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Portfolio Flows across Borders and News Media Coverage

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Description

In recent years, the amount of equity and bond portfolio flows across borders has significantly increased. They were only 4% of GDP in 1975, but by the 1990s, they were 100%, and by the turn of the millennium, they were 245%. After the global financial crisis of 2007–2008, their decline was only temporary; they soon returned to their upward trend, which stimulated economic growth in the post-crisis period. However, international organizations and central banks have attempted to address concerns raised by their increasing volatility and its negative effects on the global economy. In particular, the IMF implemented "capital-flow management" measures to reduce volatility following the global financial crisis. More recently, the Bank of England created a "Capital Flows-at-Risk" framework for capital outflows in the event of a severe, low-probability event with the intention of evaluating various policy options [1].

A variety of push (global or common) and pull (country-specific) factors have been identified as potential portfolio flow determinants in the existing literature. The former include low US interest rates and industrial growth, low global risk aversion, and other factors that attract capital from the United States, the primary hub for international portfolio investment. The latter, on the other hand, draw capital into an economy and include, among other things, high domestic interest rates, economic growth, low domestic inflation, improved institutions, low political risk, and so on. According to Mark Carney, Governor of the Bank of England, pull factors are reflected in domestic conditions and institutions that affect the relative attractiveness of investing in an individual country, whereas push factors determine global risk appetite and financial conditions, particularly the level and prospects for US monetary policy and financial stability [2].

Despite evidence indicating that both have a significant impact on financial markets, the impact of newspaper coverage and social media on cross-border portfolio flows dynamics has received little attention, which is surprising given their significance. In fact, a lot of research has shown that indicators from social media platforms and newspaper coverage data provide useful information for predicting asset prices and trading behavior. For instance, we took a disagreement indicator from message boards on the Internet and discovered that disagreements in messages increase trading volumes. Utilized stock-related messages and discovered connections between sentiment in tweets and stock returns, volume of messages and trading volume, disagreement and volatility, and all of these factors. Recent research has demonstrated that trading behaviour and returns can be accurately predicted by market-wide attention-grabbing events like record stock indices and front-page news [3].

By examining the role of news media coverage as a determinant of cross-border (equity and bond) portfolio flows between the United States and 49 developed, emerging, and developing economies from January 2007 to October 2017, the present paper aims to fill this knowledge gap. Using local projection method for individual and panel regressions, we extend the work of, who estimated the (cumulative) response of asset prices to daily sentiment shocks using data on equity flows covering a smaller group of 16 emerging markets between 2005 and 2015. They discover that global sentiment optimism results in permanent inflows, whereas local news optimism only generates inflows for a few days; Additionally, the responses of both domestic and international equity funds differ. Our analysis follows other recent related work and focuses on gross capital inflows and outflows. We also make a distinction between domestic and foreign investors because these two groups may react differently to news and other shocks. We obtain news from Bloomberg News, which contains 6,165,103 news stories covering the economic and business outlook, stock market, corporate bonds, and unemployment for each country in our sample. Bloomberg developed an algorithm that determines whether these are "positive" or "negative." The impact of news media coverage on cross-border portfolio flows is then examined by calculating various news media sentiment indicators, including news pessimism, news intensity, changes in news pessimism and intensity, news (average) sentiment, and news disagreement. In addition, the estimated model incorporates a comprehensive collection of pull (country-specific) and pushes (global or common) factors. In a nutshell, the findings provide ample evidence that, in addition to other well-known economic factors, media coverage influences portfolio flows [4].

Our review adds to different strands of the writing. First, in addition to the push and pull factors that were previously considered, it provides additional insight into the potential determinants of portfolio flows. Expected return chasing and momentum investing had been the primary topics of the early papers. Later research revealed evidence that capital inflows to emerging market economies were influenced by financial liberalization. The impact of unconventional monetary policy on the dynamics of capital flows in the developed world and the role of "capital-flow management" measures to address the negative effects of large and volatile capital flows have been the subjects of recent research [5].

Conclusion

Despite the potential benefits of international diversification, there is a home bias in portfolio investment, according to the literature. Investors' desire to hedge domestic inflation, institutional barriers to foreign investment, transaction costs, and taxes on income from foreign investment was all used as early explanations. Information endowments, information immobility, stock market development and familiarity, cultural influences, exchange rate volatility, and other factors have also been taken into consideration recently. Furthermore ascribed the perseverance of the home inclination to the rising relationships between's monetary business sectors. These could occur as a result of news sentiment spillovers that affect investors' preference for domestic assets over foreign ones, particularly during turbulent times. Lastly, the current investigation is connected to the rapidly expanding body of research on the significance of social media big data and news media in financial markets. This examines the effects of sentiment indicators derived from media articles and Internet message boards. While relatively little research has been done to date on the dynamics of financial markets at the country level, the majority of these studies use data at the firm level.

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Conflict of Interest

None.

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