additional analysis and alternative cash holdings measures. Together, my results suggest, in line with the upper-echelon theory, CEO (and CFO) personality are an important factor that affect the firm?s cash holding level.

SCR for non-life insurance premium and reserves risk: results based on non-parametric methods for estimating the quantiles of the sum of dependent random variables

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Abstract

Abstract To increase the safety of the insured, the Solvency II regulation of 2016 introduces the obligation to determine the Solvency Capital Requirement (SCR). The standard approach consists in determining SCR by aggregation of the capital requirements for individual risk types, based on the dependence structure described by the correlation matrix established in the Directive. Doubts regarding the use of the above method were raised by the European Insurance and Occupational Pensions Authority. A pan- European comparative study was launched in October 2020 with one aim to better understand the dependence between, on the one side, the interdependencies modeling approaches and risk aggregation and, on the other, the resulting diversification benefits. In the literature so far, to model the dependence between risk types, copulas, including vine copulas, based on parametric estimation, have been widely used. In the present article, we will present a new method of nonparametric estimation of the quantile of the sum of the dependent insurer's risk types. The diversification effect obtained from the dependencies with the use of these nonparametric copulas is higher than the diversification effect obtained by using the dependence based on vine copulas. This method makes it possible to determine the structure of dependencies more flexibly in the absence of prior knowledge about the stochastic properties of risk modeling variables and for a limited number of observations. The results obtained in the present study indicate that the applied methodology should be considered in the construction of internal models to assess the capital requirements of insurers.

Information content when real estate funds deviate from benchmarks

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Abstract

We analyze the informative content when real estate funds deviate form their benchmark at a stock-level rather than at a fund level for the case of the European market. Active management assumes that over-and underweighting decisions from real estate fund managers contains valuable information. The underlying idea is that portfolio strategies based on deviation from benchmark (DBF) have a forcasting power on future returns. Using a sample of 132 real estate funds and 1,170 real estate stocks from 2001 to 2019, we show significant predictive power of DFB portfolio returns. We also observe that the differences between strategies match with economic and real estate cycle and tend to disappear over time indicating the maturity of real estate industry and so its trend toward efficiency.

Relationship between R&D intensity and the value, operating performance and systematic risk of businesses

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Abstract

Considering that the literature analysed the effects of R&D investments on value, performance or risk, the aim of this paper is to investigate these effects jointly, considering that risk and value are two inseparable metrics. Specifically, we will present a study on a panel of European listed companies operating in high-tech sectors with a double focus on the effect of R&D intensity on market value (measured by Tobin?s Q) and on systematic risk (measured by the CAPM beta). Considering that R&D activities play an important strategic role, the analysis also investigated performance correlations, specifically on the ROA, which is recognized as the main indicator of a firm?s operating efficiency. This study contributes to the academic debate by analysing the joint effects of R&D intensity on value-creation, on business performance, but also in terms of systematic risk. The results may be of interest for the management of businesses to implement R&D projects under the control of the critical variables highlighted to monitor the sustainability of investments and the timing of results. The considerations that emerged from our study could have policy implications on the design of research-stimulating policies.

The heterogeneity of stock prices responses to policy shocks: Evidence from International Data

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Abstract

In the aftermath of a shock in an economy, stock prices tend to be subject to adjustments. We observe heterogeneous responses to shocks to nominal interest policy rates across firms differing by the degree of financial leverage and by the expanse of financing frictions that managers encounter when accessing external finance. We find that a unit shock to nominal interest rates decreases stock prices of firms with high debt to asset ratios whereas it increases stock prices of firms with low debt to asset ratios. We provide puzzling evidence that stock prices are positively related to nominal interest policy rates in case of low and zero leverage firms. This fact represents an anomaly which we purport to explain.

Consolidation Process in the Wealth Management Industry in the UK, US, and Switzerland: An Empirical Study on the Drivers of Change in the Asset Under Management post-M&A

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Abstract

This paper aims to identify the factors influencing post-deal changes in the assets under management of the bidder company, following a Merger & Acquisition (?M&A?) transaction in the wealth management sector. We use a unique panel of 80 M&A transactions finalised between 2012 and 2020 and recorded in the US, UK, and Swiss markets. These are the most significant markets in this field in terms of size, historical heritage, and absolute values. As trust is a fundamental pillar in this industry, this work aims to investigate how clients? relationships are affected and whether or not they decide to withdraw their holdings because of M&A announcements. In this regard, they may perceive the transaction as a threat to their exclusive treatments and tailor-made services. Findings show that efficiency measures and service quality attributes can influence post-deal changes in the assets under management with different implications. However, past performance should not affect the post-transaction change in the assets under management. Overall, our results provide valuable insights for the wealth management industry - given the limited amount of literature on the topic - showing that M&A deals are a potential value driver in the industry, deflating the dominant viewpoint that sees the consolidation process as weakly applicable in a customer-centric industry such as wealth management.

Is it really not about the money? Individual Investors' Beliefs, Ambiguity Perceptions, and Norm-following Propensities in ESG Investing

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Abstract

Trillions of dollars are invested in sustainable businesses each year. However, we still lack a complete understanding of why investors opt for Socially Responsible Investments (SRIs). The literature mainly resorts to social preferences. We investigate alternative explanations, including performance expectation and ambiguity perception, in an incentivized lab experiment. Our subjects were given exactly the same information about a fund with or without knowing that the fund has a high ESG rating between treatments, and we designed methods to formally evaluate their beliefs about the fund?s return and risk for both short (1 year) and long (3 years) run, updating of belief in the face of positive and negative information, and perception of the level of ambiguity. We found that when it comes to high ESG funds, subjects expected higher returns, were more conservative when updating on negative information, and perceived lower ambiguity. This suggests that the unincentivized survey elicitation of ESG-related beliefs could be systematically biased. Our results contribute to the understanding of the true behavioral mechanism of SRIs.

Taking Money Off the Table: Suboptimal Early Exercises, Risky Arbitrage, and American Put Returns

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Abstract

Many studies report that American option investors often exercise their positions suboptimally late. Yet, when that can happen in case of puts, there is an arbitrage opportunity in perfect markets, exploitable by longing the asset-and-riskfree-asset portfolio replicating the put and shorting the put. Using early exercise data, we show that the arbitrage strategy also earns a highly significant mean return with low risk in real single-stock put markets, in which exactly replicating options is impossible. In line with theory, the strategy performs particularly well on high strike-price puts in high interest-rate regimes. It further performs well on short time-to-maturity puts on low volatility stocks, consistent with evidence that investors do not correctly incorporate those characteristics into their exercise decisions. The strategy survives accounting for trading and short-selling costs, at least when executed on liquid assets.

Connectedness between stock exchanges: VAR and Spillover approach

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Abstract

The study investigates the connectedness between various stock indices globally to analysed how one stock exchange impacts the others. The sample data includes 33 major stock indices globally, collected from the Thomson Reuters database to examine the connectedness between one another. It talks about whether the significant changes in prices across the world follow a similar pattern or not. As per the Vector autoregression, the results indicate that the NYSE composite significantly influences all other indices. It is crucial to analyze the risk contagion by volatility spillover approach, for which the results show that there is 82.83% spillover effect on the overall sample from 2000 to 2021 that is a high level of connectivity between the indices which implies that it will give a positive effect at the time of good economy. However, it will also cause serious injury to the whole system in case of economic shocks and situations of crises.

Revisiting analyst coverage and corporate innovation- Prospective of patent value

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Abstract

Firms invest in innovation not only considered the long-term expected benefits but also affected by external mechanism. Analyst coverage significantly impacts investment efficiency and encourage firms to conduct investment projects related to innovation. In the case of myopia effect, managers will reduce the number of patents to achieve short-term earnings. However, the assumption of rational behavior implies that the company would rather choose better investment project than worse off. We consider that if managers must to give up investment projects, they will retain a positive (or higher) net present value investment project and withdraw poor performance project to maintain better firm performance. Therefore, this paper uses firm?s patent value to explore above question. We find that analyst coverage is a positive correlated with the value of patent that is consistent with the assumption of managerial rational behavior. We further use the exogenous analyst coverage variation resulting from brokerage house mergers and closures to alleviate the endogenous problem and we find that the value of a patent will decreases after the reduction in analyst coverage. Furthermore, we discuss two conditional tests, and find that firms with more long-term projects or firm conducts more categories of innovation projects at the same year will decrease the positive effect of analyst coverage.

ESG news, stock volatility and tactical disclosure

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Abstract

Sensitivity to environmental, social and governance issues continuously increased over the last decade and ESG is becoming a buzzword. As a logical consequence, ESG-investing is gaining momentum, especially with the Y and Z generations. Our research work has two goals. First, we want to test whether the disclosure of good and bad ESG-related news is correlated to stock volatility, taking into consideration the potential moderating role of the firm?s ESG standing. Second, having positively confirmed a correlation between ESG-related news and stock volatility, we explore whether ESG disclosure timing is tactically managed by listed companies. We find that the probability of negative ESG news disclosure is lower when the stock is experiencing higher price volatility. This evidence suggests that managers refrain from fueling market instability with the disclosure of bad ESG news, adopting a hoarding behavior. Similarly, managers tend to boost the disclosure of positive ESG-related information when the stock return volatility is higher. Our findings implicate that the degree of transparency on ESG matters is still incomplete and there are spaces for strategic disclosure. Concerned investors should be aware that their set of information on sustainability matters might be biased, especially in times of higher volatility.

The effect of investment inefficiency on the implied cost of equity capital: Evidence from Indian firms

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Abstract

Investing in positive NPV projects is intended to increase the firm?s market value. This study investigates the effect of investment inefficiency on the implied cost of equity capital in the context of Indian firms using panel data over six years from 2016 to 2021. We adopt an implied cost of equity capital approach to measure the expected returns because studies found that it precisely captures the variations in the firm?s market value since it is the rate implied in the market value of equity and future earnings forecasts. In India, the earnings forecast of sell-side analysts to compute the implied models is not sufficiently available. Against this backdrop, our study adopts a model-based earnings forecast technique, namely, the Earnings Persistence model, developed by Li and Mohanram (2014), to estimate the forecasted earnings values to compute the implied models. The period used for estimating the predicted earnings values is 2006 to 2022. The findings of our empirical investigation suggest that investment inefficiency increases the firm?s expected returns.

Annual report readability and stock return synchronicity: Evidence from India

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Abstract

Stock return synchronicity, a measure of the co-movement of stock return with the market return, indicates market efficiency, information transparency, and degree of information asymmetry. Financial disclosures, especially annual reports, are the fundamental sources of information to the capital market participants. Li (2008) finds that public information disseminated through financial disclosures is not always reflected in the stock prices. Since the expertise to process the information is different for various capital market participants (Ball, 1992), the information processing cost of the disclosures determines the content's usefulness. This indicates public disclosures with high information processing cost leads to market inefficiency, information opaqueness, and high information asymmetry. This paper uses the readability of the annual reports as a proxy for the information processing cost (Lehavy et al., 2011) and investigates the relationship between annual report readability and stock return synchronicity in the Indian context. NSE 500 companies for the period 2015-16 to 2019-20 are considered for the analysis. Findings indicate a positive relationship between annual report readability and a company's future stock return synchronicity. Moreover, the positive relationship is more pronounced for firms with high institutional investment, high analyst following, and lesser information asymmetry.

Preemptive negotiations and postponed shareholders? meetings

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Abstract

A unique Israeli legal environment and data allow us to study institutional investors? activism as they voice opposition to proposals aimed at benefiting management and/or large shareholders through pre-emptive negotiations, i.e., before shareholders? meetings convene. By Israeli law, institutional investors must vote on significant conflicting proposals between controlling and minority shareholders. We find that if the meeting convened as schedule and negotiations tilt proposals toward minority?s interest, subsequent stock return is positive. However, if meetings are postponed and negotiations fail, subsequent return is negative. Thus, postponed meetings signal expected value appropriation from minority to large shareholders and management.

Adaptive Market Hypothesis and A Research on Borsa Istanbul

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Abstract

This study examines the adaptive market hypothesis (AMH), which was described by Lo (2009), in Turkey stock markets (Borsa Istanbul). AMH is based on an evolutionary approach to economic interactions, as well as some recent research in the cognitive neurosciences that have been transforming and revitalizing the intersection of psychology and economics. According to AMH people are mainly rational, but sometimes can quickly become irrational in response to heightened market volatility. This can open up buying opportunities. Lo (2004) postulates that investor behaviors are consistent with evolutionary models of human behavior, which include actions such as competition, adaptation, and natural selection. The AMH implies that because the risk/reward relation varies over time, a better way to achieve a consistent level of expected returns is to adapt to changing market conditions. At this point, this study is measured the degree of market efficiency by using linear and nonlinear approaches and this research whether AMH is valid in Borsa Istanbul. To investigate the market efficiency of the Borsa Istanbul (BIST) from January 2000 to December 2021, two-year rolling windows and daily test values have been calculated by using linear methods (Variance Ratio Test) and nonlinear methods (BDS test).

Sovereign capital, external balance, and the investment-based Balassa-Samuelson effect in a global dynamic equilibrium

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Abstract

We develop a two-country dynamic optimization model with investment and labor mobility and calculate its full-distribution Markov solution without misleading non-stochastic steady-state shortcuts. Agents have access to so-called sovereign capital (an extension of the inside equity notion) as well as the usual outside equity in their own country, but only to outside equity in the other country. This friction creates two distinct categories of partially non-tradable investment goods. Their price ratio can be viewed as an analogue of the real exchange rate in the Balassa-Samuelson model, but with consumption goods replaced by assets. In equilibrium, this asset-based real exchange rate is more sensitive to the stock ownership split between residents and non-residents in each country's production capacity than to the ratio of national physical capital stocks. In a similar model without sovereign capital exclusivity, the order of the sensitivity is reversed. Along with the real exchange rate, we also analyze equilibrium net investment positions and financial account levels as functions of the physical capital ratio and the stock ownership splits. This allows us, in the dynamic equilibrium environment modeled, to point at the underlying regularities behind the seemingly irregular interplay between the external balance and the exchange rate.

Persistence of bank profits and ownership in China

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Abstract

This paper analyses the persistence of bank profits for Chinese banking sector, focusing on the role of market concentration and ownership structure. A panel dataset of 193 commercial banks in China from 2013 to 2019 is used. Firstly, a semi-parametric technique, i.e. Markov chain process, is employed to test profit persistence as well as its mobility. Then time-invariant components are extract from bank profit to measure profit persistence, and regressed against ownership structure and concentration. The results show that bank profits tend to be highly persistent in China. Meanwhile, persistence components are positively associated with ownership concentration, market power and listing status. Furthermore, state ownership and capital from outside of Chinese mainland are positively related to profit persistence while private and bank shareholders can reduce persistence of profits. These results are robustly checked by using various measures of profitability as well as their time-invariant components.

THE DIGITAL TRANSFORMATION IN THE ITALIAN BANKING SECTOR

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Abstract

Using a unique dataset based on the results of a survey of almost 280 Italian banks (Regional Bank Lending Survey), this paper presents early evidence on the digital transformation of the Italian banking sector over the period 2007-2018. By building a composite indicator that measures the digital supply of financial services, we show a growth in digitalization over the entire period, with a clear acceleration since 2013. The adoption of digital technologies is not homogeneous across banks and, to an even greater extent, business areas: digitalization started in payment services at the end of the 1990s and then spread to asset management, whereas the use of digital channels in lending is still less frequent. More recently, banks have also implemented new FinTech projects, mainly for digital payments and asset management activities. We find a positive correlation between the intensity of technological innovation and bank profitability; in spite of increased costs, cost-efficiency appears improved. Furthermore, we find a negative correlation with the number of branches, signalling a potential substitution effect between physical and digital channels.

Rating measurement of micro enterprises and the collapse of Probability of Default status

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Abstract

This paper begins with an analysis of trends - over the period 2012-2018 - for total bank loans, non-performing loans and the number of active, working enterprises. A review survey was done on national data from Italy with a comparison developed on a local subset from the Sardinia Region. Empirical evidence appears to support the hypothesis of the paper: can the rating class assigned by banks - using current IRB and A-IRB systems - to micro and very small enterprises, whose ability to replace financial resources using endogenous means is structurally impaired, ipso facto orient the results of performance in the same terms of PD ? Probability of Default assigned by the algorithm, thereby upending the principle of cause and effect? The thesis is developed through mathematical modelling that demonstrates the interaction of the measurement tool (the rating algorithm applied by banks) on the collapse of the loan status (default, performing or some intermediate point) of the assessed micro-entity. Emphasis is given, in conclusion, to the phenomenon using evidence of the intrinsically mutualistic link of the two populations of banks and (micro) enterprises provided by a system of differential equations.

Does financial development matter for economic globalization in Africa?

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Abstract

This paper investigates whether financial development matter for economic globalization in Africa. To do so, panel data spanning the period 1996 to 2017 for 45 African countries is utilized. In order to overcome the problem of endogeneity, the system generalized method of moments (system ? GMM) estimation technique is employed for the empirical analysis. The main finding is that financial development has significant positive impact on economic globalization in Africa. The outcome suggests that, improving financial development is key in fostering economic globalization in Africa.

Red Tape, Greenleaf: Creditor Behavior Under Costly Collateral Enforcement

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Abstract

This paper studies the alternatives that creditors rely upon when collateral enforcement becomes costly. I exploit quasi-experimental variation from an increase in foreclosure costs due to Maine's 2014 Greenleaf judgement. I estimate that the foreclosure rate on treated loans dropped by over 24%. Furthermore, I do not find evidence that borrowers strategically defaulted, plausibly due to the nuanced and unadvertised nature of the judgement. Given that delinquent borrowers had an opportunity to repay in the absence of foreclosure, treated delinquent loans self-cured by 30% relative to the baseline. Turning to creditors, the rate of modification and short sale did not increase. Instead, I find that servicers ultimately sold off 44% of delinquent loans that would have otherwise been foreclosed upon. Finally, I show that this secondary market unwinds when foreclosure costs become prohibitively expensive, at which point servicers appear to provide forbearance to a subset of delinquent loans.

Long run equity risk premium in international markets

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Abstract

Long run equity risk premium in international markets Abstract Industrial countries have in general experienced high risk premium and high volatility on equity, and low mean and volatility of risk free rate with a notable exception of Japan, where the equity premium has been historically low even though the volatility has been higher. The Netherland and Sweden have experienced relatively much higher risk premium. Long run risk model (LRR) proposed by Bansal and Yaron (2004) successfully explains several stylized characteristics of the US stock market for reasonable values of preference parameters. In this paper we investigate the applicability of LRR model for the US and ten other industrial countries (Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom). We find that LRR model can successfully replicate the important characteristics of international equity markets, captured by moments of mean, volatility and first order autocorrelation of consumption, dividend, risk free rate and the stock return. We investigate the variance ratio of growth rates, the predictability of consumption, dividend, excess return and their volatilities. Variance ratios of consumption and dividend growth rates over 2 to 6 year horizon are greater than 1 suggesting a small predictable persistent component in economic growth rate. Based on variance ratio statistic, we cannot reject LRR model. Further, estimates of the calibrated LRR model confirm predictability of consumption, dividend and excess return across international markets. A co-integrating relation between dividend and aggregate consumption, a measure of long run consumption risks further explains a significant part of variation in dividend and stock return in the sample countries.
Keywords: Long Run Risk Model, asset pricing, equity premium, price-dividend ratio, consumption growth, international Evidence. JEL Classification: G12, G15

What Drives International Consumption Risk Sharing? Economic or Financial Integration?

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Abstract

The declining degree of international capital markets segmentation has been shown to be associated with improved international consumption risk sharing. In the data this is reflected in a relatively low consumption volatility and correlation between consumption differentials and exchange rates. In the spirit of Akbari et al. (2021), we build measures of economic and financial integration and test whether improvements in international consumption risk sharing are driven by a common cash flow dynamic (economic integration) or by a common risk pricing dynamic (financial integration). Rising financial (economic) integration is found to improve (undermine) international consumption smoothing, in particular across emerging economies.

Which institutional investor is driving the low-risk anomaly?

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Abstract

The low-risk anomaly is one of the most researched anomalies within the field of asset pricing. This paper analyses the demand for risk characteristic stocks from eight institutional investor groups within the overall U.S. stock market and the S&P large-, mid-, and small-cap indices. We identify investment companies, corporate (private) pension funds, banks/trusts and insurance companies as the drivers behind the institutional demand for volatility, beta, idiosyncratic volatility and lottery preferences. Additionally, we contribute institutional investor group-specific revealed demands for risk characteristic stocks.

Covid-19 as an exogenous shock and economic resilience: a case study in Uruguay

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Abstract

The Covid-19 shock mainly affected work, one of the factors of production in classical and neoclassical theory. To our knowledge, there is no adequate theoretical or empirical basis to provide guidance on how to avoid, treat, or mitigate the health, economic, or social costs associated with this type of exogenous shock. The main objective of the work is to calculate the economic resilience index of Uruguay in the case of the Covid-19 shock, discuss it in its international comparison and examine its determinants. Indices were used for two variables(Occupancy rate and GDP Growth), for pre-pandemic levels and for GDP trend using an ARIMA model. From a public health perspective, it can be said that Uruguay's performance has been the best in Latin America and better than that of many developed countries. Vaccination has been a cornerstone of the Uruguayan arsenal, and a strong health system has compensated for some laxity regarding non-pharmacological interventions. On the other hand, the measures taken on the economic front were in the right direction, aimed at supporting the most vulnerable citizens and companies. The policies and measures were in the fiscal, monetary and social areas. A good balance was struck between the needs imposed by COVID-19 and those required for long-term sustainable fiscal solvency. In addition to these proximate economic determinants of resilience, Uruguay has some of the fundamental determinants in a strong position, in particular, its institutions. The net result of the confluence of Uruguay's economic and health policies was positive, and our analysis suggested good economic resilience (six quarters), at least in terms of employment rate and GDP growth. In general, the country showed the capacity to face the shock in a balanced manner, and may continue to do so even if the virus finds a more aggressive evolutionary path than that represented by omicron. However, a future crisis may present unforeseen challenges. These will almost certainly be defeated if many countries, like Uruguay, make the bold decision to boost investment in Science, Innovation and Technology.

Impact of Trading Hours Extensions on Foreign Exchange Volatility: Intraday Evidence from the Moscow Exchange

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Abstract

Using transaction-level tick-by-tick data of same-day and next-day settlement of the Russian Rouble versus US Dollar exchange rate traded on the Moscow Exchange Market during the period 2005-2013 we analyse the impact of trading hours extensions on volatility. During the sample period the Moscow Exchange extended trading hours three times for the same-day settlement and two times for the next-day settlement of the RUB/USD rate. To analyse the effect of the implementations, various measures of historical and realised volatility are calculated for 5-minute and 15-minute intraday intervals spanning a period of 3 months both prior to and following trading hours extensions. Besides historical volatility measures, we also examine volume and spread. We apply an ARMA-GARCH model utilising realised volatility and a trade classification rule to estimate the probability of informed trading. The trading hours extensions cause a significant increase in both volatility and volume for further analysing the reasons behind volatility changes. Volatility changes mostly occur after the opening of the market. We document that the length of the extension has a significant positive effect on realised volatility. The results show that informed trading increased substantially after the opening for the rate of same day settlement, whereas this is not observed for next day settlement. The findings demonstrate that although trading hours extensions raise opportunities for more transactions and liquidity in foreign exchange markets, they may also lead to higher volatility in the market. Furthermore, this distortion is found to be more significant at opening and midday. A potential explanation for the increased volatility mostly at the opening is, that the trading hours extension attracts informed traders rather than liquidity providers.

Socially Responsible Investments: Doing Good while Doing Well in Emerging versus Developed countries?

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Abstract

We investigate the performance of Socially Responsible Investments (SRI) in both developed and emerging countries. We do so by examining the performance of self-constructed equity portfolios based on current and historical SRI's mutual funds' holdings. Based on current holdings, the SRI equity portfolios from emerging and developed countries significantly outperform their benchmarks except for the Japanese stock portfolio. We mitigate the potential look-ahead and survivorship bias of the current holdings approach by employing the historical holdings approach. We find that using the historical holdings approach, the significant level of outperformance of developed countries' portfolios decreases, while it remains positively significant at a conventional level for emerging countries? portfolios. Our more detailed historical holdings analysis shows the heterogeneity of the significant SRI outperformance within the group of developed and emerging countries. For the developed countries' portfolios only those for stocks from Europe and Asia remain significant, whereas those for the U.S., North America (Canada plus U.S.) and Japan become insignificant. For the emerging countries, the BRICS? stocks portfolios significantly outperform the benchmark, while the non-BRICS portfolio's performance is not significantly different from the benchmark portfolio.

What Do Employees Know

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Abstract

In this paper we examine the informational content of employee morale ratings and the relation between employee morale and a firm?s M&A activity in two dimensions using the volatility of and the similarity between acquirer and target ratings. Firms with higher (lower) employee morale similarity are more (less) likely to merge, achieve greater (lower) return but lower (greater) operating performance synergies including higher (lower) announcement returns and lower (higher) ROA, and experience greater (lower) employment changes following the merger. Firms with greater (lower) volatility and mix of ratings are less (more) likely to merge but as the merger comes around, they achieve higher (lower) abnormal returns. In addition to the paper providing proof that employee morale ratings have high predictive return ability, it also shows that the more split in their opinions the employees of the merged firm are, the higher the employment changes following the deal will be.

The interaction effect of text-based corporate innovation and economic policy uncertainty on firm performance

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Abstract

Several empirical evidences suggest that corporate innovation is positively associated with firm performance. Using U.S. firms from the period of 1996-2010, we show that, in time of economic policy uncertainty, firms with high text-based corporate innovation are likely to face a pronounced increase in cost of finance, which translated into lower firm value. Consistent with this argument, our results show that in times of greater uncertainty, it is more difficult to value corporation innovation. Therefore, the favorable effect of corporate innovation on firm value is reduced substantially. Several robustness checks confirm the results, including various instrumental-variable analyses. Our study is the first to shed light on how text-based corporate innovation is associated with firm performance under economic policy uncertainty. Finally, we use novel measure of text-based corporate innovation to measure firm?s quality and quantity of corporate innovation.

Liquidity, market discipline, moral hazard and banking crises: The role of deposit insurance

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Abstract

This paper explore first, the effect of deposit insurance on bank liquidity, market discipline and moral hazard behavior of banks. Using a sample of 50 countries over 1970-2017, I find that liquidity and moral hazard increase with the implementation deposit insurance, while market discipline decreases. Second, I analyze their trend around banking crises. The results suggest that banking crises tend to be preceded by an increase liquidity with however a market discipline, as depositors monitor banks through higher interest rates. Third, I investigate the predictive ability of banking crises by liquidity variables through a Bayesian model averaging. Among the liquidity variables and various macroeconomic and financial variables selected, the paper identifies liquid assets held by banks as a strong early warning indicator of banking crises among other economic conditions such as credit, external debt and GDP growth.

Efficiency and bank performance in the MENA before and during the COVID-19 pandemic

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Abstract

This study empirically investigates the effect of efficiency and market competition on bank performance in the Middle East and North Africa (MENA) region. Using a sample of 225 banks in 18 countries, we find that bank performance strongly depends on the efficiency level and market power of banks. When analysis is done separately for different types of banks (Islamic and conventional) in the MENA region, the evidence shows a significant efficiency effect on the performance of conventional banks after controlling for bank- and country-level characteristics. In contrast, the improved efficiency does not lead to better profitability of Islamic banks. We find only weak evidence for a positive and significant association between efficiency and bank performance during the COVID-19 outbreak. Finally, our results indicate that managing higher level of efficiency leads to an improved financial stability but at the same time increase the bank appetite for taking higher (credit) risk. The results are robust to the use of alternative efficiency measures and potential endogeneity issues. The study offers significant policy implications for bank regulators and policy makers to identify efficiency measures in standing out against potential adverse effects caused by the COVID-19 pandemic and to convey policies that mark the entire banking system in the MENA countries

Hurricane Risk and Asset Prices

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Abstract

We examine hurricane exposure as a systematic risk factor in the US stock market. Motivated by a consumption-based asset pricing model with heterogeneous agents, we derive a necessary and sufficient condition for a hurricane risk premium in the cross-section of stock returns. Empirically, we find that ? in the period from 1995 to 2020 ? stocks that react negatively to aggregate hurricane losses outperform stocks that react positively by almost 9% p.a. The hurricane premium is not explained by standard asset pricing risk factors nor stock characteristics. Our results emphasize the importance of climate risk for firms? cost of capital.

The effect of carbon intensity on debt fundraisings in the emerging markets

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Abstract

Given that emerging markets are responsible for more than half of current global carbon emissions, investors in emerging markets face higher financial risks due to climate changes. It can potentially drive investors and financial institutions to evacuate their investment in carbon-intensive companies to reduce climate risks. In this context, there is little evidence investigating the effect of climate risks on capital structures in emerging markets. This study examines the impact of carbon emissions as a proxy of climate risks on debt issuances using panel data regression analysis. By employing publicly listed firms in the top emitters of Asian emerging countries from 2010-2019, this study finds that debt investors or lenders are sensitive to firms' carbon emission intensity. Furthermore, lenders would negatively value carbon emissions when firms' sales turnover and investment intensity increased. Thus, these findings suggest that carbon emissions are negatively associated with debt issuance when carbon intensity information is considered in conjunction with profitability and investments information.

Survivorship and Delisting Bias in Cryptocurrency Markets

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Abstract

This study quantifies performance measure distortions in a cryptocurrency sample truncated by survivorship and delisting bias. Previous research shows that the attrition rate in cryptocurrency markets is high. However, the survivorship and delisting bias in cryptocurrencies lacks empirical research. Using data for 3'904 cryptocurrencies during the 2014-2021 period, we estimate an annualized bias of 0.93% (62.19%) for value-weighted (equal-weighted) portfolios. After controlling for survivorship and delisting bias, we revisit the relationship between average returns, size, past performance, and market beta. Our results confirm the size effect, but the premium is overestimated by 50% in a survival-conditioned sample. In contrast, we find no evidence of a positive relationship between average returns, momentum, and market beta. Our results suggest that the survivorship and delisting bias are important biases that ought to be omitted.

Contagion between Islamic and Conventional Indices: Sectoral Level Evidence

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Abstract

This study examines the contagion effect between Islamic and conventional indices from oil importing and exporting country-specific sectoral indices by using the multivariate ADCC-GARCH model. Our findings indicate that the majority of oil-importing Islamic sectors do not provide evidence of contagion during the Global Financial Crisis period as compared to their conventional counterparts. In contrast, the Islamic sectors from oil importing and exporting countries provide a heterogeneous pattern of results during European Sovereign Debt Crisis and Oil Crisis periods. Though the Islamic and conventional sectoral markets in the US and Asian and some European equities remained non-contagious from oil price shock during European Sovereign Debt Crisis regimes, a heterogeneous set of findings regarding asymmetries among Islamic and conventional sectors during different crisis periods are observed. The results also suggest that Islamic indices hold the decoupling hypothesis on the sectoral level.

Does informative risk disclosure matter in IPO underpricing? The impact of the European evolving normative context

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Abstract

This analysis investigates how the evolving European normative context affects the quantity and quality of IPO risk disclosure and, accordingly, the IPO underpricing, traditionally acknowledged as a proxy for the information asymmetry between investors and the issuing company. We posit that the recent evolution of the European regulatory framework improves the effectiveness of IPO risk disclosure, ultimately reducing the information asymmetry between insiders and outsiders and, as a consequence, the IPO underpricing. We run a content analysis on the IPO prospectuses of 130 non-financial IPOs in Italy over the period 2012-2020, focusing on the ?Risk Factors? section of the prospectus. Results show a positive effect for the approval of Regulation 2017/1129/EU on the effectiveness of risk disclosure in IPOs, and the subsequent post-IPO market reaction for most of the risks under analysis. However, the sign and the impact of risk disclosure on the IPO underpricing depends on the specific type of risk. Recent regulations and policies which improve risk disclosure are shown to impact IPO costs and affect access to capital market for private firms. However, establishing new rules does not imply rapid or sudden effects, as time is necessary to obtain full corporate legitimacy of the norm itself.

Eurozone GDP forecasting with micro-data: The role of conditional conservatism

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Abstract

This paper is generally focused on the ability of aggregate earnings to forecast Eurozone GDP growth, and particularly on the role in that relationship of special items that reflect the conditional conservatism. We contribute to previous literature by discussing the ability of aggregate micro data to forecast real GDP growth in a major economic area other than the US. Moreover, as the Eurozone can be considered an economic region predominantly of civil law, we show evidence in a context where conditional conservatism is expected to be less important. Results support the previous evidence found in US but tempered by the smaller effect of conditional conservatism on the Eurozone micro data.

THE MOOD BEHIND ICOs CRYPTOMARKETS

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Abstract

Initial Coin Offers (ICO) are the component of Fintech world related at most with Corporate Finance. In fact, they seem to allow funding support for innovative projects that otherwise would not be able to move from the conception phase to the development one. Otherwise, the poor regulation framework supporting ICOs (and their negotiations) raises doubt about the impact of the information risk over their success. The paper challenges to identify the drivers for the success of the ICO offer by inferring the probability of success of an original sample made of 535 offers between January 2016 and May 2021. Such results are then compared with the crypto-investor?s profiles how they emerge from a second original dataset made of 200 investors who registered into the main forums over the same timeframe as for the ICOs? one. Results put in evidence that the use of tools being capable to catch the investor?s mood during the ICO process is more relevant than other information concerning the expected performance of the projects.

The witchcraft belief and financial development

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Abstract

Witchcraft belief is a long-standing traditional culture, which is still deeply entrenched in many parts of the African continent and beyond. This paper examines the impact of the witchcraft beliefs on modern firm?s access to finance. Exploiting cross-region differences in the prevalence of witchcraft belief in 74 regions in fourteen African countries, we find that (i) witchcraft belief has a negative impact on firm?s access to finance, (ii) firms rely more on internal funds, since witchcraft belief reduce the supply of external funds in both formal and informal channels, (iii) such effect is mitigated with foreign aid, (iv) firms tend to have concentrated ownership, (v) households are less likely to access to finance services and external finance for both formal and informal channels, but Fintech could be a substitute to compensate the low access to physical finance.

Hedge Funds, Prime Brokers, and Corporate Bond Offerings

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Abstract

Hedge funds make abnormally large and profitable trades in stocks prior to corporate bond announcements when their prime broker serves as a bond underwriter. These trades outperform other trades, generating a monthly alpha of 48 bps. This outperformance is driven by hedge fund existing positions and is not concentrated in announcement periods, nor in funds serviced by prime brokers whose equity analysts follow the firm. Bonds of firms held by connected hedge funds are associated with higher secondary market volume and number of transactions during their first six months of trading, suggesting that hedge funds activities in the bond market are one potential channel of information transfer.

Inflated ESG ratings through socially responsible investing: An inverse relation to sustainable performance

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Abstract

Socially responsible investing is counterproductive for societal welfare when it relies on ESG ratings. Socially responsible investors accept lower returns for sustainable firms. Since information asymmetries hinder them in assessing the sustainable performance of firms, they are forced to rely on ESG ratings. Correspondingly, socially responsible investors require lower costs of capital for firms with high ESG, rather than directly rewarding sustainable performance. In this paper, we show that this incentivizes firms to inflate their ESG ratings. Specifically, we empirically show that Refinitiv, MSCI IVA, and FTSE ESG ratings are inversely related to sustainable performance. Moreover, firm promises of sustainable performance do not materialize up to 10 years in the future. Consequently, firms attain cost of capital reductions by solely promising empty ESG policies, targets, and activities, without improving their sustainable performance. These cost of capital incentives negate the societal benefits of ESG-rating-based SRI as they unintentionally penalize new sustainable initiatives.

Tax Avoidance: Tax Saving or Rent Extraction

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Abstract

In this study, we attempt to investigate whether tax avoidance (TA hereinafter) behaviour is driven by tax saving or rent extraction. To disentangle these two arguments, we focus on the impact of controlling shareholders. If tax saving argument is valid, the relationship between controlling shareholders and TA is a U shape. Alternatively, relationship should be an inversed U shape. Empirically, we find a statistically significant inversed U shape between controlling shareholdings and CETR (CETR is a measure of TA and high CETR indicates low TA). This result is consistent with tax saving argument. In addition, we check the relationship between controlling shareholdings and rent extraction. We find a statistically significant inversed U shape. The results further confirm the tax saving argument. Overall, our empirical results suggest that TA activities are mainly driven by tax saving rather than rent extraction argument proposed by Desai and Dharmapala (2006).

DOES MORE INFORMATION LEAD TO LOWER MODEL RISK IN CREDIT MODELS?

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This paper proposes a model risk measure for credit risk models. Our model risk measure is an adaptation of Barrieu and Scandolo (2015), originally developed for market risk. We employ this measure to study the potentially inappropriate use of credit risk models in two empirical applications using stepwise Ordinary Least Squares regressions for a large set of loans to micro and small businesses, using credit bureau data from the Central Bank of Brazil. In the first application, we focus on the formulation of inferences made from models that use the population of loans and are improperly applied to a heterogeneous segment. We compare the model risk of a single model estimated with aggregate data (i.e., from the population of banks) and find it to be larger than that of segmented models estimated separately for each bank. In the second application, we compare the model risk of a parsimonious default estimation model, containing geolocation fixed effects, to that of a model with many variables at the geographic level. We find that the first presents lower model risk.

Connecting the dots: An integrative framework of CSR antecedents, heterogeneous CSR approaches, and societal and financial performance

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Abstract

We incorporate CSR into the Oliver(1991) institutional pressure framework to unravel why, how, and to what avail firms adopt CSR. Our theoretical framework adopts CSR antecedents as drivers of institutional CSR pressure, which affect the heterogenous ways in which firms approach CSR. CSR antecedents and CSR approaches jointly determine the societal contributions and financial performance associated with CSR. We empirically verify this theoretical framework and observe that 50\%, 24\%, and 26\% of the firms approach strategic CSR, CSR-as-insurance, and greenwashing respectively. Strategic CSR firms outperform in both societal and financial performance, while CSR antecedents moderate this effect.

External imbalances in the euro periphery: new evidence from non-linear models

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Abstract

We assess the sustainability of the current account of four euro-periphery countries, namely Greece, Ireland, Portugal and Spain via a non-linear model with state-varying thresholds. Our analysis shows that the long-run external position of these countries fails to satisfy the sustainability condi- tion. At the same time, the adjustment of the economy following current account imbalances is non-linear with respect to positive versus negative disequilibria. Further, we show that the endogenously estimated thresholds for adjustment present a statistically significant non-linear component, which is dependent on the extent of financial crises. Our results will be relevant for the design of adequate macroeconomic imbalance alert mechanisms for the case of monetary unions.

Innovations in Bankruptcy Financing: Rights Offerings in Chapter 11

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Abstract

The paper investigates the rising trend of rights offerings in U.S. Chapter 11 reorganizations. In the last decade, rights offerings have been used in more than 40% of the bankruptcy cases and have evolved as a market based response to the uncertainties in the valuation process. I find that they are highly correlated with the performance of the stock market, and largely displace Section 363 asset liquidations, which have been found to be value reducing. Their causal effect on bankruptcy outcomes is identified using the within-district random assignment of bankruptcy judges, and the S&P fluctuations during the book building phase as instruments for rights offering completion. I find that compared with other sources of financing, rights offerings are associated with shorter periods spent in Chapter 11, higher recovery rates, and reduced uncertainty about the court valuation of the reorganized company.

Using Financial Options Workshops to Improve Financial Literacy at Colleges

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Abstract

There is a lot of discussion in the financial literature about the lack of proper financial knowledge and skills among college students. This problem persists when students, as young adults join the workforce upon graduation, start earning and spending, without applying the basic principles of financial management. To some financial management is easy but for most it is rather complex. The lack of financial literacy has brought on us several financial crises in the past decades. The literature suggests that experiential learning is a good way to make students learn a complex subject. The authors use a series of hands-on workshops on financial options to first create an interest, and then impart valuable knowledge and skills among college participants for improved financial literacy. Workshop participants are beneficiaries of experiential learning. Results of the post-survey quizzes suggest that these workshops created interest and excitement among participants. They also enhanced their understanding of financial options not only as a profitable investment alternative but also a means to manage their financial risk. In the end, the workshops ended up with a much better appreciation of financial management for participants.

Speaking With One Voice: Shareholder Collaboration on Activism

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Abstract

I analyze how an activist shareholder (e.g., a hedge fund) with non-decisive ownership orchestrates shareholder collaboration to govern a firm via intervention. The premise is that the activist shareholder must collaborate with fellow active shareholders and win over passive shareholders simultaneously. I find that collaborating with fellow active shareholders spreads activism costs but, perhaps surprisingly, jeopardizes passive shareholders? support. This trade-off endogenizes the boundary of shareholder collaboration and challenges the notion that active shareholders? influence over a firm necessarily increases with their collective ownership. The total ownership of active shareholders engaging in a campaign is generally an unreliable empirical proxy for their real influence. Even if passive shareholders do not directly intervene in shareholder activism, their pro-management preference can ex-ante determine active shareholders? activism choices and thus the outcomes of corporate governance. I also find that shareholder collaboration makes boards more likely to settle with activists before proxy fights.

Business groups and herding behavior during the COVID-19 pandemic

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Abstract

This article studies whether herding behavior is present in stock returns of business groups during the COVID-19 pandemic in Latin American Integrated Market (MILA), composed by Chile, Colombia, Mexico and Peru. Using the series of daily prices and daily traded volumes of the shares of the companies affiliated to a business group and that included in the stock market indices S&P/IPSA (Chile), COLCAP (Colombia), IPC (Mexico) and S&P/BVL (Peru), from January 1, 2010 to October 27, 2021, we find herding behavior during COVID-19 in firms affiliated to business groups in MILA, except for Mexico. Furthermore, stock behavior changes to reverse herding during May 2020 onwards. This study also reports that when the market is up herding is stronger during COVID-19. Something similar occurs for low market volatility and low volume of trading.

Beware of Extreme Investor Sentiments! Performance of Neuro Specific Options Volatility Trading Strategies: Indian Evidence on the facets of COVID 19

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Abstract

The radical changes in the Indian financial markets triggered by irrational or noise trader sentiment point out the presence of outrageous volatility in the markets during COVID-19. The information content of investor sentiment in improving the accuracy of volatility forecasts is tested in this study by incorporating sentiment measures. The straddle and strangle options volatility trading strategies are insufficient to limit the loss involved in an unexpected movement in the financial markets. The non-availability options trading strategies that can be opted by volatility traders with diverse investment requirements arising from the stimulating neurological features signify the need for developing options trading strategies that can ensure superior profitability or limit losses of adventurous traders with varying cost-consciousness and risk aversion in the volatile options market. Closing prices of NIFTY 50 index and contract wise data on NSE NIFTY 50 index options falling in the DITM, ITM, ATM, OTM, and DOTM moneyness categories with the highest or least premium are obtained for the period from October 2017 and October 2021 for forecast evaluation and for executing the proposed and conventional volatility trading strategies. VAR model is applied for forecasting volatility in the underlying NIFTY 50 index during the pre-covid and covid periods. The incremental information content of India VIX in forecasting future volatility is evident from the empirical results. It is suitable for decision-making in the options market during volatility and optimising the profitability of options trading strategies. The proposed neuro-specific strategies proved significant in satisfying the optimistic, pessimistic, cost-concerned, and risk-averse behaviour of traders in a volatile options market during the expiry of near-month NIFTY 50 options contracts.

The impact of financial literacy and personality traits on financial behaviour

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Abstract

We study the joint impact of personality traits and financial literacy on several dimensions of financial behaviour, namely investing horizon, trading frequency, market participation, current holdings, investing in socially responsible in-vestments (SRI), diversification and international diversification. The results show that both financial literacy and personality traits influence financial behaviour. Although financial literacy has a stronger and more straightforward impact on more dimensions of financial behaviour than personality traits do, the personality traits influence behaviours and preferences. We find that extraversion is a forward-looking trait - has a positive relationship with retirement savings plans and pension funds -, contrary to openness, where the likelihood of having insurance is higher. Agreeableness and neuroticism have a negative impact on financial behaviour, namely in terms of market participation. Moreover, conscientiousness increases caution of financial risk-taking and is preventive about both the present - more likely to hold government bonds and struc-tured deposits - and the future - having a retirement savings plan. Overall, we conclude that financial literacy is key to determining financial behaviour and that it should start at a younger age and consider people?s personality traits to pro-duce an effective impact on individuals? financial behaviour.

Impact of ESG Ratings on Stock Returns: Evidence from the Covid-19 Crisis

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Abstract

As a result of the covid-19 crisis, all aspects of society have experienced unimaginable consequences. Recent studies of the effects of COVID-19 on firm performance and stock volatility have examined how Environmental, Social, and Governance (ESG) indexes of firms can be useful. But no conclusive evidence has been found. There is a lack of generalisability of the relationship due to institution-related factors in the results of individual developed and emerging countries. So we conducted a comprehensive study on global emerging countries to determine how ESG performance relates to stock returns during the COVID-19 crisis. This study examines whether pre-pandemic firm ESG performance contributes to mitigating or aggravating the effects of covid-19 on stock returns. A total of 51,865 firm-week observations were obtained by analyzing weekly stock returns for 1495 companies over a period of 37 weeks. Data from 11 GICS sectors and 21 emerging countries are included in our sample. As a proxy for ESG performance of firms, ESG scores and sub-components reported by Thomson Reuters have been used. We find that higher ESG performance has negatively impacted emerging economies' stock returns during the Covid-19 crisis, contrary to previous research. Moreover, stock returns of companies that earned a higher ROA, had higher cash on hand, used less leverage, and had a smaller size were less affected by COVID-19.

Diversity in Finance Literature Revealed through the Lens of Machine Learning: A Topic Modeling Approach on Academic Papers

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Abstract

This paper aims to define a structured topography for finance researchers who are seeking to navigate the body of knowledge in their extrapolation of finance phenomena. To make sense within it, a probabilistic topic modeling approach is applied on 6000 abstracts of academic articles published in three top journals in finance between 1976 and 2020. This approach combines both machine learning techniques and natural language processing to statistically identify the probabilistic association between research articles and their shared topics described each by relevant key words. The topic modeling analysis reveals 39 coherent topics that can well depict finance literature and provide a comprehensive structure for the ongoing research themes. By comparing the topics extracted to the Financial Economics (G) class in the Journal of Economic literature (JEL) classification system, three types of topics were identified. The first type are topics that represent a perfect match to the G class. The second type are topics which are included in the JEL system but under different classes. The third type are topics that emerged in the analysis with no evident match to the JEL system.

Gender Differences in Overconfidence

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Abstract

In this paper, we revisit the gender difference in overconfidence. Though a large body of literature on overconfidence in finance exists, yet to our knowledge, no one has examined the gender difference in overconfidence by using an objective measure of true knowledge versus self-perception. We shed new light on this intriguing question by empirically investigating a rich but relatively barely studied US survey that provides us with an objective measure of financial knowledge of participants and their self-perceptions. An overconfident person?s perceived financial knowledge is higher than her actual financial knowledge. Furthermore, we group the finance knowledge questions into different categories based on difficulty level and form various measures of overconfidence. We test for gender differences in overconfidence via univariate t-tests and multivariate logit regressions after employing propensity score matching. In our multivariate setting, we control for several demographic factors such as ethnicity, age, census division, marital status, income, employment status, college education, and financial education. Contrary to prior findings, our study provides robust contradicting evidence to the paradigm of overconfident males in finance and thereby also contributes to the well-known excessive trading puzzle, which is mainly attributed to overconfidence ((Benos (1998) Daniel et al. (1998, 2001), Daniel and Hirshleifer (2015), and Odean (1998)). Furthermore, we contribute to the existing literature by investigating potential factors mitigating overconfidence. We find that the propensity of overconfidence reduces with obtaining a college degree, financial education, and investment experience. However, we do not find evidence that the gender gap in overconfidence can be reduced through such factors.

Independence of Board, Board Engagement, and Firm Performance Nexus

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Abstract

The inexorable integration of global capital markets demands superlative practices related to corporate governance from the investors. For the last decade, India has been among the fastest-growing economies in the world . The inflow of capital from foreign institutional investors has provided significant impetus to her growth. To keep India's growth on the right trajectory, corporate governance can play a pivotal role. In India, policymakers and market regulator are consistently introducing new corporate governance practices. The recent reforms emphasize on board independence and board duties. Investors and regulators are keen to understand the high impact of different aspects of corporate governance on firm sustainability and performance. This study evaluates the impact of corporate governance variables on firm performance by analysing the data of the top 500 listed companies on the National Stock Exchange in India. The study concludes that firm performance has a significant positive relationship with the directors' attendance in board meetings, though we observed that board independence has a weak relation with firm performance.

Do ESG investments mitigate ESG controversies? Evidence from international data.

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Abstract

Using an extensive international dataset based on Thomson Reuters environmental, social, and corporate governance (ESG) scores and controversies for an average of 7,175 companies in the period 2002?2018, this paper contributes to investigate how controversies may negatively affect market firm value and risk. This result can, however, be reversed in the case firms take advantage of high ESG scoring. In terms of policy implications findings suggest that controlling for ESG is important not only from a macro sustainability point of view but also from the individual firm perspective. Results are confirmed in the case of each single E, S and G pillars even though the social and governance dimension are statistically more significant in terms of controversies mitigation effects.

Local Sentiment and Insider Trading

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Abstract

In this paper, we empirically study the relation between local sentiment and individual firms? insider trades. We employ a novel dataset to measure investors? sentiment in the proximity of companies? headquarters to investigate whether local sentiment influences company insiders? decisions to purchase or sell their own companies? stocks. We identify opportunistic insider trading as defined in Cohen, Malloy, and Pomorski (2012). According to their methodology, insiders are characterized as routine traders if they trade in the same calendar month in three consecutive years. Trades by these routine traders do not predict abnormal returns. These enable us to focus particularly on opportunistic sales and purchases. Using standard approaches on asset pricing in prior literature, we test the statistical forecast power of local sentiment on companies? insider trades as well as stock returns headquartered in the same region.

Political connection and M&A performance: Evidence from China

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Abstract

This study has examined whether political connections measured by politically connected CEOs could impact short-run announcement period and long-run post-merger performance of Chinese firms taking data from 2004-2017. The results show that political connection has a positive and significant impact of short-run returns of the acquiring firms and post-merger performance of the combined entity. Our results are robust across alternate measures of firm performance and alternate measures of political connection. Our results lend credence to network theory, that is political connections in China creates networking opportunities (Guanxi) that improve merger performance.

The Impact of Policy Uncertainty on Asset Prices: The Evidence from the U.S.-China Trade Disputes

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Abstract

The Pástor and Veronesi models on government policy uncertainty and stock price shows both the political uncertainty and impact uncertainty command risk premia. We provide initial empirical study on policy uncertainty associated with specific trade policy changes and asset prices. We find that announcement returns on trade disputes are significantly negative, especially for firms with higher exposures to the trade disputes. Further analysis find that the stock price drops are transmitted through the increased discount rate channel, as well as some evidence on the channel of reduced cash flows.

Order Book Liquidity on Crypto Exchanges

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Abstract

We analyze intraday liquidity for a range of cryptocurrencies across different exchanges. Among the liquidity measures used, slippage is most interesting for crypto traders, as it di- rectly impacts their profit/loss. We find evidence that slippage can be explained by liquidity measures indicating that trades are timed. We report various liquidity patterns that allow traders to increase their profits by minimizing liquidity-dependent trading costs. We further find indications that crypto exchanges can control liquidity by the number of offered currency pairs.

Economic policy uncertainty, insider trading, and accounting profits/losses

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Abstract

This study examines how the information contained by the zero (current or future) earnings threshold affects insider trading in presence of external macro-level uncertainty. Li (2020) documents that economic policy uncertainty (EPU) increases insider trading. Using the U.S. sample of 137,378 firm-year observations over the period of 1986-2019, we find that insiders of loss-making firms are more likely to sell their shares when facing high EPU relative to those of profit-making firms. By considering the heterogeneity in losses, we find that, within loss-making firms, insiders of likely distressed losses sell more relative to insiders of losses with bright future prospects. The findings are robust to various approaches to deal with the endogeneity concerns, alternative measures for dependent and independent variables, and after controlling for the historical EPU. Additional analysis suggests that the effects of EPU on firm-level decisions and firm value are more pronounced in loss-making firms relative to profit-making firms, and in likely distressed losses relative to other losses. Also, insider trading in presence of high EPU contains information about future earnings. Taken together, our study highlights that the profit versus loss heuristic and the nature of loss-making firms play an important role in explaining insider trading in a high EPU period.

THE ROLE OF MICROFINANCE IN MITIGATING THE COVID-19 LOCKDOWN CHALLENGES OF THE POOR IN INDIA

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Abstract

The COVID lockdown has had a drastic impact on the global economy, with the Indian economy being no exception to it. Given the predominately unorganised labour market of the country, the pandemic has affected the unprotected sector the most, characterised by high concentration of the vulnerable groups, including the marginalised and weaker sections of the society, the young, migrant workers and women. The employment reported in May 2020 was 303 million, which was 100 million less than 2019-20. The number of unemployed rose by 6.3 million between April-May 2020. The estimated unemployment rate increased to 24 per cent (rural 23% and urban 27%) in May 2020. Income of 46 per cent of the households decreased by April 2020. The poverty rates remained above pre-COVID levels, with 155 million people below the extreme poverty line, which was 44 million more than in December 2019. To overcome the onslaught of the COVID pandemic the Indian Government announced several reforms and relief measures to address the pandemic crisis. As an inclusive finance strategy, Emergency Credit Line Guarantee Scheme (ECLGS) was launched to provide unsecured loans to MSMEs and business enterprises, so as to encourage small enterprises and raise private consumption. The June 2021 stimulus package announced loan guarantees and concessional collateral free credit to the sectors (including health care) worst hit by the pandemic. It included loans up to Rs. 125,000 to small borrowers through the microfinance financial institutions. In this context, the self-help groups (SHGs) assumes a significant role in poverty alleviation and women empowerment in both rural and urban areas of the country. Against this background, the present paper examines the trends in SHGs savings, loan disbursement and outstanding loan in India, with special reference to the COVID pandemic period. It also examines financial inclusion of females under the SHG scheme, besides analysing its determinants. The study is based on secondary data drawn from Reserve Bank of India (RBI) and various reports of Status of Microfinance in India and National Bank for Agricultural and Rural Development (NABARD). Statistical tools like simple averages, percentages, growth rate, financial inclusion index and multiple regression are used to study the objectives.

1 Impact of ISO 14001 and ISO 9001 adoption on corporate performance: The Portuguese Evidence

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Abstract

This paper aims to analyze the impact of the adoption of ISO 14001 and ISO 9001 on the performance of Portuguese companies. The sample includes the companies listed on Euronext Lisbon, with economic, financial, and specific information ? the specific being environmental information and quality information ? for the period between 2015 and 2019, which corresponds to the post-Troika period when some economic growth started to be witnessed. The specific information of each area translated into the environmental certification by the ISO 14001 standard, the quality certification by the ISO 9001 standard, and sustainability reports. Four variables were used as a measure of the companies' performance, Return on Assets (ROA), Return on Equity (ROE); Tobin?s Q, and EBITDA Margin. With this data, different panel models were tested to validate if ISO 9001 and ISO 14001 certification impact Portuguese listed companies' performance. Specifically, we have used the Generalized Method of Moments, GMM-System, an estimation method proposed by Arellano and Bover (1995) and Blundell and Bond (1998) The results show that in general, the environment and quality variables fail to explain the dependent variables, that is, ISO certifications do not provide positive or negative variations in the performance of companies, suggesting that they are not yet as much for civil society, as well as for current or potential shareholders. When used as an independent variable, certification according to the ISO 14001 or 9001 standards, negative and significant oscillations were verified in the dependent variable, MgEBITDA, suggesting that only for managers this variable is determinant, but with a negative impact, given the high costs, it entails without pressure from other stakeholders.

Flow-Performance Relationship in the Hedge Fund and CTA Industry and Managers? Features

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Abstract

This paper investigates the risk-shifting behavior among hedge fund and commodity trading advisor (CTA) managers. Using a piecewise regression, our results display a different response of fund managers to mid-year performance. Managers react differently to their performance at mid-year when funds are in different performance quintiles. In addition, our findings indicate that hedge fund managers who are at the money at mid-year do not decrease their level of risk immediately when their distance to the higher-water mark (Dis2HWM) is bigger than zero and funds are slightly above water. Our analysis also suggests that hedge fund managers? motivation to a higher level of risk is more induced by their relative performance than their Dis2HWM. In contrast, CTA managers are more sensitive to their Dis2HWM when compared to their relative performance. Further, we have approved that fund managers? propensity to increase risk after the bad performance is less prevalent among funds with weaker characteristics, such as smaller funds, lower outside options, and younger and lower incentive fees. In contrast, managers are more eager to increase risk following poor performance when funds are bigger and have higher outside options.

Equity Premium Predictability: Combination Forecasts versus Multivariate Regression Predictions

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Abstract

This paper examines the combination forecast and multivariate regression approaches for equity premium predictability. We evaluate 27 specifications with a unique Canadian database to avoid the data mining inherent in using common U.S. data. We find significant predictive evidence for most models. In sample, multivariate regression predictions perform better than combination forecasts, although regression results display evidence of instability and overfitting. Out of sample, combination forecasts are superior when relying on many individual models, but imposing economic restrictions on multivariate regression predictions yields similar performance. Both approaches show that incorporating information from numerous variables improves forecasting precision and economic value.

Flow-Driven ESG Returns

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Abstract

I show that the performance of ESG investments is strongly driven by price-pressure arising from flows towards sustainable funds, causing high realized returns that do not reflect high expected returns. The coefficient linking ESG flows and realized returns is the product of two factors: The deviation of green funds? portfolios from the market portfolio and a flow multiplier matrix that is the inverse of the market?s demand elasticity of substitution between stocks. Empirically, withdrawing 1 dollar from the market portfolio and investing it in the representative ESG fund increases the aggregate value of high ESG-taste stocks by 2-2.5 dollars. Under the absence of flow-driven price pressure, the aggregate ESG industry would have strongly underperformed the market from 2016 to 2021. Furthermore, the significantly positive alpha of a long-short ESG taste portfolio becomes negative.

Stock Markets Performance During Pandemic: How Contagious Is COVID-19?

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Abstract

The coronavirus (?COVID-19?) pandemic, the subsequent policies and lockdowns have unarguably led to an unprecedented fluid circumstance worldwide. The panic and fluctuations in the stock markets were unparalleled. It is inarguable that real-time availability of news and social media platforms like Twitter played a vital role in driving the investors? sentiment during such global shock. The purpose of this paper is to study how the investor sentiment in relation to COVID-19 pandemic influenced stock markets globally and how stock markets globally are integrated and contagious. We analyze COVID-19 sentiment through the Twitter posts and investigate its effect on financial securities movements. In order to determine investor sentiment, we used text mining and Natural Language Processing (NLP) to conduct sentiment analysis on COVID-19 related tweets during the year of 2020 and got the daily polarity of those tweets. We employed a GARCH (1,1) model to study the impact of the investor sentiment, assessed by the COVID-19 related tweets, on the stock markets movements globally, in the conditional heteroscedasticity equation. The research uses six global stock market indices from developed markets. Our results from the GARCH (1,1) models suggest that the investors? sentiment based on the COVID-19 tweets shows significant impact on the conditional heteroscedasticity of the developed markets indices, indicating an impact on volatility and trading volumes of the six developed market indices.

Breaking Bad: Parameter Uncertainty Caused by Structural Breaks in Stocks

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Abstract

Estimating parameter inputs for portfolio optimization has been shown to be notoriously difficult and gets further complicated by structural breaks and regime shifts in financial data. We argue that these structural breaks ultimately result in parameter uncertainty, to which investors are averse. On an aggregate market level, this ambiguity-aversion gives rise to a premium for parameter uncertainty as stocks with high (low) parameter uncertainty are avoided/sold (more attractive/bought). We propose a novel measure called break-(adjusted stock-) age that proxies for parameter uncertainty and is based on detecting structural breaks in stock returns using unsupervised machine learning techniques. Our measure reveals (i) that break-age is priced significantly in the cross-section of stock returns and (ii) that break-age is a powerful proxy for parameter uncertainty.

All you need is G(overnance): Implications for Sustainable Finance after Ambrogio Lorenzetti?s Frescoes

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Abstract

Inspired by the Allegory of the Good and Bad Government, the series of frescoes painted in the 14th century by Ambrogio Lorenzetti, this paper analyzes the role of a good corporate governance both on its impact on financial performance stability and on ?sustainability resilience? in presence of controversies related to sustainability issues. Using a sample of European companies from 2006 to 2019, our paper shows that a good governance, also at the company level, is the key factor not only in getting ESG controversies managed, therefore increasing firm sustainability resilience, but also and in reducing equity volatility, therefore stabilizing firm financial performance.

THE SYNDICATION OF IMPACT PRIVATE EQUITY FIRMS IN FRANCE

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Abstract

This paper investigates impact investing and more specifically the syndication of private equity firms in socially innovative companies that pursue a dual financial and social or environmental objective. Using a database of 238 companies funded by 19 French private equity firms, we show that the size of syndication depends on the type of funds whether they are exclusive or diversified. Our results also show that the size of syndication depends on the geographical location of the investee company and the involvement of corporate venture capital.

Bank-affiliated Venture Capital and Performance of European FinTechs

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Abstract

We study the effects of bank-affiliated venture capital (BVC) investment on FinTechs. We rely on a dataset of FinTechs in Europe before Brexit to investigate the performance of BVC-backed FinTechs and non-BVC-backed FinTechs around funding rounds between 2006 and 2019. Drawing on the strategic and complementarity-based behavior of banks, we test whether BVC-backed FinTechs in Europe generally outperform non-BVC-backed FinTechs. We also explore whether this prospective outperformance is mainly driven by the ex-ante selection effect or by the ex-post value-added effect of BVCs. Our findings show that BVC funding significantly better enhances performance of European FinTechs compared with non-BVC funding. Moreover, BVCs tend to select FinTechs with higher assets performance given that it is the most commonly used benchmark for bank profitability. Additional findings show that BVC funding and their effects on performance of FinTechs in Europe are also affected by characteristics of both VC investment and FinTechs themselves.

Analyst Institutional Client Catering and Reputation Tradeoff: Analysts? Strategic Timing of Recommendations

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Abstract

We examine whether analysts strategically time their positive recommendation on stocks that are part of institutional investors? portfolios. Using a sample of analysts? recommendations on U.S. firms, we document a pattern in analysts? recommendations and updates that are more optimistic in a month of the end of a quarter and less optimistic in a month of the beginning of a quarter. However, we do not find a clear pattern of recommendations? timing tied to the size of institutional holdings in the stock.

Crowdsourced Employee Sentiment and Stock Returns

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Abstract

Previous literature has found crowdsourced employee sentiment obtained from Glassdoor. com is related to stock returns. Evidence has shown this data can suffer from some abnormalities which may limit its usefulness. To account for these discrepancies, we utilize textual analysis through the multinominal inverse regression method to create monthly firm specific expected employee sentiment indexes for US public firms from the period 2008-2019. We test the implications of the previous literature to determine if our expected employee sentiment index is related to the cross section of abnormal returns. We find evidence that our expected employee sentiment index is related to the cross section of abnormal returns. Further, we find that employee sentiment as estimated similar to the previous literature is no longer related to stock returns. These result are robust to different specifications.

Does Mobile Payment Adoption Reduce Corruption? Cross-country Evidence

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Abstract

Different from the commonly envisioned benefit of digital payment in reducing corruption, we show, in a difference-in-differences analysis of mobile payment adoption in 198 jurisdictions, that mobile payment adoption increases corruption in the short run (up to three years from the adoption), and then such increase dissipates over time. The effects are concentrated in jurisdictions that have a higher level of corruption before the adoption, are developing markets, or follow a civil-law legal system. Our results can be explained by (lax) regulation on mobile payment that often lags behind FinTech innovations at the early stage of such innovations. Evidence from individual-level tests is broadly consistent with the above jurisdiction-level results. Our study shows a potential dark side of FinTech and highlights the importance of timely regulation to achieve the intended effectiveness of digital payment in reducing corruption.

This Time is Different: Investing Preferences in the Age of Robinhood

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Abstract

In this paper, I study how investing preferences of the relatively young, small, inexperienced, and well-connected individual investors on the Robinhood platform contrast with those of previously-studied individual investors. I find that unlike their predecessors, Robinhood investors do not have a preference towards investing in lottery stocks, value stocks, or small cap stocks. Instead, I find that Robinhood investments can best be explained by three main components: (i) attention-induced trading in response to extreme returns, volume traded, earnings announcement surprises, and analyst rating changes; (ii) a novel ``buy-the-dip'' effect favoring large, well-known companies that fell upon hard times; and (iii) peer effects on the WallStreetBets platform. Finally, I also provide a novel financial forum dictionary addition based on WallStreetBets sentiment to be used in future research.

Where Are the Sophisticated Investors? Evidence From Separate Accounts

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Abstract

This paper examines the top drivers of investor flows into US Separate Account Composites, whose investors purportedly represent some of the most sophisticated and affluent investors in the world. I find that for actively managed US Separate Account Composites, Morningstar rating is the most significant predictor of flows and supersedes more financially sophisticated metrics such as the CAPM model alpha, Fama-French 3 Factor model alpha, Fama-French-Carhart 4 Factor model alpha and other measures of risk-adjusted return. Surprisingly, the aforementioned results appear to hold for passively managed US Mutual Funds as well. With regards to performance, I find that while on average Separate Accounts outperformed the market and achieved positive alpha over the first 1991-2011 period, they failed to do so over the more recent 2012-2020 period, underscoring that these exclusive investment vehicles may not deliver consistent outperformance.

Retirement and Politics: Identifying the best practices

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Abstract

We exploit the divergence of ideologies across the two major political parties in US: Republican and Democratic, in order to compare their respective approaches to manage pension plans. We identify significant differences in the retirement benefits, contributions, portfolio allocations and return assumptions. We find that Republic pension funds display a lower funding ratio than Democratic pension funds. We explain such difference through the choice of lower contributions, higher benefits and a lower return assumption.

Corporate governance reforms and analyst forecast accuracy: International evidence

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Abstract

This study examines the effect of corporate governance reforms worldwide on analyst forecast accuracy using firms from 41 countries that have implemented such reforms. Employing a difference-in-differences design, we find robust evidence supporting a significantly positive relation between the implementation of corporate governance reforms and analyst forecast accuracy. In additional analyses, we document that the positive impact of governance reforms on analyst forecast accuracy derives mainly from reforms that promote audit committee and auditor independence. Additional analyses show that this positive relationship mainly derives from reforms involving the promotion of audit committee and auditor independence. Furthermore, we document a moderating effect of analyst general experience on the relation of interest, which is consistent with the conjecture that improved corporate disclosures following reforms could be more beneficial for analysts with less experience in terms of forecast accuracy. Overall, our findings shed new insights into how country-level corporate governance reforms around the world shape firms? information environment.

Catch, Restrict, and Release: The Real Story of Bank Bailouts

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Abstract

Bank bailouts are not ?one-shot? events commonly described in the literature. Bailouts are instead dynamic processes in which regulators ?catch? ?nancially distressed banks; ?restrict? their activities over time; and ?release? the banks from restrictions at su?ciently healthy capital ratios. The ?catch-restrict-release? approach is a global phenomenon, which we document using hand-collected data on capital injection and debt guarantee bailouts in the European Union (EU) over 2008-2014. We o?er principles for socially-optimizing regulators to conduct ?catch-restrict-release? capital injection and debt guarantee bailouts, formalize these principles in a theoretical model, and empirically ?nd that EU bailouts are qualitatively consistent with social optimization.

A New Early Warning Index to Predict Bank?s Failure

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Abstract

We provide a new early warning index of bank?s failure based on the outliers of the residuals derived from the estimated loan loss reserves. We claim outliers capture managerial over optimism and over pessimism in banking. Using FDIC dataset on American banks, next we compare the predictive power of our index relative to the Z-score and the CAR ratio indexes. Our index performs better than the other two in predicting risky banks which failed in the future and in the type I errors (predicting no-failure for banks which do fail), but it performs worst in type II errors (predicting failure for banks which do not fail). In addition, our index performs worse in predicting failure one quarter earlier, but it performs better than the Z-score and the CAR ratio in predicting failure two and three years in advance. Interestingly, we show that over optimists bank managers contribute more to failure than over pessimists.

Earnings Expectation and Interactive Discussion with Corporate Insiders

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Abstract

We empirically clarify the informational role of interactive discussions with corporate insiders by analyzing how participants? expectations are affected by the comments of each participant during analyst/investor days. To this end, we examine the influence of the linguistic tone of management (corporate insiders) presentation, comments from peers, and management responses on analysts? earnings forecasts. We find that the tone of management presentation as well as responses to participants? comments have no impact on analysts? expectations of the company performance. In contrast, analysts? earnings forecasts significantly react to comments from their peers (especially star analysts). Furthermore, analysts whose earnings forecasts positively (negatively) diverged from the consensus are influenced by negative (positive) opinions of their peers. Our results suggest that the interactive meeting plays a role in acquiring information and opinions from other participants (especially, from informed participants) rather than from corporate insiders.

Extension of the Fama and French five-factor Model: a study of the largest European pharmaceutical companies

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Abstract

This paper analyses sensitivity of the ten largest European pharmaceutical companies? returns to variations in nine explanatory factors during the period between June 2004 and January 2020. Specifically, this work estimates, using the quantile regression approach, an extension of the five-factor model of Fama and French (2015) to which Carhart's (1997) momentum and reversal momentum risk factors, Pastor and Stambaugh's (2003) liquidity factor and the long-term nominal interest rate have been added. The aim of using this regression technique is to check whether the sensitivity of the returns of these pharmaceutical companies is affected by the state of the economy, so the results will be subjected to a robustness test, which will divide the sample period into three scenarios: pre-crisis, crisis and post-crisis. The main results determine that the most influential factors in explaining the performance of the main European pharmaceutical companies are the three factors of the original Fame and French model plus the asset investment factor. Furthermore, as expected, this extended model of Fame and French shows greater explanatory power in the lower and higher quanta, showing a U-shaped pattern in all the periods analysed and reaching its maximum value in the crisis period. Therefore, all this shows the suitability of the quantile regression approach for the estimation of the model, since its explanatory power is more relevant in the extreme quantiles, related to extreme stages of the economy. Finally, the sensitivity of the top ten European pharmaceutical companies to changes in risk factors is higher in extreme market conditions.

Machine learning vs logistic regression in joint default assessment

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Abstract

The prediction of the default probability both of single and groups of obligors remains one of the topic issues in Financial Risk Management. Traditional methods such as the logistic regression have been complemented by new ones, belonging to the domain of machine learning. Both model the default probability starting from a number of covariates. Machine learning methods are expected to overperform the classical logistic regression, since they are able to capture also non linear dependencies between the covariates and default, while the logistic regression captures linear dependence only. Most of the literature so far has searched for the most accurate machine learning method for single obligor defaults. This paper addresses the impact of using either the logistic regression or machine learning approaches on the joint default probability of several obligors. In the previous literature those methods were used only for single obligor. We assess the model risk of the different machine learning approaches and show that the Value at Risk they produce, once calibrated to credit card data, exceeds that given traditional methods such as the logistic regression. The main conclusion is that credit risk assessment with ML is prudent and conservative.

Interbank Credit Exposures and Financial Stability

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Abstract

This paper investigates how interbank credit exposures affect financial stability. Policy makers often see such exposures as undermining stability by exacerbating cascading losses through the financial system. I develop a model that features a trade-off between cascading losses and risk-sharing. In contrast to previous studies I find that reducing interbank connectivity may destabilize the financial system via the bank-run channel. This is because it decreases the risk-sharing benefits of interbank connectivity. A bank-run model features two islands that are connected via a long term debt claim. Varying the size of this claim (interbank connectivity), I study how the decision to ?run on the bank? is affected. I run a simulation of the model, calibrated to the U.S. banking system between 1997-2007. I find that large bankruptcy costs are required to trump the risk-sharing benefits of interbank credit exposures.

Is investor sentiment a missing factor for the explanation of mutual fund performance?

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Abstract

My investigation tests the inclusion of the AAII investor sentiment measure into traditional finance models, such as the q-4 factor model and the Carhart 4-factor model. One of the main goals is to evaluate if investor sentiment can be one of the sources of mutual fund alpha, which is often seen as superior/inferior performance. At the individual/fund level, the inclusion of investor sentiment reduces the probability of occurrence of alpha, providing a role for this behavioral variable in mutual fund individual performance. A robustness check using the Baker & Wurgler (2006) investor sentiment composite index confirms the findings, at least to explain positive performance. At the portfolio level, the results show that investor sentiment is not a statistically significant variable to explain winner/loser portfolios of funds excess returns with an associated level of performance, which provides evidence of sentiment not representing a risk premium factor in the so-called traditional models. Overall, investor sentiment is a missing factor in mutual fund performance since it is one of the sources of alpha. By not being considered a risk factor, something is also missing in traditional asset pricing models. Behavioral finance, with investor sentiment, is the answer.

Company performance under various and multiple ownership classes: Evidence from Saudi Tadawul

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Abstract

We develop a new method of ownership classification and examine the impact of various owners on firm performance. Prior research focuses mainly on managerial ownership and/or a few general classifications. This study fills this gap. Our classification divides listed corporations into government, institutional, public, managerial, family, and foreign owners. Analyzing and comparing these companies yields several important findings. First, government and institutional firms perform the best, while public and managerial firms perform the worst. Second, the OLS and simultaneous system 2SLS estimates suggest that government and institutional ownership contribute positively to firm performance, while public ownership has a negative effect.

Guns and Kidneys: How Transplant Tourism Finances Global Conflict

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Abstract

This paper investigates the impact of organ trafficking on local conflict using georeferenced data on conflict events and hand-collected data on local transplant infrastructure in eight countries known for illegal transplanting. I exploit exogenous variation in kidney demand measured by the number of U.S. waiting list patients, their payment capacity, and their physical condition. Higher kidney demand increases conflict in localities with a transplanting center. Specifically, a one-standard deviation increase in the U.S. waiting list for kidneys leads to a 17% increase in the probability of conflict and a 1% increase in the number of conflict events compared to localities without transplant infrastructure. Consistent with the hypothesis that armed groups use organ trafficking to finance violent attacks, I find that non-state armed groups with transplanting capacities in their home region perform more attacks when kidney demand is higher. These attacks happen both in their home region and in other regions, spreading violence over space. My results further show that higher kidney demand is associated with an increase in suspicious payments from and to countries known for illegal organ trafficking. This corroborates the hypothesis that non-state armed groups finance their attacks by organ trade.

Do State Tax Changes Affect Corporate Tax Aggressiveness U.S. Evidence

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Abstract

In this study, we empirically investigate how the U.S. state tax laws affect corporate tax aggressiveness. Utilizing a difference-in-differences method, we investigate the effect of staggered changes in state corporate income tax rates in the U.S. on corporate tax aggressiveness. We find that firms become more aggressive in avoiding taxes following state tax increases but are insensitive to tax cuts. Further, the effect of state tax increases on tax aggressiveness is weaker for firms with greater debt tax shields and marginal tax rates. Finally, we show that firms are more likely to shift their operations and headquarters out of states experiencing tax increases.

A new framework of induced innovation policy for mission-oriented innovation ecosystem: addressing the transformative change

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Abstract

The broad understanding of the role of innovation in terms of its scope and forms of implementation from a critical view of the reality of its application is still a major challenge in the perspective of transformative changes. Most studies on the role of innovation for economic and social development are guided by policies focused on science and technology that consider broad national aspects, and without explicit commitments to societal problems. This paper proposes a new innovation framework of induced policy in a mission-oriented innovation ecosystem, with a broad cosmovision on the purposes, domain, and logic of innovation policy as a way of defining its directionality with attention to societal problems. The proposal integrates innovation inputs into a framework with alignment between policy makers and respective implementers, focused on regional challenges, whose interactions are related to learning and modes of innovation. In an iterative process, the paths of directionality are considered as a fundamental aspect of the innovation agenda in the perspective of transformative changes. In particular, the proposed approach can contribute to the reduction of regional asymmetries, based on its own vocations, leverage scientific and technological development, and contribute to transformational changes. This solution can be of great interest to economies that occupy large geographic areas, with significant regional asymmetries.

The dynamics of the financial inclusion index for developing countries: Lessons learned

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Abstract

The objective of this paper is to determine evolution and the dynamics of the financial inclusion index in developing countries. Data are derived from the International Monetary Fund over the 2012-2019 period. Unlike previous studies, we use Principal Component Analysis method and the inclusion of financial technology innovations to improve the accuracy of the financial inclusion index. Moreover, our paper not only examines a larger number of developing countries over a broader time horizon, but more importantly, it analyzes the dynamics of the evolution of the index in relation to three sub-indices. We find a downward trend in the financial inclusion index in most developing countries over our study period. We also find that high financial inclusion index is link to high scores in the Doing Business and high business climate regulation ranking. We find that the rates of low financial inclusion in developing countries are due to low utilization of financial services and unequal access. Furthermore, we find that the level of financial inclusion in Africa is lower than that of other continents. Our analysis suggests policy makers need to enact regulations and invest in various forms of infrastructure (roads, Internet, mobile-banking, etc.) that ease access to financial services.

The Shadow Disintermediation and Cost of Risk-sensitive Capital

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Abstract

Exploiting an exogenous increase to capital charges from cross-border banking laws as a source of variation in loan retention, this paper shows that banks relax contractual restrictions and originate riskier loans. The probability of default increases by 7 percentage points (45% in relative terms) but higher risk is not ex ante priced. The vintage-maturity variation of loans during the regulatory transition supports a causal interpretation. The increase in risk is more pronounced on loans in which banks have private information and expertise, while shadow banks do not change their investment in riskier loans. Exploiting transactional data from trustee filings, I also show that shadow banks sold treated loans at lower prices ex post. These findings suggest that information asymmetry in decentralized credit markets limits the effectiveness of macroprudential regulation.

Does the CSR Reduce the Impact of Crises on Financial Markets? Worldwide Evidence From COVID-19 Pandemic

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Abstract

This investigation analyzes the effects of CSR on share prices during the financial crisis triggered by the Covid-19 pandemic, using a sample of 6488 listed companies from 46 different countries. We found a general negative effect of CSR on stock returns during the collapse of the financial markets during the first wave of Covid-19. When the analysis was made with data only on recovery period the results showed no significant effects, and the same results were obtained when we made the analysis using environmental and social variables, assuming the inability of CSR investments to protect shareholders in times of crisis.