DISCUSSION PAPER SERIES

DP16533
(v. 5)

POLITICAL IDEOLOGY AND INTERNATIONAL CAPITAL ALLOCATION

Elisabeth Kempf, Margarita Tsoutsoura, Larissa Schäfer and Mancy Luo

FINANCIAL ECONOMICS

CEPR

POLITICAL IDEOLOGY AND INTERNATIONAL CAPITAL ALLOCATION

Elisabeth Kempf, Margarita Tsoutsoura, Larissa Schäfer and Mancy Luo

This Discussion Paper is issued under the auspices of the Centre's research programmes:

- Financial Economics

The Centre for Economic Policy Research was established in 1983 as an educational charity, to promote independent analysis and public discussion of open economies and the relations among them. It is pluralist and non-partisan, bringing economic research to bear on the analysis of medium- and long-run policy questions.

These Discussion Papers often represent preliminary or incomplete work, circulated to encourage discussion and comment. Citation and use of such a paper should take account of its provisional character.

POLITICAL IDEOLOGY AND INTERNATIONAL CAPITAL ALLOCATION

Abstract

Does investors' political ideology shape international capital allocation? We provide evidence from two settings---syndicated corporate loans and equity mutual funds---to show ideological alignment with foreign governments affects the cross-border capital allocation by U.S. institutional investors. Ideological alignment on both economic and social issues plays a role. Our empirical strategy ensures direct economic effects of foreign elections or government ties between countries are not driving the result. Ideological distance between countries also explains variation in bilateral investment. Combined, our findings imply ideological alignment is an important, omitted factor in models of international capital allocation.

Elisabeth Kempf - ekempf@hbs.edu
Harvard Business School and CEPR

Margarita Tsoutsoura - tsoutsoura@cornell.edu
Olin Business School Washington University In St Louis and CEPR

Larissa Schäfer - l.schaefer@fs.de
Frankfurt School of Finance & Management and CEPR

Mancy Luo - mancy.luo@rsm.nl
Erasmus Universiteit Rotterdam

Political Ideology and International Capital Allocation [*]

Elisabeth Kempf, Harvard Business School, CEPR, and NBER

Mancy Luo, Erasmus University

Larissa Schäfer, Frankfurt School of Finance & Management and CEPR

Margarita Tsoutsoura, Washington University in St. Louis, CEPR, ECGI, and NBER

December 23, 2022

Abstract

Does investors' political ideology shape international capital allocation? We provide evidence from two settings—syndicated corporate loans and equity mutual funds—to show ideological alignment with foreign governments affects the cross-border capital allocation by U.S. institutional investors. Ideological alignment on both economic and social issues plays a role. Our empirical strategy ensures direct economic effects of foreign elections or government ties between countries are not driving the result. Ideological distance between countries also explains variation in bilateral investment. Combined, our findings imply ideological alignment is an important, omitted factor in models of international capital allocation.

Keywords: capital flows, syndicated loans, mutual funds, political ideology, elections

1 Introduction

International capital flows have increased substantially in recent decades, sparking academic interest in understanding its determinants and underlying frictions (e.g., Maggiori, Neiman, and Schreger (2020)). Much of this literature has explored frictions that can explain persistent differences across countries and investor-country pairs, such as linguistic, ethnic, religious, and geographical distance (e.g., Guiso, Sapienza, and Zingales (2009); Leblang (2010); Burchardi, Chaney, and Hassan (2019)), as well as limited cross-border collaboration of regulators (Lang, Maffett, Omartian, and Silvers (2020); Silvers (2021)). In this paper, we point out a new and important factor that has, thus far, received no attention in the literature on global capital allocation: investors' political alignment with foreign governments. Understanding the role of investors' ideological alignment in global capital allocation is important in light of the growing political polarization in some developed countries, most notably the United States (Boxell, Gentzkow, and Shapiro (2022)). Moreover, an emerging literature shows that alignment with the U.S. president is an important determinant of individuals' views of U.S. economic conditions (e.g., Mian, Sufi, and Khoshkhou (2021); Kempf and Tsoutsoura (2021)) and their domestic capital allocation (e.g., Meeuwis, Parker, Schoar, and Simester (2022)). However, to what extent ideological alignment matters in international contexts and what are the underlying mechanisms behind the political alignment phenomenon have remained open questions.

Isolating the effect of ideological alignment with foreign governments on capital allocation decisions is empirically challenging for two main reasons. First, ideological alignment between an investor and a destination country could correlate with other measures of proximity, such as cultural, linguistic, or religious commonalities (e.g., Fisman, Paravisini, and Vig (2017)). Second, expected investment returns in the destination country may be directly affected by changes in government policies or political uncertainty surrounding elections (e.g., Pastor and Veronesi (2012)). To address these challenges, our main empirical strategy examines changes in the capital allocation by investors with different political ideologies from the *same home country* investing in the *same destination country* around the *same foreign national election*. National foreign elections allow us to isolate the effect of ideological distance, because they generate discontinuous changes in the ideological alignment between investors and foreign governments.

We study two independent settings, syndicated corporate loans and equity mutual funds. The two settings provide an ideal laboratory for our tests, because they speak to an important part of cross-border capital flows.[1] They further allow us to observe private

---

[1]Syndicated loans represent around three-quarters of total cross-border lending to non-financial corpo-

capital allocation at the level of an individual investor, that is, a bank or a mutual fund, whom we can then link to political affiliations, using political contributions and voter registration records.

We find ideological distance matters for global capital allocation. For cross-border syndicated corporate loans, we use U.S. banks' political contributions to infer their partisan leaning and compute their ideological distance to elected foreign parties based on the left-right ideology score from the Manifesto Project Database (Volkens, Lehmann, Matthieß, Merz, Regel, and Weßels (2018)). We find, when a bank experiences an increase in ideological distance after a foreign election, it reduces its lending volume by 22% and the number of loans by 10%, relative to banks experiencing a decrease in distance. This effect is slightly larger than the estimated effect of cultural proximity on loan quantities estimated by Fisman, Paravisini, and Vig (2017) and translates into a sizable reduction in loan issuance volume of $36 million for the average U.S. bank. We further document a decrease in the proportion of the loan amount provided by misaligned banks even *within the same loan*. The within-loan result allows us to rule out that the relative decline in loan quantities is driven by differences in borrower demand for capital.

In terms of loan pricing, we find a sizable, positive effect of ideological distance on loan spreads. An increase in ideological distance is associated with a 13% increase in loan spreads, which translates to approximately 28 basis points for the average loan in our sample. We further show the effect on loan spreads is stronger for relationship banks, which have greater market power vis-à-vis their clients. Loans issued by misaligned vs. aligned banks do not exhibit different ex-post loan performance (e.g., defaults or credit rating downgrades). The absence of ex-post differences in loan performance suggests we are capturing differences in the economic perceptions of Republican and Democratic banks, rather than differences in the riskiness of their borrowers.

The second setting we study is U.S.-based international equity mutual funds. While the corporate loan setting has the advantage of a direct link to the real economy (e.g., Chodorow-Reich (2014); Acharya, Eisert, Eufinger, and Hirsch (2018)), the mutual fund setting is convenient in that it allows us to identify individual decision-makers (i.e., fund managers). These fund managers can be linked to party affiliations from U.S. voter registration records, which represent a cleaner measure of political ideology than political contributions (Fos, Kempf, and Tsoutsoura (2022)). When the ideological distance between a fund's management team and a foreign country increases following an election, we find the fund reduces the share of its portfolio allocated to this country by 26 basis points, relative to a fund that experiences a decrease in distance. The granularity of the

_____

rations (Chodorow-Reich (2014); Cerutti, Hale, and Minoiu (2015)). Mutual fund holdings accounted for 52% of all foreign equities holdings by U.S. investors, as of 2017 (Department of the Treasury (2018)).

mutual fund holdings data further allows us to compare capital allocation within the same security, ensuring our results are not driven by differences in the types of securities held by Republican and Democratic fund managers.

We argue the mechanism behind the observed differences in capital allocation is cross-partisan heterogeneity in investors' beliefs about aggregate economic conditions in the destination country. To further strengthen this interpretation, we study changes in banks' GDP growth forecasts around foreign elections. We find banks that experience an increase in ideological distance are more likely to revise their one-year-ahead GDP growth forecasts downward than banks with a decrease in distance. In addition to supporting the mechanism, the GDP forecast result is interesting in its own right. To the best of our knowledge, it represents the first evidence of political ideology affecting professional economic forecasts around foreign elections. It suggests partisan disagreement about economic conditions extends well beyond the United States.

The richness of our international setting also allows us to shed light on the underlying sources of belief disagreement. For example, we show it is alignment with the prime minister that matters for capital allocation, not alignment with parties in a government coalition. A potential explanation could be that the ideology of the prime minister is particularly salient in investors' minds. We further find that not only alignment on economic policies matters, but also ideological alignment on social issues. This result is remarkable because many of the social policies we study (e.g., human rights, military, traditional morality) do not have a clear connection to the economy. The effect of alignment on social issues is particularly strong for fund managers.

Finally, we explore whether ideological distance also affects capital allocation at higher levels of aggregation. First, we examine aggregate syndicated loan issuance by U.S. banks at the industry level. We find that in industries with a larger fraction of ideologically misaligned banks, a larger relative reduction in loan issuance volume occurs around the election. This finding is consistent with ideologically aligned banks not being able to increase their loan supply sufficiently (e.g., due to balance-sheet constraints) to compensate for the reduction in capital supply by misaligned banks. Second, we show that ideological distance between two countries is negatively correlated with the size of bilateral portfolio positions. A one-standard-deviation-greater ideological distance between the governing parties in two countries is associated with 3.7% lower portfolio positions, translating into a decline of $14 billion for the average country pair. Moreover, a case study around the 2015 federal election in Canada reveals a sharp relative decline in the foreign portfolio positions of investors from home countries that experienced an increase versus a decrease in ideological distance around the election. A caveat in this analysis is that we cannot

3

exploit within-country variation as in our main tests. This limitation increases the set of potential omitted variables and requires us to make stronger assumptions to interpret the evidence as causal.

Taken together, our results imply ideological alignment is an important, omitted factor in models of international capital flows. This paper also provides a new perspective on the macroeconomic risk of political elections. Our results suggest that even elections of non-radical parties may trigger large changes in capital flows, depending on the ideology of the foreign investors.

2 Related Literature

Our study contributes to several strands of the literature. First, our paper adds to the literature that examines the determinants of cross-border investments. Within this literature, our paper is most closely related to studies documenting the influence of cultural and social proximity on foreign direct investment (FDI) (e.g., Guiso, Sapienza, and Zingales (2009); Leblang (2010); Burchardi, Chaney, and Hassan (2019)), bank lending (e.g., Mian (2006); Giannetti and Yafeh (2012); Fisman, Paravisini, and Vig (2017); Haselmann, Schoenherr, and Vig (2018)), cross-border portfolio and venture capital investment (e.g., Hwang (2011); Bottazzi, Da Rin, and Hellmann (2016)), as well as cross-border mergers and acquisitions (Ahern, Daminelli, and Fracassi (2015)). In addition to cultural proximity, a few papers have studied the importance of bilateral political relationships for cross-border portfolio and direct-investment flows (Gupta and Yu (2007)), as well as cross-border M&A activity (Kose, Lin, and Qi (2016)). Cross-border investments have also been shown to benefit from heightened cooperation between securities regulators (Lang, Maffett, Omartian, and Silvers (2020); Silvers (2021)). In this paper, we focus on a different dimension of proximity (proximity in political ideology), and on time-variation in this proximity brought about by political elections. We can therefore control for any time-invariant differences across country and investor-country pairs, including cultural, linguistic, religious, and geographical proximity. By exploiting variation in political ideology across investors from the same home country, we can further control for the effect of time-varying bilateral relationships between countries.

Our paper is related to a broader literature exploring familiarity as a factor affecting investment (e.g., Kang and Stulz (1997); Coval and Moskowitz (1999); Grinblatt and Keloharju (2001)). In our context, we can rule out time-invariant sources of familiarity, such as familiarity stemming from proximity in culture, religion, language, or geography. Our results are consistent with a model in which ideologically closer investors are more familiar

4

with the policies of the elected party (e.g., Democrat investors being more familiar with policies supporting renewable energy rather than fossil-based energy), and the greater familiarity induces them to be more optimistic about the economy in the destination country. As we discuss in section 6, our findings are harder to reconcile with a model where greater familiarity gives investors an information advantage.

We further contribute to the literature that studies how investors' party affiliation influences their response to political events. In the U.S. context, political alignment with the domestic U.S. government has been shown to affect households' optimism about economic conditions (e.g., Mian, Sufi, and Khoshkhou (2021)), as well as their portfolio allocation to risky assets (Bonaparte, Kumar, and Page (2017); Meeuwis, Parker, Schoar, and Simester (2022)). Alignment with the U.S. president has also been shown to affect more sophisticated individuals in high-stakes environments, such as U.S. credit analysts (Kempf and Tsoutsoura (2021)), loan officers (Dagostino, Gao, and Ma (2020)), and professional money managers (Cassidy and Vorsatz (2021)).[2] Our study adds to this literature in several important ways. First, by showing that ideological alignment affects cross-border capital flows, we establish that the economic effects of partisan alignment are much broader than previously thought. Second, the extent to which the domestic partisan-alignment effect reflects partisan animosity (i.e., pessimism induced by the other "team" being in power) or cross-party disagreement about the effectiveness of different government policies (irrespective of which team implements them) has remained an important open question. The fact that ideological alignment also matters in international contexts strongly supports that disagreement about policies is an important driver (alternatively, partisan investors would have to adopt a very broad definition of who is on their team). Moreover, our paper shows alignment on both economic policies and social issues matters for investment decisions. Therefore, the results in this paper contribute to our understanding of the mechanisms behind the partisan-alignment phenomenon.

More broadly, we contribute to a growing literature that examines how financial markets respond to political events. One strand of this literature focuses on how political uncertainty surrounding elections affects capital flows and securities prices (e.g., Boutchkova, Doshi, Durnev, and Molchanov (2012); Kelly, Pastor, and Veronesi (2016); Julio and Yook (2016)). Azzimonti (2019) explores the effect of partisan conflict among U.S. lawmakers around elections on private investment. In this study, we control for the channels of political uncertainty and partisan conflict among lawmakers by exploiting cross-sectional

---

[2]The aforementioned studies all focus on political alignment between investors and the U.S. government. Other studies have investigated the effect of political alignment between firms (e.g., Duchin, Farroukh, Harford, and Patel (2019)) or between investors and firms (e.g., Wintoki and Xi (2020)) on investment decisions.

heterogeneity among investors from the same home country around the same foreign election. An important implication of our findings is that the financial market response to a political event may depend strongly on the political ideology of the dominant investor.

3 Data

Measuring the ideological alignment between U.S. investors and foreign governments requires three steps. First, we need to determine the political party affiliation of various U.S. investors. Second, we need to determine which political parties are in power in the foreign countries these investors invest in. Third, we need to measure the ideological distance between the party of the investor and the foreign party in power.

3.1 Identifying U.S. Investors' Party Affiliation

To identify the party affiliation of U.S. banks, we obtain data on political contributions by political action committees (PACs) and individuals compiled by the Centre for Responsive Politics (CRP) as part of its "Open Secrets" database, aggregated at the bank level for each election cycle.[3] In any given year, we assign the party that has received more than 55% of a given bank's contributions during the most recent two-year election cycle as the bank's political party. If no party has received more than 55% of the bank's contributions, we treat the bank's party as missing for that election cycle and use the most recent non-missing party affiliation.[4] Our bank-level measure of ideology reflects the assumption that political ideology may affect lending decisions in at least two important ways. One possibility is that the contributions of the bank reflect the political views of the individual employees involved in the lending decision. If a majority of a bank's political contributions go to a particular political party, then the bank employees involved in the lending decision are more likely to be affiliated with that party. Another possibility is that the political contributions of the bank reflect a political culture inside the bank, which may influence the employees involved in the lending decision, even if their personal political views differ from those of the bank or its leadership.[5]

For U.S.-based international mutual funds, we observe the identity of the individual decision-makers (i.e., the individual fund managers). We can therefore infer the party

---

[3]CRP collects data on contributions from PACs, individuals, and soft money donors to federal candidates and political parties as reported to the Federal Election Commission.

[4]In Internet Appendix Table IA.9, Panel B, we show our results are robust to using a 50% or 60% cutoff for political contributions.

[5]Consistent with the ideology of the bank's leadership being an important determinant of a bank's political culture, we show in Internet Appendix Table IA.9, Panel B, that our main effect is larger when we use the party of the bank's CEO.

affiliation of individual managers from historical voter registration data. We obtain voter registration records from California (Contra Costa, Marin, San Francisco, San Mateo, Santa Clara, Sonoma), Colorado, Illinois, Massachusetts (Boston, Cambridge), New Jersey, New York (New York City), North Carolina, Ohio, and Texas. We restrict the sample to these locations because other states either do not provide voter registration data or they do not provide voter histories. We use county-level data for California and city-level data for New York City, Boston, and Cambridge, because the statewide data do not contain voter histories. The voter registration records contain identifying information, such as voter names, date of birth, and mailing address, as well as the voter's party affiliation at the time of a given election and an indicator for the election(s) in which the individual has voted. The elections covered are general, primary, and municipal elections. In states with party registration (e.g., New York, New Jersey), we infer political affiliation from the voter's registration status at a given point in time. In all other states, we infer political affiliation from the primaries in which the individual has voted. For example, if a voter has most recently voted in a Republican primary, we will classify her as Republican. See Fos, Kempf, and Tsoutsoura (2022) for a detailed description of the voter registration data.

3.2 Measuring Ideological Distance

We obtain information on national elections to the lower house in over 50 countries and the percentage of votes obtained by each party from the Manifesto Project Database (MPD).[6] For each election, we use the party with the highest vote share as a proxy for the governing party. We cross-check the information on election dates and the party with the highest vote share against the Parliaments and Governments (ParlGov) Database,[7] and verify all records that are inconsistent using online searches.

The information contained in the MPD also allows us to measure the ideology of political parties across a large number of countries in a unified way. The Manifesto Project measures parties' policy positions based on their electoral manifestos, which it has collected for more than 1,000 political parties in over 50 countries since 1945, and represents the most commonly used measure of policy positions from political texts (Budge, Klingemann, Volkens, Bara, Tanenbaum, et al. (2001)). Measuring the ideology of political parties based on their electoral manifestos has the advantage that they are publicly observable prior to an election. Moreover, prior studies have found a strong relationship between party manifestos and government spending priorities (e.g., Budge and Hofferbert (1990)).

---

[6]See Volkens, Lehmann, Matthieß, Merz, Regel, and Weßels (2018) for a detailed description of the database.

[7]See https://www.parlgov.org/.

Based on the party's election program, the MPD codes each party's position on various policy dimensions, some of which are pre-assigned to right versus left on the left-right political spectrum, following Laver and Budge (1992). We follow Lowe, Benoit, Mikhaylov, and Laver (2011) and compute the left-right ideology score of a given political party as the relative percentage of the manifesto talking about left versus right policy categories.[8] We provide more detailed information on the construction of our party ideology scores in section IA.A of the Internet Appendix.

Our election sample obtained from MPD consists of 203 non-U.S. elections in 45 destination countries between 2002 and 2018.[9] Approximately half of these elections involve party changes. The average (median) margin of victory, that is, the absolute difference between the highest and the second-highest vote share, is 10.7 (7.6) percentage points.

Throughout the paper, we will measure the ideological distance between two parties j and k as the absolute difference between the two parties' ideological scores:

$$Distance_{jk} = |Ideology_j - Ideology_k|. \tag{1}$$

The average (median) ideological distance score between the Democratic or Republican party to elected parties in foreign countries is 0.95 (0.87). This ideological distance exhibits substantial variation between the Democratic and the Republican Party as well as over time. Figures 1 and 2 display the ideological distance between the parties elected in foreign countries and the Democratic and Republican parties, respectively, as of December 2007 and 2017. Darker shades of red indicate greater ideological distance. On average, Democrats are closer to elected foreign parties than Republicans, but substantial heterogeneity is present both across countries and over time. For example, as of 2007, Democrats are ideologically closer to elected parties in South America and Scandinavia, and Republicans are closer to elected parties in Switzerland and Latvia. Ideological distance also exhibits substantial time-series variation between 2007 and 2017. For example, whereas Democrats become ideologically closer to the elected party in Canada, Sweden, South Africa, and Greece, Republicans experience an increase in their ideological distance from these countries. Moreover, whereas Republicans become closer to the elected party in Switzerland, Austria, and Hungary, Democrats become more ideologically distant from these countries. The time variation in ideological distance in Figures 1 and 2 is driven by both changes in the ideology of the leading parties in foreign countries, as well changes in

---

[8]Specifically, the ideology score for party p based on its manifesto is calculated as $Ideology_p = Ln(\frac{R_p + 0.5}{L_p + 0.5})$, where L_p and R_p refer to the total number of quasi-sentences in the party p's manifesto assigned to left and right policy categories, respectively.

[9]We focus on elections taking place after 2001, because our corporate loan and mutual fund samples start in 2000 and we study capital allocation decisions beginning two years prior to the election.

the ideology of the two U.S. parties over time. In our main tests below, we will focus on variation in ideological distance induced by foreign elections only.

3.3 Other Data Sources

We describe all other data sources, including the construction of our dataset on syndicated corporate loans and equity mutual funds, in the relevant sections below.

3.4 Empirical Strategy

This section describes the empirical framework used to identify the effect of ideological alignment with foreign governments on cross-border investment. We hypothesize that investors who are ideologically more distant to the party in power in a foreign country have more negative expectations regarding the profitability of investment projects in that country. In the context of corporate loans, an ideologically distant bank may have a higher estimate of the likelihood of a borrower's default, relative to an ideologically close bank. In the context of mutual funds, an ideologically distant fund manager may expect lower risk-adjusted returns for stocks in the foreign country than an ideologically close fund manager. As a result, the ideologically distant investor will invest less in the foreign country than the ideologically close investor. Moreover, an ideologically distant bank would—all else equal—charge higher loan spreads, provided it has sufficient market power to influence loan pricing.

Isolating the effect of ideological alignment is empirically challenging for at least two reasons. First, the ideological alignment between a Democratic or Republican investor and the elected party in the destination country could correlate with other measures of proximity, such as commonality of language, religion, or culture. Second, expected investment returns in the destination country may be directly affected by political elections or bilateral political and regulatory relationships (e.g., Silvers (2021)). For example, if the newly elected party is more hostile toward the U.S. government, U.S. investors may withdraw capital, due to increasing difficulties in the destination country, such as less favorable tax treatment or stricter regulation.

Our empirical strategy addresses these challenges by comparing investments by Democratic and Republican investors around the same foreign election. The following thought experiment illustrates our empirical approach. Assume two U.S. banks, one Republican and one Democratic, extend loans to Canadian firms. After the Canadian federal election in 2015, the incumbent Conservative Party of Stephen Harper (right) was succeeded by the Liberal Party led by Justin Trudeau (left). As a result of the election, the Republican

bank's ideological distance to the party in power increases, whereas the ideological distance of the Democratic bank decreases. We can then compare the change in lending to Canadian firms by the two banks before and after the election, using a difference-in-differences design.

To take this thought experiment to the data, we first compute the change in investor i's ideological distance to foreign country c around election e:

$$\Delta Distance_{iec} = \left| Ideology_{iec}^{Investor} - Ideology_{ec}^{Winner} \right| - \left| Ideology_{iec}^{Investor} - Ideology_{\underline{ec}}^{Winner} \right|, \tag{2}$$

where $Ideology_{iec}^{Investor}$ refers to investor i's left-right ideology score at the end of the half-year prior to election e in foreign country c, measured based on the most recent manifesto of investor i's political party; $Ideology_{ec}^{Winner}$ refers to the left-right ideology score of the party with the highest vote share in election e, measured based on the party's manifesto in election e, and $Ideology_{\underline{ec}}^{Winner}$ refers to the ideology score of the party with the highest vote share in election $\underline{e}$, measured based on the party's manifesto in election $\underline{e}$, which is the most recent election prior to election e. Because we fix the investor's ideology score at the end of the half-year prior to election e, $\Delta Distance_{iec}$ solely reflects the outcome of the foreign election and not changes in the ideology of the investor. In Internet Appendix Table IA.4, we provide two examples that illustrate the computation of $\Delta Distance_{iec}$ for the 2015 federal election in Canada and for the 2012 election in France, respectively.

We then estimate the following regression:

$$Investment_{iect} = \alpha_{ect} + \alpha_{iec} + \alpha_{it} + \beta Distance\,Increase_{iec} \times Post_{ect} + \epsilon_{iect}, \tag{3}$$

where $Investment_{iect}$ refers to a measure of how much capital investor i allocates to foreign country c in half-year t around election e.[10] $Distance\,Increase_{iec}$ is an indicator equal to one if $\Delta Distance_{iec}$, as defined in equation (2), is non-negative, and zero otherwise.[11] $Post_{ect}$ is an indicator equal to one if half-year t falls in the post-election period ($\tau = 0$ to $\tau = +4$), and zero if it falls in the pre-election period ($\tau = -4$ to $\tau = -1$). We define the event window to span half-years $\tau = -4$ to $\tau = +4$ to avoid many overlapping

---

[10]We use semiannual frequency for corporate loan issuance in order to match the semiannual reporting frequency of the mutual fund holdings, which we study in section 5.

[11]Due to the small number of observations with exact-zero distance changes, our results are not sensitive to how we treat these observations. We prefer to use a binary treatment variable rather than a continuous treatment variable in our baseline specification, given the recent literature highlighting problems inherent in difference-in-differences designs with non-binary treatments and high-dimensional fixed effects (de Chaisemartin and D'Haultfœuille (2020); de Chaisemartin and D'Haultfoeuille (2022)). Moreover, a binary treatment variable allows us to be agnostic about the exact functional form of the relationship between ideological distance and capital allocation. We discuss our findings regarding functional form in more detail in section 4.2 below.

event windows (the average (median) time gap between parliamentary elections in a given country is 3.5 (4) years). We stack our sample by country and election date, keeping only four half-years before and after each election. Our estimation therefore addresses the concern about different weightings for events that occur earlier versus later in the sample period, as raised by de Chaisemartin and D'Haultfœuille (2020), Callaway and Sant'Anna (2021), and Baker, Larcker, and Wang (2022). Due to some overlapping event windows, the unit of observation is an investor × election × half-year rather than an investor × destination country × half-year. In the corporate loan setting, i refers to a bank holding company. In the mutual fund setting, i refers to a fund. Throughout the paper, we cluster standard errors at the investor × destination-country level.

By including election × time fixed effects (α_{ect}), which subsume destination country × time fixed effects, we are able to control for the direct economic consequences of the election for expected investment returns, including changes in government policies and policy uncertainty. Since we restrict our main analysis to investors from the same home country (the U.S.), the election × time fixed effects further control for potential time variation in the degree of bilateral cooperation between the U.S. and foreign governments or regulators. By including investor × election fixed effects (α_{iec}), which subsume investor × destination country fixed effects, we can control for potential time-invariant differences in capital allocation across investor-country pairs. For example, we can rule out that investors with a certain political ideology always invest more in a particular country because they are closer in terms of religion, ethnicity, or culture. Finally, including investor × time fixed effects (α_{it}) allows us to control for any unobserved time-varying shocks to capital flows at the level of the investor.

Note the type of elections generating variation in our *Distance Increase* variable are elections in which Republicans experience an increase in ideological distance and Democrats experience a decrease in distance, or vice versa. For example, the election of the Socialist Party of François Hollande in 2012 would not generate such variation, because both Republicans and Democrats experienced an increase in ideological distance following the election (see Internet Appendix Table IA.4). About 34% of the elections in our sample provide such identifying variation, and we report the full list of these elections in Internet Appendix Table IA.5. This feature of our analysis implies it is not elections of parties which are radically different from the two U.S. parties that drive our variation.

To better understand the precise timing of the effects, we also estimate the following dynamic specification:

$$Investment_{iect} = \alpha_{ect} + \alpha_{iec} + \alpha_{it} + \sum_{\tau=-4}^{\tau=+4} \beta_\tau Distance\, Increase_{iec} \times D_{ect}^\tau + \epsilon_{iect}, \quad (4)$$

where D_{ect}^{τ} stands for event-time dummies and all other variables are defined as above.

4 Cross-Border Corporate Loans

In this section, we study the effect of ideological distance on cross-border corporate lending by U.S. banks. Section 4.1 describes how we construct our sample of cross-border syndicated loans and presents summary statistics. Section 4.2 studies the effect of ideological distance between the bank and the borrower country on loan quantities. Section 4.3 analyzes the effect on loan pricing and tests for potential differences in ex-post loan performance.

4.1 Corporate Loans: Data and Institutional Context

We collect data on syndicated corporate loans issued in all countries covered by the Manifesto Project from the DealScan database, maintained by the Loan Pricing Corporation (LPC DealScan). The sample period spans the years 2000 to 2018. The database contains information on borrowers, lenders, and loan contract terms at origination.[12] A syndicate loan is typically given out by a group of banks, often referred to as the "syndicate," which can be divided into lead arrangers and participants. Whereas all banks provide a part of the loan amount, lead banks negotiate the contract terms and take on administrative responsibilities. In the interest of capturing international capital flows in the most comprehensive way, we keep both lead arrangers and participants.[13] To assign a loan amount to each bank in the syndicate, we use information on loan shares when provided by DealScan and split the loan amount equally whenever such information is missing, following Giannetti and Laeven (2012) and De Haas and Van Horen (2013).[14]

We exclude loans with missing or negative loan amounts, as well as loans with deal status "rumor," "suspended," or "cancelled" (0.5% of all observations). Loan amounts are measured in USD million. After creating loan portions for each bank in a syndicate, we drop observations with a loan portion of less than $10,000 to remove erroneously small loan amounts (0.04% of observations). We restrict our main sample to cross-border loans by U.S. banks, that is, loans for which the country of the bank parent is the U.S. and the country of the borrower's headquarters is outside of the U.S. In the case of borrower subsidiaries, we use the headquarters of the subsidiary. We further focus on loans extended

---

[12]We refer to all lenders as "banks," because banks represent the vast majority of lenders.

[13]In Internet Appendix Table IA.9, Panel C, we show our main results are similar if we restrict the sample to lead banks only.

[14]Information on loan shares is available for 23% of all deals.

to non-financial borrowers by excluding borrowers with Standard Industrial Classification (SIC) codes 6000–6999.

To infer banks' political ideology, we hand-match our sample of U.S. banks to political contributions, as described in section 3.1. We obtain bank characteristics from Compustat, using the linking file by Schwert (2018), and public borrowers' credit ratings from S&P Capital IQ, using the linking table provided by Chava and Roberts (2008).[15] Our final sample consists of 30 U.S. banks extending 19,209 loans to 4,288 firms located in 42 destination countries. In Internet Appendix Tables IA.6 and IA.7, we report the list of banks and their party affiliations as well as the 20 largest destination countries by lending volume, respectively. Our sample covers 83% of the aggregate cross-border lending volume by U.S. banks between 2000 and 2018.

Panel B reports summary statistics for our loan-level dataset, where the unit of observation is a bank × election × loan. We focus on loans issued in half-years around elections and for which information on loan pricing is available. The average all-in-drawn loan spread over LIBOR is 215 basis points and the average loan size is $78 million. Around 3% of borrowers default during the course of the average loan, which has a maturity of approximately 5 years. All variables are defined in Appendix Table A.1.

4.2   Corporate Loans: Ideological Distance and Loan Quantity

We begin by studying whether banks experiencing an increase in ideological distance around a foreign election reduce loan quantities relative to banks experiencing a decrease in distance. We estimate equation (3), using the logarithm of one plus the aggregate dollar value of new loans extended by bank i to firms in destination country c in half-year t as our measure of cross-border investment.[16] We also report results for an alternative measure, the logarithm of one plus the number of new loans extended. Standard errors are clustered at the bank × destination country level.

Panel A of Table 2 reports the results. The coefficient on $Distance\,Increase \times Post$ captures the effect of an increase in ideological distance on loan volume and on the number of loans, respectively. Our strictest specification in column (3) implies that, when a bank experiences an increase in distance after a foreign election, it reduces its lending volume by 22% ($= exp(-0.242)-1$) relative to a bank that experiences a decrease in distance. For the

---

[15]We manually extend the file by Schwert (2018) for the years 2014 to 2018.

[16]The definition of our dependent variable follows a common convention in the banking literature (e.g., Giannetti and Saidi (2018); Granja, Leuz, and Rajan (2022); De Haas and Van Horen (2013)). In Internet Appendix Table IA.10, we confirm that our results also hold when we collapse the data at the bank × election level and use the difference in the log issuance volume between the pre- and the post-election period as the dependent variable, as in Chodorow-Reich (2014).

average bank in our sample, this effect translates into a reduction in loan issuance of $36 million. A back-of-the-envelope calculation suggests that, if all U.S. banks were to switch from aligned to misaligned with the government, the aggregate reduction in loan issuance in that country would be equivalent to $540 million per half-year.[17] As a reference point, the average aggregate loan issuance by domestic banks in a given country and half-year is $8,256 million.

In column (6), the effect on the number of loans is a reduction of 10%, which is somewhat smaller than the effect on loan volume but continues to be economically and statistically significant. The specifications in columns (3) and (6) contain election × time, bank × election, and bank × time fixed effects. These fixed effects allow us to absorb direct economic effects of the election, unobserved differences across bank-destination-country pairs prior to the election, as well as time-varying unobserved bank characteristics.

How does the magnitude of the effect of ideological distance compare to the effect of other dimensions of proximity documented in the literature? Fisman, Paravisini, and Vig (2017) estimate that cultural proximity within India increases the number of loans extended by 5.7%. Haselmann, Schoenherr, and Vig (2018) find that social connections between bankers and corporate CEOs in Germany increase lending volume by 51%. Hence, the effect we uncover is economically sizable relative to existing measures of proximity between lenders and borrowers.

To get a better sense of the exact timing of the effect, Figure 3 plots the coefficients β_τ from equation (4) for the full event window, using the logarithm of one plus the loan issuance volume as the dependent variable. The omitted period is $\tau = -4$; that is, all subsequent differences are relative to the difference in $\tau = -4$. The figure shows a sharp and persistent decrease in the loan issuance for banks whose ideological distance increases relative to banks whose ideological distance decreases after an election. The post-pre difference is significant at the 1% level. Because banks typically extend loans at average maturities of around five years (see Panel B of Table 1), this reduction has a persistent effect on corporate capital supply. We observe a small anticipation effect prior to the election, which is unsurprising given that some election outcomes may be predictable. In Internet Appendix Figure IA.1, we show that the negative pre-trend disappears once we condition on close elections.[18] Following Julio and Yook (2016), we define close elections as elections with a margin of victory in the bottom quartile across all elections in our sample.

In Internet Appendix Table IA.9, we report alternative specifications for our baseline

---

[17]We obtain this estimate by multiplying the reduction in loan issuance for the average bank of $36 million by the number of U.S. banks operating in the average foreign country.

[18]The sharp decline in loan issuance around the election mitigates concerns about dynamic treatment effects raised by de Chaisemartin and D'Haultfœuille (2020), Callaway and Sant'Anna (2021), and Baker, Larcker, and Wang (2022).

regression in column (3) of Panel A, Table 2. In Panel A of Table IA.9, we show the effect on loan volume is largely an extensive margin effect: banks that experience a distance increase are more likely to stop lending after the election. The effect on the intensive margin is also negative, but it is not statistically significant. We also report results using the inverse hyperbolic sine (asinh) of the loan issuance volume rather than the logarithm of one plus the loan issuance volume. These results are very similar to our baseline. The asinh function has the advantage of being well defined at zero (e.g., Card and DellaVigna (2020)). We can further assign larger loan shares to lead banks when the loan share is missing, as in Duchin and Sosyura (2014), or we can use a predictive regression to assign loan shares, as in Hale, Kapan, and Minoiu (2020). These alternative approaches yield even larger effects.

Our results are also robust to using alternative definitions of ideological distance, as Panel B of Table IA.9 shows. For example, we can classify parties as left versus right parties using a threshold of zero, as suggested by the Manifesto Project, and define investors' ideological alignment based on these two broad party categories only. Inferring the political ideology of the bank's CEO from voter registration records and political contributions data yields an even larger drop in loan volume. The main effect is also obtained when we use a 50% or 60% threshold to infer party affiliation from political contributions, rather than a 55% threshold; when we use the bank's contributions over the full sample period (effectively removing any within-bank changes in ideology), or when we use only individual employee contributions to measure banks' ideology.

In Panel C of Table IA.9, we report our results for various subsamples. For example, we restrict the sample to lead banks only; we exclude the three largest banks in our sample, and we remove elections with very small changes in ideological distance. Finally, our results are robust to clustering standard errors by bank, by bank and time, or by bank × destination country and time (see Panel D).

We report additional heterogeneity tests in Internet Appendix Table IA.11. We find the effect of *Distance Increase* is stronger for close elections and for elections that receive more media coverage. These results further reinforce our interpretation that the change in capital allocation documented above is indeed induced by the election outcome and the resulting change in ideological alignment. In terms of the geographical heterogeneity, we find a statistically significant effect of ideological distance for borrowers located in the Americas and Europe, but not for Asia-Pacific and Emerging Markets, although the point estimate continues to be large also for the latter two regions (see Panel C of Table IA.9).

We also explore in more detail the functional form of the relationship between ideological distance and loan issuance. In Internet Appendix Figure IA.2, we present a non-parametric

scatter plot of the relationship between the change in loan issuance volume and the change in the bank's ideological distance. We find a large drop in loan issuance volume as we move from distance decrease to distance increase. A similar picture emerges when we sort the continuous distance change ($\Delta Distance$) into quartiles and repeat our baseline regression using quartiles as opposed to a single binary indicator (see Internet Appendix Figure IA.3). Consistent with these patterns, our results are somewhat weaker but still statistically significant when we impose a linear functional form, as Panel B of Internet Appendix Table IA.9 shows.

One potential concern could be that the above differences in loan issuance are driven by differences in the borrowers' demand for loans. In Internet Appendix IA.8, we do observe some differences in the average borrower characteristics between Democratic and Republican banks. For example, Democratic banks are less likely to lend to borrowers operating in the energy sector, and they are more likely to lend to borrowers rated non-investment grade. To address concerns about heterogeneous borrower demand, we rerun our main regression at the loan level. The dependent variable is the loan size (loan share) provided by a specific bank in the syndicate, respectively. Because the loan size and the loan share can vary across banks within the same syndicate, we are able to introduce borrower × time and even loan fixed effects. We further control for existing relationships in a bank-borrower pair via bank × borrower × election fixed effects. The results are reported in Panel B of Table 2. Despite this test being very demanding on the data, we can show that banks with increased ideological distance reduce their loan size and their loan share by 35% and 24%, respectively, when we include borrower × time fixed effects (columns (1) and (3)). When we study variation in loan quantity within the same loan (columns (2) and (4)), the economic effects are 33% and 28%, respectively. These results imply that borrower heterogeneity cannot explain our results on loan issuance.

Finally, to ensure that our main results are not induced by spurious correlations, we implement a placebo test that randomly selects a winning party among the non-winning parties for each election. We run 1,000 randomization rounds and estimate our baseline regression from equation (3) in each of the 1,000 randomized datasets. The results from this placebo test, reported in Internet Appendix Figure IA.4, show that the distribution of coefficients on $Distance\,Increase \times Post$ is centered around zero in the randomized data, indicating our results are not spuriously induced.

4.3 Corporate Loans: Ideological Distance and Loan Pricing

So far, we have shown that ideological alignment affects the quantity of cross-border loans extended by Democratic and Republican-leaning banks. Next, we examine whether ideo-

logical distance also affects loan pricing. To investigate this question, we estimate equation (3) at the level of the individual loan, using the logarithm of the all-in-drawn loan spread over LIBOR at issuance as the dependent variable. Since it is typically the lead bank that negotiates the contract terms, we focus on lead banks in our main tests and report results including other participating banks in Internet Appendix Table IA.12.

Table 3, Panel A, reports our results. In column (1), we use the same set of fixed effects as in equation (3). Unlike in Panel B of Table 2, we cannot add borrower × time or loan fixed effects, because the loan spread does not vary within the same loan. We therefore rely on a modified version of Khwaja and Mian (2008)'s approach, replacing election × time fixed effects with borrower cluster × election × time fixed effects (see column (2)). Following Acharya, Eisert, Eufinger, and Hirsch (2018) and Degryse, De Jonghe, Jakovljevic, Mulier, and Schepens (2019), a borrower cluster is defined as all firms belonging to the same risk category (i.e., investment grade, non-investment grade, or non-rated) and Fama-French 12 industry. Hence, we can at least control for time-varying heterogeneity across borrowers in different industries and in different risk categories. In column (3), we further add observable loan-level characteristics as control variables. The loan-level controls are loan maturity, loan amount, an indicator for secured loans, and loan type (revolver, term-loan, or other). See Appendix Table A.1 for variable definitions.

We find a sizable positive effect of an increase in ideological distance on loan spreads, consistent with these lenders perceiving borrowers in the destination country as riskier. In our strictest specification in column (3), in which we control for loan characteristics, the effect on the loan spread is 13%, which translates to approximately 28 basis points for the average loan in our sample. This effect is slightly larger than the effect of ideological mismatch with the U.S. president, documented by Dagostino, Gao, and Ma (2020) for U.S. loan officers.[19] In Internet Appendix Table IA.13, we show the effect on loan spreads is substantially stronger when there is a relationship between the borrower and the lead bank; that is, when the bank is more likely to have market power over private information (Degryse and Ongena (2005); Petersen and Rajan (1995)). This result is in line with the literature on the dark side of lending relationships during the Great Financial Crisis (Chodorow-Reich (2014); Santos (2011)).

One possible alternative explanation for the increase in loan spreads is that banks with a distance increase lend to firms that become riskier following the election. Our within-loan results in the previous section already mitigate this concern. To further rule out this explanation, in Panel B we examine the effect of distance increase on borrower defaults.

---

[19]An important distinction between our study and Dagostino, Gao, and Ma (2020) is that we use a bank-level measure of political ideology rather than a loan-officer-level measure. Data on individual loan officers is not available for the vast majority of cross-border loans.

The dependent variable is an indicator equal to one if a firm is assigned a default credit rating during the course of the loan spell, and zero otherwise. We find a statistically insignificant difference in the default rates of borrowers from lead banks that experience an increase versus decrease in ideological distance. If anything, the point estimate is negative, indicating that borrowers from banks with a distance increase are less likely to default.

Defaults are rare events and may not capture a small deterioration in credit quality. In Internet Appendix Table IA.14, we document insignificant differences also for credit rating downgrades within one year after loan issuance. The absence of positive differences in ex-post defaults and downgrades suggests we are capturing differences in the economic perceptions of Republican and Democratic banks, rather than differences in the riskiness of their borrowers.

In sum, this section shows the ideological distance between a bank and the governing party in the destination country has substantial influence on both loan quantities and on the cost of loans.

5   International Equity Mutual Funds

Our second empirical setting is U.S.-based international equity mutual funds. Section 5.1 describes the sample and section 5.2 examines the effect of ideological distance between a mutual fund and a destination country on the fund's cross-border portfolio allocation.

5.1   International Mutual Funds: Data and Institutional Context

We obtain semiannual fund holdings information for all open-ended mutual funds (OEF) in the FactSet International Ownership database for the time period ranging from 2000 to 2018.[20] We match the FactSet sample with the Global Open-End Fund section of Morningstar Direct, using the following order of priority: ISIN, ticker, CUSIP, and fund name.[21] We are able to match 76% of OEF FactSet funds to Morningstar Direct, which is comparable to the match rates obtained in previous studies (e.g., Schumacher (2018)). Combined, these funds account for 94% of the aggregate total net assets (TNA) in FactSet. From Morningstar Direct, we further obtain the names of all fund managers. We exclude funds with missing manager names and restrict our sample to actively managed equity funds via Morningstar's *Index Fund* flag and *Broad Category Group* indicator. We further focus on international funds, defined as funds that have a mandate to invest in more than

---

[20]We choose a semiannual frequency because most portfolio holdings in FactSet are reported semiannually, as noted by Chuprinin, Massa, and Schumacher (2015).

[21]We thank David Schumacher for sharing with us a linking table between FactSet and Morningstar.

one country and do not invest more than 90% of their TNA in a single country on average. These steps yield a sample of 1,841 U.S.-based international funds run by 4,104 managers.

Following the approach outlined in section 3.1, we are able to match 15.2% of the fund managers whose employer is located in one of the locations with historical voter registration data, to a unique voter record.[22] Even though our sample of matched managers does not represent a random draw from the overall manager population, we find that they manage funds that are very similar on many observable characteristics to funds managed by managers whom we cannot link to a voter record (see Internet Appendix Table IA.15). For example, we find no significant differences in terms of fund size, fund family size, past returns, fund return volatility, or fund age. Matched managers are less likely to be female, and their funds tend to have somewhat lower expense ratios.

After further restricting the sample to Democratic and Republican managers only, our final sample consists of 385 U.S. international funds managed by 205 fund managers. Combined, these funds represent about 34% of the aggregate TNA of all U.S. international equity OEF funds. They invest, on average, in 24 foreign countries with available data on party manifestos, and about 80% of their assets outside of the United States. A country's portfolio weight is right-skewed, with the average (median) fund investing 4.7% (2.7%) of its assets in a given foreign country. Funds on average manage about $2.4 billion in assets and are managed by firms with about $78 billion assets under management.

Our main measure of the change in the ideological distance between a given fund i around election e in foreign country c is the equal-weighted average of the ideological distance change across its individual managers. Specifically, it is calculated as:

$$\Delta Distance_{iec} = \frac{1}{M} \sum_{m=1}^{M} \Delta Distance_{mec},$$ (5)

where $\Delta Distance_{mec}$ is defined, following equation (2), as the change in the ideological distance of an individual manager m around foreign election e in country c. M denotes the sum of the Democratic and Republican managers on the team at $\tau = -1$. In Internet Appendix Table IA.18, Panel B, we report a robustness test using the tenure-weighted average distance change instead of the average distance change. We further show that we obtain similar results if we use the ideological distance of the party that represents the majority of the management team, or the party of the most senior manager.

---

[22]Jagannathan, Jiao, and Karolyi (2022) find that about 30% of U.S. actively managed equity mutual fund managers that invest abroad (including country funds and international funds) obtained their undergraduate degrees outside of the United States. If many managers are not U.S. citizens, then this could potentially explain the lower match rate to voter registration records compared to, for example, executives of publicly traded U.S. companies (see Fos, Kempf, and Tsoutsoura (2022)).

The dependent variable is the excess weight of a given destination country in the fund's portfolio, calculated as:

$$Excess\,Weight_{ict} = w_{ict} - w_{sct}, \tag{6}$$

where w_{ict} is the fraction of fund i's equity TNA invested in destination country c at the end of half-year t.[23] w_{sct} indicates the value-weighted average portfolio weight of country c in all actively managed U.S. equity funds belonging to the same investment style s as fund i at time t, calculated as $\frac{\sum_{j \in s} TNA_{jt} w_{jct}}{\sum_{j \in s} TNA_{jt}}$.[24] The set of potential investment countries (i.e., the investment opportunity set) for each investment style is defined as all countries which cumulatively attract more than 90% of fund TNA over the sample period. If a fund does not invest in a country that belongs to its investment opportunity set, then the country portfolio weight is set to zero.

We report summary statistics for all variables in Internet Appendix Table IA.16 and provide variable definitions in Appendix Table A.2.

5.2 International Mutual Funds: Ideological Distance and Portfolio Allocation

We begin by studying the effect of ideological distance on funds' cross-border portfolio allocation. Panel A of Table 4 reports the estimates of equation (3), using the country's excess portfolio weight as the dependent variable. Standard errors are clustered at the fund × destination country level. Across all specifications, we find an increase in ideological distance is associated with a reduction in the share of the fund's assets allocated to that country. The estimates in column (3), with the full set of fixed effects, indicate that funds experiencing an increase in ideological distance reduce their excess portfolio weight by 26 basis points, relative to funds experiencing a decrease in distance. Economically, this is equivalent to a reduction of about 5.5% relative to the average portfolio weight ($= 0.26/4.72$), which translates into a reduction in assets invested of $6.3 million for the average fund in our sample.

---

[23]We consider all equity investments (i.e., stocks, ADRs, and funds) to calculate a country's portfolio weight. In Internet Appendix Table IA.18, Panel A, we report a robustness test using investments in stocks only and the results are unchanged.

[24]It is common in the mutual funds literature to study the excess portfolio weight; i.e., the raw portfolio weight in excess of the value-weighted average portfolio weight of a comparison group (e.g., Choi, Fedenia, Skiba, and Sokolyk (2017); Chan, Covrig, and Ng (2005)). Internet Appendix Table IA.18, Panel A examines alternative specifications, by replacing the excess portfolio weight with the raw portfolio weight and either including style × election × half-year fixed effects, as recommended by Gormley and Matsa (2014), or controlling directly for the average portfolio weight of funds in the same investment style (w_{sct}), as in Pool, Stoffman, and Yonker (2012). We also calculate the changes in portfolio weights net of price appreciation following Kacperczyk, Sialm, and Zheng (2005). Our results remain similar.

It is informative to compare the magnitude of the effect of ideological distance to other effects documented in the literature. One point of comparison would be the effect of home bias documented by Pool, Stoffman, and Yonker (2012). They find that U.S. mutual fund managers tend to overweight their home states by about 48 basis points, which corresponds to 6.7% of the average portfolio weight.[25] In an international context, Chan, Covrig, and Ng (2005) find country-pair common language increases foreign mutual fund holdings by 1.6%. Hence, the economic magnitude of the effect of ideological alignment with foreign governments is comparable or even slightly larger than the effect of other measures of proximity in the mutual funds literature.

To better understand the precise timing of this effect, Figure 4 plots the difference in the excess portfolio weights between funds experiencing an increase versus decrease in ideological distance in event time. In the half-years prior to the election, the differences between the two groups of funds are always close to zero and statistically insignificant. In the half-year of the election, we start to see a sharp decline in the portfolio weight of funds with an increase in ideological distance relative to funds with a decrease in distance, which continues during half-years $\tau = +1$ and $\tau = +2$, before levelling off.

Similar to the results on bank lending, one concern regarding these results is that they could be driven by differences in the fundamentals of stocks held by Democratic and Republican managers. For example, Democratic funds may overweight socially responsible stocks (Hong and Kostovetsky (2012)), which could be directly affected by the outcome of an election, such as the election of a government with a pro-social agenda. To address this concern, we use more granular data at the fund × security level, enabling us to include security × election × time fixed effects. Since we effectively compare funds investing in the *same security* at the *same point in time*, any changes in security fundamentals as a result of the election cannot explain our results. In addition, we include fund × election × security fixed effects to account for potential time-invariant differences in portfolio allocation across fund-security pairs, such as security-level information advantages or investment preferences.

We report these results in Panel B of Table 4. Funds with an increase in ideological distance reduce their security-level portfolio weight by 5.7% to 7.1%. The corresponding event study graph in Internet Appendix Figure IA.5 shows a very similar pattern as in Figure 4: funds experiencing an increase in ideological distance reduce their investment sharply following the election.

We perform additional tests in Internet Appendix Table IA.18. Similar to our robustness tests in the syndicated loan data, we can show that our main result is robust to using alternative definitions of ideological distance (Panel B); to removing observations with very

---

[25]The estimate comes from Table 2, column (8) in their published paper, which includes fund × state fixed effects.

small changes in ideological distance (Panel C), as well as to alternative treatments of standard errors (Panel D). We also address the potential concern that our $Distance\,Increase$ variable may pick up the effect of other fund manager characteristics that could be correlated with party affiliation. We do so by including interactions of additional fund manager characteristics with an indicator for elections leading to a rightward shift in the political ideology of the elected government. We consider characteristics that are known to be important predictors of political affiliation: ethnicity, gender, seniority, and age. Across all specifications, the coefficient estimate on $Distance\,Increase \times Post$ is remarkably stable (see Table IA.19 in the Internet Appendix).

As in the syndicated loan sample, we also explore in more detail the functional form of the relationship between ideological distance and loan issuance. In Internet Appendix Figure IA.6, we again sort the continuous distance change ($\Delta Distance$) into quartiles and repeat our baseline regression using quartiles as opposed to a single binary indicator. Consistent with the pattern for syndicated loans in Internet Appendix Figure IA.3, we see the largest effect between the second and the third quartile of $\Delta Distance$. The effect of the top quartile is very similar to that of the third quartile. In other words, extreme distance changes do not seem to induce a larger response in capital allocation. Although a complete answer to why extreme changes in ideological distance do not lead to larger changes in capital allocation is beyond the scope of this paper, we speculate this may be because funds and banks face some constraints in how strongly they can adjust their capital allocation, such as those imposed by fund mandates.

Finally, in Internet Appendix Table IA.20 we also examine funds' portfolio performance around elections. This analysis reveals no statistically significant differences in either the fund $\times$ country-level or the fund-level performance between the two groups of funds. We check performance measures using both risk-adjusted returns and economic value added.

6   Mechanism

Thus far, we have documented that investors' ideological alignment with foreign political parties affects their international capital allocation. The goal of this section is to establish potential channels through which ideological distance influences investment decisions.

6.1   Belief Disagreement

Previous studies have documented that political alignment with the U.S. president affects households' and financial analysts' beliefs about aggregate economic conditions (e.g., Bartels (2002); Mian, Sufi, and Khoshkhou (2021); Kempf and Tsoutsoura (2021)). Thus,

a natural interpretation of our results is that partisan investors disagree about how the policies of the governing party will affect the state of the foreign economy and, ultimately, investors' expected return on investment in the destination country.

To shed more light on this potential mechanism, we study how ideological distance affects banks' macroeconomic forecasts. We obtain forecast data from Consensus Economics, an international economic survey organization that collects macroeconomic forecasts from a panel of forecasters on a monthly basis. The surveyed panelists work for a variety of financial and research institutions, including banks' macroeconomic research departments.

We obtain monthly forecasts for the G7 countries and Western Europe. To match the time period of our main analysis, we use forecasts made between 2000 and 2018. After further restricting the sample to forecasts made by banks' research departments, our sample consists of 142 forecasters issuing forecasts for 20 countries. Six forecasters can be linked to one of the 30 U.S. banks from our syndicated loan dataset. Combined, these six banks account for 67% of the aggregate cross-border loan issuance volume in our data.

The key macroeconomic forecasts include GDP growth, inflation, production, interest rates, and exchange rates. We focus on banks' 1-year ahead GDP growth forecasts, because they are arguably the most suitable for summarizing banks' view of the state of the economy in the destination country.

We then re-estimate equation (3) on this forecast dataset, where the unit of observation is a bank $\times$ election $\times$ month. Following Kempf and Tsoutsoura (2021), we focus on forecast revisions and define the dependent variable as an indicator equal to one if bank i revises its 1-year ahead GDP growth forecast for destination country c downward (upward) in month t, and zero otherwise.[26] As in our baseline analysis, we focus on forecasts made two years before and after an election. Summary statistics are reported in Internet Appendix Table IA.21.

In our analysis of GDP growth forecasts, $Distance\,Increase_{iec}$ is a variable equal to one if the change in ideological distance between bank i's party and the party in power in country c around election e is non-negative; zero if it is negative, and 0.5 for all banks with missing political affiliation. By also including banks that we cannot link to a political party and assigning them a value of 0.5, our definition of $Distance\,Increase_{iec}$ deviates slightly from our analysis of syndicated loans in section 4.2. The reason is the smaller sample size: since we need to compare banks with different values of $Distance\,Increase_{iec}$ around the *same election*, we lose many elections with identifying variation when we exclude banks

---

[26]We exclude forecast revisions made in January because the target year of the forecast changes in January. Our results remain unchanged if we do not exclude the month of January, as reported in Internet Appendix Table IA.22.

with missing party affiliation.[27] That said, we show in Internet Appendix Table IA.23 that our forecast results are similar when we exclude banks with no party affiliation, although the precision of our estimates declines (as we would expect).

Table 5 reports the results. In columns (1) and (2) ((3) and (4)), the dependent variable is an indicator equal to one if the bank revises its 1-year ahead GDP growth forecast downward (upward), respectively, and zero otherwise. In column (1), we find that banks with an increase in ideological distance are 8.1 percentage points more likely to revise their GDP growth forecasts downward, relative to banks with a decrease in ideological distance. This difference increases to 25.0 (=1.9 + 23.1) percentage points for close elections (see column (2)). We do not observe statistically significant differences in the propensity to revise forecasts upward, but the point estimate is negative.

In Internet Appendix Figure IA.8, we focus our attention on a tighter event window around close elections: four months before to four months after the election. We find a sharp and significant divergence in the propensity to downward-revise forecasts in the first month following the election. This pattern is strongly suggestive of ideologically misaligned banks becoming more pessimistic about economic growth as a result of the election.

The results in this section suggest investors with different degrees of ideological alignment may disagree on the first moment of expected returns. It is possible that they also disagree on other moments of the return distribution. For example, investors with greater ideological distance may believe expected returns have greater variance or fatter left tails. This form of belief disagreement is also consistent with our results, albeit more difficult to test with our forecast data.

6.2   Sources of Belief Disagreement

The results on GDP growth forecasts indicate that investors with different dogmatic views of the world disagree about how certain election outcomes affect the economy. A remaining question is what *types* of policy positions and *whose* policy positions generate disagreement among investors. This question is very difficult to answer in the context of a single country with a limited time series of past elections. However, the richness of our international setting allows us to make progress on these important dimensions.

First, we explore whether investors consider only the political program of the party with the highest vote share, which typically appoints the prime minister, or also the programs of other parties forming the government. Note that the ideology score of the prime minister's

---

[27]Specifically, when we include banks with missing party affiliation, we are able to study 72 elections with variation in *Distance Increase*. In comparison, we have only four elections with such variation if we exclude banks with missing party affiliation, as we do in our syndicated loan analysis.

party may differ from the ideology score of the government in the case of coalitions. We rely on the Seki-Williams Government and Ministers Data (Williams and Seki (2016)) to obtain information on the identity of the prime ministers, their affiliated political parties, as well as the parties forming the government.[28] We construct the ideology scores of prime ministers using the ideology scores of their parties from the MPD. The ideology score of a government is computed as the weighted average ideology score of all parties forming the government, with weights proportional to the number of parliamentary seats of each party. We then re-estimate our main regressions for both the syndicated loan and the mutual fund setting, after replacing our *DistanceIncrease* variable with alternative *DistanceIncrease* indicators based on the ideological distance to the prime minister and to the government, respectively.

Table 6 reports the results. In both settings, we find it is the distance to the prime minister that matters, not the distance to the government. A potential explanation could be that the ideology of the head of government is more salient to investors than the ideology of other parties that form the coalition. Salience may be of particular relevance in cross-border settings, because investors with an international portfolio may have limited time to dedicate to the politics of each destination country.

Another question is what types of policy positions cause disagreement. Do investors only consider parties' economic policies? Or can social policies, such as views on human rights and traditional morality, also generate disagreement about how the election affects economic conditions in the destination country?

To investigate this question, we categorize the policy positions comprised in our main left-right ideology score into economic policies, social policies, and other policies. Following Girardi (2020), we measure a party's economic platform based on its positions on policies labelled as planned versus market economy in the MPD (variables *planeco* and *markeco*). The *planeco* policy category measures parties' support for market regulation, economic planning, and the degree of government intervention in the economy. The *markeco* category captures parties' support for a free market economy and less state intervention (Volkens, Lehmann, Matthieß, Merz, Regel, and Weßels (2018)). The economic platform of parties is likely of particular interest to foreign banks and mutual fund managers when assessing the economic consequences of an election. We further follow Benoit and Laver (2007) and categorize policies related to social issues, such as human rights, democracy, national way of life, and traditional morality, as social policies. All remaining policies are classified as "other policies," and include, for example, state-provided services (e.g., education) and protectionism. The full list of policy categories and their classification are presented in

---

[28]The data covers 35 countries and the sample period ends in 2014. It can be downloaded at `https://doi.org/10.7910/DVN/0UNUAM`.

Internet Appendix Table IA.1.

Table 7 reports the results. We repeat again our main tests, this time replacing our *DistanceIncrease* variable with the ideological distance measured based on economic policies, social policies, and other policies. In both settings, we see that both economic policies and social policies of elected parties matter for capital allocation decisions. For syndicated loan issuance, economic policies are somewhat more important, especially for GDP growth forecasts (see Internet Appendix Table IA.24). For mutual fund managers, the point estimate of the effect of social policies is even larger than the effect of economic policies. Other policies do not seem to play a role in either of the two settings. It is remarkable that positions on social policies, which are only remotely related to the economy, such as views on the military, human rights, and traditional morality, have such a strong effect on the capital allocation decisions of professional investors. It is also worth noting that positions on social issues seem to have a stronger influence on the decisions of individuals (here, fund managers) than on the decisions of organizations (here, banks).

6.3 Alternative Mechanisms

Our results strongly support belief disagreement as a potential mechanism, but other non-mutually exclusive mechanisms could be present. Although we cannot exclude all potential alternative explanations, our evidence so far allows us to rule out several plausible alternative mechanisms.

Information Advantage. Investors who are ideologically closer to the foreign party in power may have an information advantage. Such an advantage could arise, for example, because less distant banks have stronger political connections to the governing party and/or because they find it easier to interpret the policies of the governing party. However, differences in access to information are unlikely to explain our results for at least four reasons. First, worse access to information for misaligned banks would predict a difference in investment performance, but not necessarily greater pessimism. To induce greater pessimism in GDP growth forecasts, the inferior signal that misaligned investors receive would have to be systematically more negative than the signals of other investors. It is not obvious why that would be the case. Second, we find similar effects if we exclude the three largest banks in the sample (see Internet Appendix Table IA.9, Panel C), which are more likely to have direct political connections. Third, we see no significant differences in loan or fund performance. Fourth, the timing of the differences in GDP forecasts around elections is inconsistent with differences in access to information. If the results reflected political connections, we should start to see a divergence after the new government's inauguration, which can happen months after the election. Instead, we see a sizable divergence shortly

after the election (see Figure IA.8 in the Internet Appendix).

Differential Impact of Government Policies. Our within-loan and within-security results already rule out the possibility that the observed differences in capital allocation could be driven by differences in firms' demand for capital induced by different government policies. A potential remaining concern could be that certain government policies impact aligned and misaligned investors differently. It is not obvious what policies those might be, especially in the context of mutual funds. Moreover, the fact that alignment on social issues also generates differences in capital allocation makes this explanation less likely.

7 Aggregate Effects

7.1 Corporate loans

One remaining question is to what extent partisan disagreement has the potential to affect the net supply of capital to firms in the destination country. In a frictionless world where the reduction in capital supply by ideologically misaligned banks is exactly equal to the increase in capital supply by aligned banks, and firms can costlessly switch between capital providers, the effect on net capital supply would be zero. In practice, however, the presence of frictions will likely lead to non-zero effects on net capital supply. One such friction is asymmetric information. Asymmetric information confers an information advantage to lenders that have an ongoing relationship with the borrower, making it costly for borrowers to switch banks (e.g., Sharpe (1990); Rajan (1992)). Hence, when a borrower's relationship bank is ideologically misaligned and thus more pessimistic, the borrower may not be able to costlessly switch to an ideologically aligned bank. Our result that the effect of ideological distance on load spreads is significantly stronger when there is an existing relationship between the lender and the borrower highlights the importance of this friction.

Another relevant friction is capital constraints. If Democratic and Republican investors specialize in different industries (e.g., Kempf and Tsoutsoura (2021) show that Democrats and Republicans specialize in different industries in the context of credit rating analysts) and banks are capital constrained, then the increase in capital supply by aligned banks may not be sufficient to compensate for the reduction in capital supply by misaligned banks. In Internet Appendix Table IA.25, we provide evidence consistent with this intuition. We regress aggregate industry-level loan issuance volume on the market share of banks in that industry who experience an increase in ideological distance. We use two industry definitions, one based on Fama-French 12 industries, and one based on Fama-French 49 industries. The estimates imply a one-standard-deviation increase in the fraction of banks

with an increase in ideological distance is associated with a 5.3% (=0.15×0.351), or \$8.8 million, drop in loan issuance volume at the Fama-French 12-industry level. These results are consistent with partisan views of the economy affecting net capital supply at the industry level.

7.2 Bilateral Portfolio Investment

To provide additional evidence on aggregate effects, we test whether ideological distance between countries can help explain patterns in bilateral portfolio investment. We can compute ideological distance for any country pair using the ideology score of the governing parties in the two countries, as long as both countries are covered in the MPD.

We obtain annual data on restated external bilateral portfolio positions from `www.glob`
`alcapitalallocation.com`. These restated data are based on U.S. Treasury International Capital (TIC) data and the IMF Coordinated Portfolio Investment Survey (CPIS), using the methodology outlined in Coppola, Maggiori, Neiman, and Schreger (2021). The data are available for the time period from 2008 to 2017. We sum up the sales-weighted equity (including fund shares) and bond holdings. Our final sample covers bilateral portfolio positions for 22 home and 56 destination countries. Summary statistics are provided in Internet Appendix Table IA.26.

7.2.1 Case Study: 2015 Federal Election in Canada

We begin with a case study of the 2015 federal election in Canada. We choose Canada as an example, because it represents one of the largest destination countries for U.S. investors and experienced a notable shift in the ideology of the governing party in 2015 (the incumbent Conservative Party of Stephen Harper was succeeded by the Liberal Party led by Justin Trudeau).

We separate investor countries with non-zero portfolio holdings in Canada into two categories: those that experience an increase vs. decrease in ideological distance to the Canadian government as a result of the 2015 election. The change in ideological distance is computed as the change in the absolute distance between the ideology of the ruling party in Canada and the ruling party in the home country between December 2015 and December 2014.[29]

Figure 5 plots the average share of home investors' assets invested in Canadian securities, separately for countries that experience an increase vs. decrease in ideological distance

---

[29]As in our main analysis, we fix the ideology score of the home country before the election; in this case, as of December 2014.

around the 2015 election. The two sets of countries experience very similar trends in portfolio weights prior to the election. However, in 2015, the gap widens substantially, with home countries that experience an increase in distance reducing their investments more strongly than home countries with a decrease in distance.

In order to show that this relative decline in foreign portfolio investment is statistically significant and robust to the inclusion of control variables, we estimate the following regression on the time period 2013–2017:

$$Investment_{ht} = \alpha_h + \alpha_t + \beta Distance\,Increase_h \times Post_t + \gamma' X_{ht} + \epsilon_{ht}, \qquad (7)$$

where $Distance\,Increase_h$ refers to an indicator equal to one if the change in ideological distance between home country h and Canada is non-negative following the 2015 election, and zero otherwise. The dependent variable is the weight of Canadian holdings in the foreign portfolio of the home-country investors, calculated as the total portfolio holdings in Canada divided by the sum of the portfolio holdings in all foreign countries, measured in percentage points.[30] We control for year fixed effects (α_t) and home country fixed effects (α_h). X_{ht} is a vector of control variables that includes contemporaneous and lagged GDP growth and population growth in the home country. Standard errors are clustered at the level of the home country.

Table 8, Panel A reports the results. In column (1), we find that investors from home countries that experience an increase in distance decrease their portfolio holdings in Canada by 60.4 basis points more relative to investors from countries that do not experience an increase in distance. This point estimate implies a sizable decline of 33% relative to the average Canadian portfolio weight during 2013–2017. In terms of dollar value, this effect corresponds to a decline of $306 billion for the average home country.

7.2.2 Full Sample

In order to show that the patterns we observe around the 2015 election in Canada also hold in a broader sample of countries, we relate the size of bilateral portfolio positions to the ideological distance between the countries in the full sample provided by Coppola, Maggiori, Neiman, and Schreger (2021). Specifically, we estimate the following regression:

$$Investment_{hct} = \alpha_{hc} + \alpha_{ht} + \alpha_{ct} + \beta Distance_{hc,t-1} + \epsilon_{hct}, \qquad (8)$$

---

[30]We exclude domestic holdings when computing portfolio weights, because domestic positions are unavailable for the vast majority of countries (Coppola, Maggiori, Neiman, and Schreger (2021)).

where $Distance_{hc,t-1}$ refers to the ideological distance between the elected parties in countries h and c at the end of year $t-1$, measured based on the parties' most recent manifestos. The dependent variable is the weight of the holdings in the destination country in the foreign portfolio of the home-country investors, calculated as the total portfolio holdings in the destination country divided by the sum of all foreign portfolio holdings, measured in percentage points. Standard errors are clustered at the level of the country pair. We include home country × year (α_{ht}), destination country × year (α_{ct}), and country-pair fixed effects (α_{hc}). The inclusion of the three sets of fixed effects allows us to rule out that ideological distance could be correlated with other persistent differences across country pairs, such as cultural, religious or linguistic proximity, or that unobserved economic shocks in the home country or destination country are driving the observed relationship.

Table 8, Panel B reports the results. For easier comparison, all independent variables are standardized to have a mean of zero and a standard deviation of one. In column (1), we find greater ideological distance between two countries is associated with lower foreign portfolio positions. In terms of economic magnitude, the estimate implies that a one-standard-deviation larger ideological distance is associated with a 3.5 basis points lower country weight in the home investors' portfolio. Relative to the average country weight, this effect represents a decrease of 3.7% and translates into a decline of ca. $14 billion for the average country pair.

The main drawback of studying bilateral investment is that, since it is an aggregate measure and not an investor-level measure of investment, we cannot exploit within-country-pair-and-time variation in portfolio positions. This increases the set of potential omitted variables and requires us to make stronger assumptions to interpret the evidence as causal. In particular, it is difficult to rule out that the above estimates could partially reflect the effect of bilateral relationships between governments, which may directly affect investment returns via regulations and the degree of bilateral cooperation. In order to at least partially address this concern, in column (2) of Table 8, we directly control for the degree of bilateral political relationships, using the dyadic measure constructed by Bailey, Strezhnev, and Voeten (2017). This measure captures bilateral relationships using voting (mis)alignment in the United Nations General Assembly. We find that the magnitude of the effect of ideological distance is virtually unaffected by this additional control, alleviating concerns that the observed relationship could reflect differences in the regulation of cross-border capital flows, rather than home-country investors' optimism about economic conditions.

Taken together, the results in this section suggest partisan views of foreign economies have the potential to influence capital allocation at higher levels of aggregation.

8   Conclusion

We explore whether political alignment between investors and foreign governments shapes international capital allocation. We provide evidence from two independent settings, syndicated corporate loans and international equity mutual funds, to show investors who are ideologically misaligned with a foreign government allocate less capital to that country. Our empirical strategy ensures that direct economic effects of foreign elections or bilateral ties between countries are not driving the result.

We also shed light on the potential channel through which ideological distance influences investment decisions. Using bank's macroeconomic forecasts around elections, we show banks are more likely to downward-revise their GDP growth forecasts when they experience an increase in ideological distance, relative to banks that experience a decrease in distance. This result supports belief disagreement as an important mechanism driving the observed differences in capital allocation. We further find alignment on both economic and social issues matters for capital allocation.

Finally, we show that ideological alignment affects capital allocation by foreign investors at higher level of aggregation. For example, greater ideological distance between countries is associated with lower bilateral portfolio investment. Combined, our findings imply ideological alignment is an important, omitted factor in models of global capital allocation.

References

Acharya, Viral V., Tim Eisert, Christian Eufinger, and Christian Hirsch, 2018, Real effects of the sovereign debt crisis in Europe: Evidence from syndicated loans, *Review of Financial Studies* 31, 2855–2896.

Ahern, Kenneth R., Daniele Daminelli, and Cesare Fracassi, 2015, Lost in translation? The effect of cultural values on mergers around the world, *Journal of Financial Economics* 117, 165–189.

Azzimonti, Marina, 2019, Does partisan conflict deter FDI inflows to the US?, *Journal of International Economics* 120, 162 – 178.

Bailey, Michael A., Anton Strezhnev, and Erik Voeten, 2017, Estimating dynamic state preferences from United Nations voting data, *Journal of Conflict Resolution* 61, 430–456.

Baker, Andrew C., David F. Larcker, and Charles C.Y. Wang, 2022, How much should we trust staggered difference-in-differences estimates?, *Journal of Financial Economics* 144, 370–395.

Bartels, Larry M., 2002, Beyond the running tally: Partisan bias in political perceptions, *Political Behavior* 24, 117–150.

Benoit, Kenneth, and Michael Laver, 2007, Estimating party policy positions: Comparing expert surveys and hand-coded content analysis, *Electoral Studies* 26, 90–107.

Bonaparte, Yosef, Alok Kumar, and Jeremy K. Page, 2017, Political climate, optimism, and investment decisions, *Journal of Financial Markets* 34, 69–94.

Bottazzi, Laura, Marco Da Rin, and Thomas Hellmann, 2016, The importance of trust for investment: Evidence from venture capital, *Review of Financial Studies* 29, 2283–2318.

Boutchkova, Maria, Hitesh Doshi, Art Durnev, and Alexander Molchanov, 2012, Precarious politics and return volatility, *Review of Financial Studies* 25, 1111–1154.

Boxell, Levi, Matthew Gentzkow, and Jesse M. Shapiro, 2022, Cross-country trends in affective polarization, *Review of Economics and Statistics* forthcoming.

Budge, Ian, and Richard I. Hofferbert, 1990, Mandates and policy outputs: U.S. party platforms and federal expenditures, *American Political Science Review* 84, 111–131.

Budge, Ian, Hans-Dieter Klingemann, Andrea Volkens, Judith Bara, Eric Tanenbaum, et al., 2001, *Mapping policy preferences: Estimates for parties, electors, and governments, 1945-1998* (Oxford University Press).

Burchardi, Konrad B., Thomas Chaney, and Tarek A. Hassan, 2019, Migrants, ancestors, and foreign investments, *Review of Economic Studies* 86, 1448–1486.

Callaway, Brantly, and Pedro H.C. Sant'Anna, 2021, Difference-in-differences with multiple time periods, *Journal of Econometrics* 225, 200–230 Themed Issue: Treatment Effect 1.

Card, David, and Stefano DellaVigna, 2020, What do editors maximize? Evidence from four economics journals, *Review of Economics and Statistics* 102, 195–217.

Carhart, Mark M., 1997, On persistence in mutual fund performance, *Journal of Finance* 52, 57–82.

Cassidy, William, and Blair Vorsatz, 2021, Partisanship and portfolio choice: Evidence from mutual funds, *Working Paper.*

Cerutti, Eugenio, Galina Hale, and Camelia Minoiu, 2015, Financial crises and the composition of cross-border lending, *Journal of International Money and Finance* 52, 60–81.

Chan, Kalok, Vicentiu Covrig, and Lilian Ng, 2005, What determines the domestic bias and foreign bias? Evidence from mutual fund equity allocations worldwide, *Journal of Finance* 60, 1495–1534.

Chava, S., and M. R. Roberts, 2008, How does financing impact investment? The role of debt covenants, *Journal of Finance* 63, 2085–2121.

Chodorow-Reich, Gabriel, 2014, The employment effects of credit market disruptions: Firm-level evidence from the 2008–9 financial crisis, *Quarterly Journal of Economics* 129, 1–59.

Choi, Nicole, Mark Fedenia, Hilla Skiba, and Tatyana Sokolyk, 2017, Portfolio concentration and performance of institutional investors worldwide, *Journal of Financial Economics* 123, 189–208.

Chuprinin, Oleg, Massimo Massa, and David Schumacher, 2015, Outsourcing in the international mutual fund industry: An equilibrium view, *Journal of Finance* 70, 2275–2308.

Coppola, Antonio, Matteo Maggiori, Brent Neiman, and Jesse Schreger, 2021, Redrawing the map of global capital flows: The role of cross-border financing and tax havens, *Quarterly Journal of Economics* 136, 1499–1556.

Coval, Joshua D., and Tobias J. Moskowitz, 1999, Home bias at home: Local equity preference in domestic portfolios, *Journal of Finance* 54, 2045–2073.

Dagostino, Ramona, Janet Gao, and Pengfei Ma, 2020, Partisanship in loan pricing, *Working Paper.*

de Chaisemartin, Clément, and Xavier D'Haultfœuille, 2020, Two-way fixed effects estimators with heterogeneous treatment effects, *American Economic Review* 110, 2964–96.

de Chaisemartin, Clément Olivier, and Xavier D'Haultfoeuille, 2022, Two-way fixed effects and difference-in-differences with heterogeneous treatment effects: A survey, *Working Paper.*

De Haas, Ralph, and Neeltje Van Horen, 2013, Running for the exit? International bank lending during a financial crisis, *Review of Financial Studies* 26, 244–285.

Degryse, Hans, Olivier De Jonghe, Sanja Jakovljevic, Klaas Mulier, and Glenn Schepens, 2019, Identifying credit supply shocks with bank-firm data: Methods and applications, *Journal of Financial Intermediation* 40, 100813.

Degryse, Hans, and Steven Ongena, 2005, Distance, lending relationships, and competition, *Journal of Finance* 60, 231–266.

Department of the Treasury, Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System, 2018, *U.S. Portfolio Holdings of Foreign Securities as of December 31, 2017.*

Duchin, Ran, Abed El Karim Farroukh, Jarrad Harford, and Tarun Patel, 2019, Political attitudes, partisanship, and merger activity, *Working Paper.*

Duchin, Ran, and Denis Sosyura, 2014, Safer ratios, riskier portfolios: Banks response to government aid, *Journal of Financial Economics* 113, 1–28.

Fama, Eugene F., and Kenneth R. French, 1993, Common risk factors in returns on stocks and bonds, *Journal of Financial Economics* 33, 3–56.

Ferreira, Miguel A., Aneel Keswani, Antonio F. Miguel, and Sofia B. Ramos, 2012, The flow-performance relationship around the world, *Journal of Banking & Finance* 36, 1759–1780.

Fisman, Raymond, Daniel Paravisini, and Vikrant Vig, 2017, Cultural proximity and loan outcomes, *American Economic Review* 107, 457–92.

Fos, Vyacheslav, Elisabeth Kempf, and Margarita Tsoutsoura, 2022, The political polarization of corporate America, *Working Paper.*

Giannetti, Mariassunta, and Luc Laeven, 2012, The flight home effect: Evidence from the syndicated loan market during financial crises, *Journal of Financial Economics* 104, 23–43.

Giannetti, Mariassunta, and Farzad Saidi, 2018, Shock propagation and banking structure, *Review of Financial Studies* 32, 2499–2540.

Giannetti, Mariassunta, and Yishay Yafeh, 2012, Do cultural differences between contracting parties matter? Evidence from syndicated bank loans, *Management Science* 58, 365–383.

Girardi, Daniele, 2020, Partisan shocks and financial markets: Evidence from close national elections, *American Economic Journal: Applied Economics* 12, 224–52.

Gormley, Todd A., and David A. Matsa, 2014, Common errors: How to (and not to) control for unobserved heterogeneity, *Review of Financial Studies* 27, 617–661.

Granja, João, Christian Leuz, and Raghuram G Rajan, 2022, Going the extra mile: Distant lending and credit cycles, *Journal of Finance* 77, 1259–1324.

Grinblatt, Mark, and Matti Keloharju, 2001, How distance, language, and culture influence stockholdings and trades, *Journal of Finance* 56, 1053–1073.

Guiso, Luigi, Paola Sapienza, and Luigi Zingales, 2009, Cultural biases in economic exchange?, *Quarterly Journal of Economics* 124, 1095–1131.

Gupta, Nandini, and Xiaoyun Yu, 2007, Does money follow the flag?, *Working Paper*.

Hale, Galina, Tumer Kapan, and Camelia Minoiu, 2020, Shock transmission through cross-border bank lending: Credit and real effects, *Review of Financial Studies* 33, 4839–4882.

Haselmann, Rainer, David Schoenherr, and Vikrant Vig, 2018, Rent seeking in elite networks, *Journal of Political Economy* 126, 1638–1690.

Hong, Harrison, and Leonard Kostovetsky, 2012, Red and blue investing: Values and finance, *Journal of Financial Economics* 103, 1–19.

Hwang, Byoung-Hyoun, 2011, Country-specific sentiment and security prices, *Journal of Financial Economics* 100, 382–401.

Jagannathan, Murali, Wei Jiao, and G. Andrew Karolyi, 2022, Is there a home field advantage in global markets?, *Journal of Financial Economics* 143, 742–770.

Julio, Brandon, and Youngsuk Yook, 2016, Policy uncertainty, irreversibility, and cross-border flows of capital, *Journal of International Economics* 103, 13–26.

Kacperczyk, Marcin, Clemens Sialm, and Lu Zheng, 2005, On the industry concentration of actively managed equity mutual funds, *Journal of Finance* 60, 1983–2011.

Kang, Jun-Koo, and Rene M. Stulz, 1997, Why is there a home bias? An analysis of foreign portfolio equity ownership in Japan, *Journal of Financial Economics* 46, 3–28.

Kelly, Bryan, Lubos Pastor, and Pietro Veronesi, 2016, The price of political uncertainty: Theory and evidence from the option market, *Journal of Finance* 71, 2417–2480.

Kempf, Elisabeth, and Margarita Tsoutsoura, 2021, Partisan professionals: Evidence from credit rating analysts, *Journal of Finance* 76, 2805–2856.

Khwaja, Asim Ijaz, and Atif Mian, 2008, Tracing the impact of bank liquidity shocks: Evidence from an emerging market, *American Economic Review* 98, 1413–42.

Kose, John, Shu Lin, and Qianru Qi, 2016, Bilateral political relations and cross-border M&As, *Working Paper*.

Lang, Mark, Mark Maffett, James D. Omartian, and Roger Silvers, 2020, Regulatory cooperation and foreign portfolio investment, *Journal of Financial Economics* 138, 138–158.

Laver, Michael J., and Ian Budge, 1992, Measuring policy distances and modelling coalition formation, in *Party Policy and Government Coalitions* 15–40. Springer.

Leblang, David, 2010, Familiarity breeds investment: Diaspora networks and international investment, *American Political Science Review* 104, 584–600.

Lowe, Will, Kenneth Benoit, Slava Mikhaylov, and Michael Laver, 2011, Scaling policy preferences from coded political texts, *Legislative Studies Quarterly* 36, 123–155.

Maggiori, Matteo, Brent Neiman, and Jesse Schreger, 2020, International currencies and capital allocation, *Journal of Political Economy* 128, 2019–2066.

Meeuwis, Maarten, Jonathan A. Parker, Antoinette Schoar, and Duncan I. Simester, 2022, Belief disagreement and portfolio choice, *Journal of Finance* 77, 3191–3247.

Mian, Atif, 2006, Distance constraints: The limits of foreign lending in poor economies, *Journal of Finance* 61, 1465–1505.

———— , Amir Sufi, and Nasim Khoshkhou, 2021, Partisan bias, economic expectations, and household spending, *Review of Economics and Statistics* forthcoming.

Pastor, Lubos, and Pietro Veronesi, 2012, Uncertainty about government policy and stock prices, *Journal of Finance* 67, 1219–1264.

Petersen, Mitchell A., and Raghuram G. Rajan, 1995, The effect of credit market competition on lending relationships, *Quarterly Journal of Economics* 110, 407–443.

Pool, Veronika K., Noah Stoffman, and Scott E. Yonker, 2012, No place like home: Familiarity in mutual fund manager portfolio choice, *Review of Financial Studies* 25, 2563–2599.

Rajan, Raghuram G., 1992, Insiders and outsiders: The choice between informed and arm's-length debt, *Journal of Finance* 47, 1367–1400.

Santos, João A. C., 2011, Bank corporate loan pricing following the subprime crisis, *Review of Financial Studies* 24, 1916–1943.

Schumacher, David, 2018, Home bias abroad: Domestic industries and foreign portfolio choice, *Review of Financial Studies* 31, 1654–1706.

Schwert, Michael, 2018, Bank capital and lending relationships, *Journal of Finance* 73, 787–830.

Sharpe, Steven, 1990, Asymmetric information, bank lending and implicit contracts: A stylized model of customer relationships, *Journal of Finance* 45, 1069–1087.

Silvers, Roger, 2021, Does regulatory cooperation help integrate equity markets?, *Journal of Financial Economics* 142, 1275–1300.

Volkens, Andrea, Pola Lehmann, Theres Matthieß, Nicolas Merz, Sven Regel, and Bernhard Weßels, 2018, The manifesto data collection. Manifesto project (mrg/cmp/marpor) Version 2018a, Wissenschaftszentrum Berlin für Sozialforschung.

Williams, Laron, and Katsunori Seki, 2016, Seki-Williams government and ministers data, Harvard Dataverse.

Wintoki, M. Babajide, and Yaoyi Xi, 2020, Partisan bias in fund portfolios, *Journal of Financial and Quantitative Analysis* 55, 1717–1754.

Ye, Junting, Shuchu Han, Yifan Hu, Baris Coskun, Meizhu Liu, Hong Qin, and Steven Skiena, 2017, Nationality classification using name embeddings, in *Proceedings of the 2017 ACM on Conference on Information and Knowledge Management* 1897–1906.
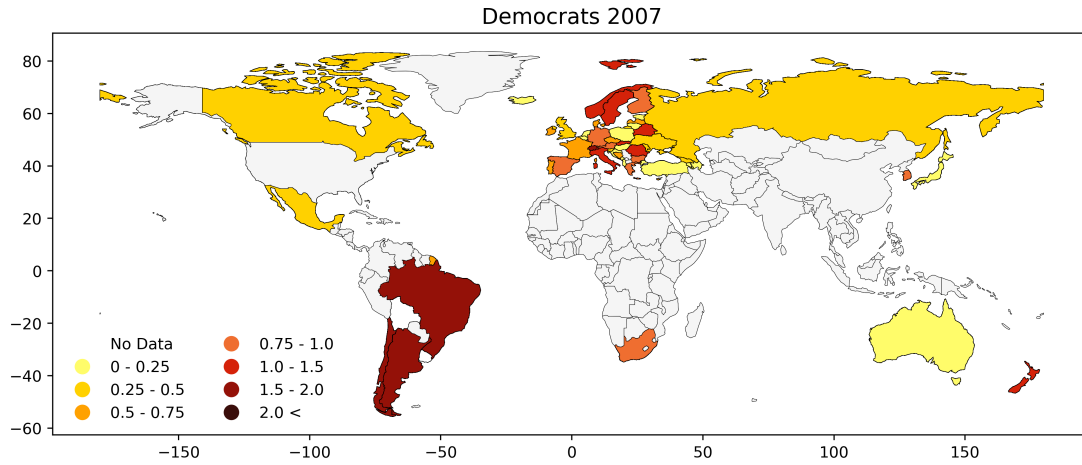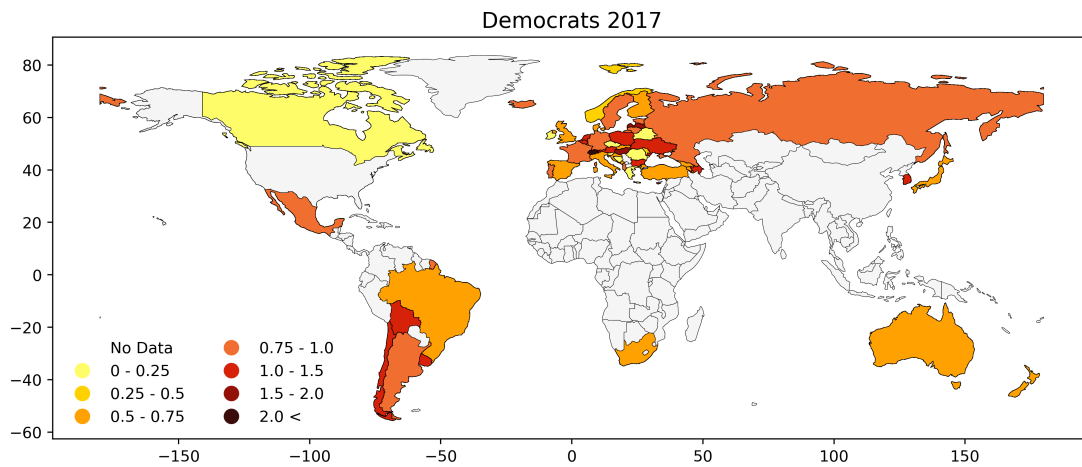
Figure 1: **Ideological Distance between the Democratic Party and Foreign Governments**

The figure plots the ideological distance between the U.S. Democratic party and elected foreign parties in 2007 and 2017, respectively. Ideological distance is calculated as the absolute difference between the right-left ideology score of the U.S. Democratic party and the ruling party in foreign countries as of December 31st.
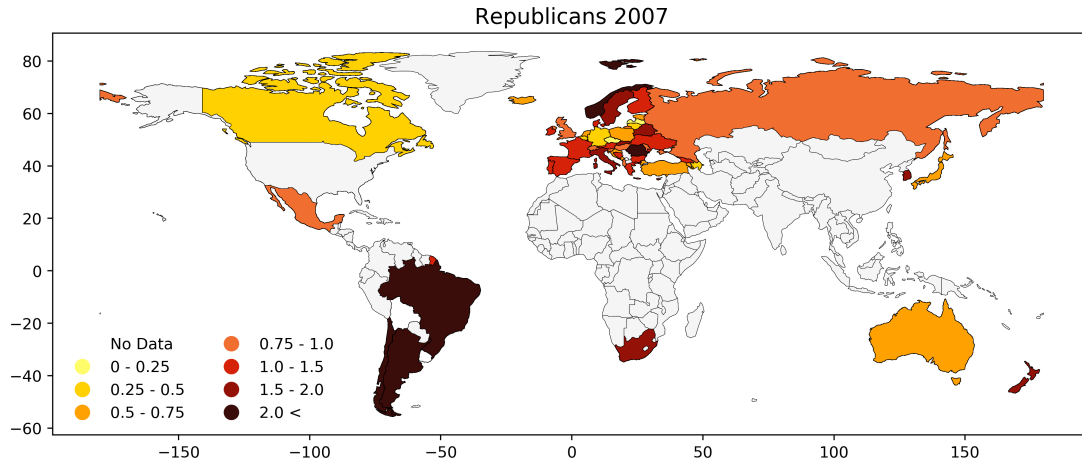
A. 2007
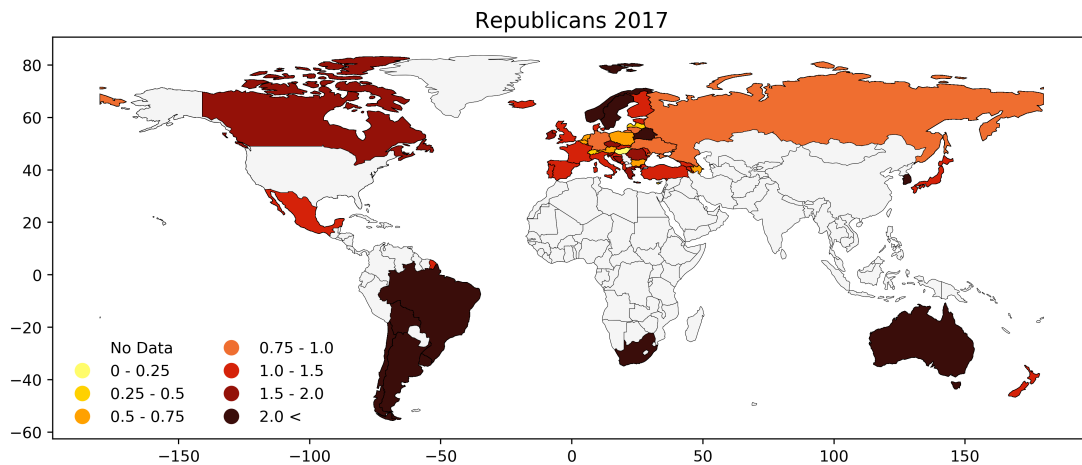
B. 2017

Figure 2: **Ideological Distance between the Republican Party and Foreign Governments**

The figure plots the ideological distance between the U.S. Republican party and elected foreign parties in 2007 and 2017, respectively. Ideological distance is calculated as the absolute difference between the right-left ideology score of the U.S. Republican party and the ruling party in foreign countries as of December 31st.
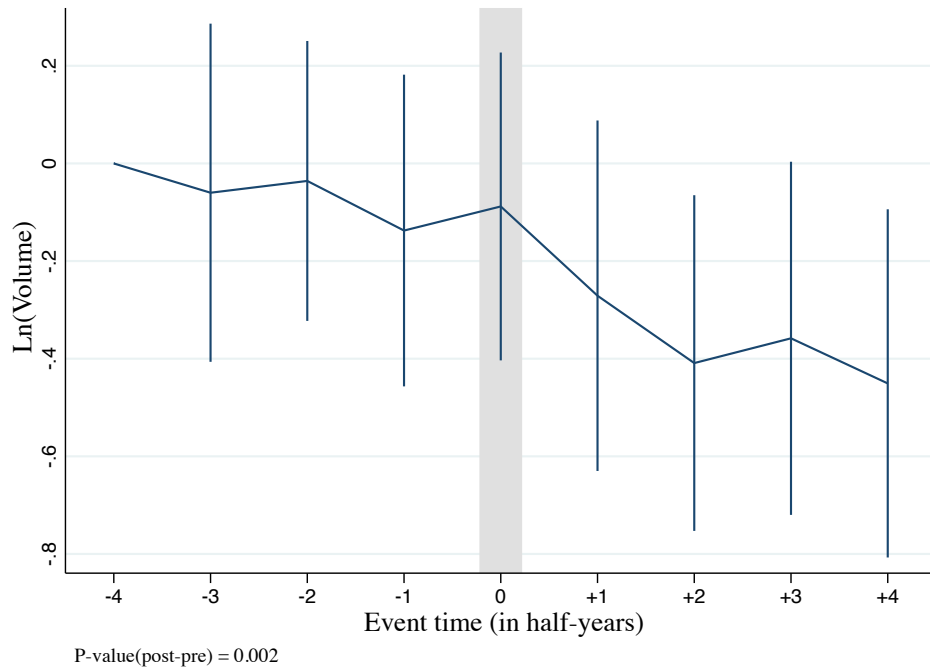
Figure 3: **Cross-Border Corporate Loan Issuance around Foreign Elections**

The figure plots the difference in the loan issuance volume between U.S. banks that experience an increase versus a decrease in ideological distance around a foreign election. We plot the coefficients β_τ from equation (4) for nine half-years around elections. The dependent variable is the logarithm of one plus the dollar loan issuance volume. We include election $\times$ time, investor $\times$ election, and investor $\times$ time fixed effects. The corresponding 95% confidence intervals are based on standard errors that are clustered at the investor $\times$ destination country level.

P-value (post-pre) = 0.005
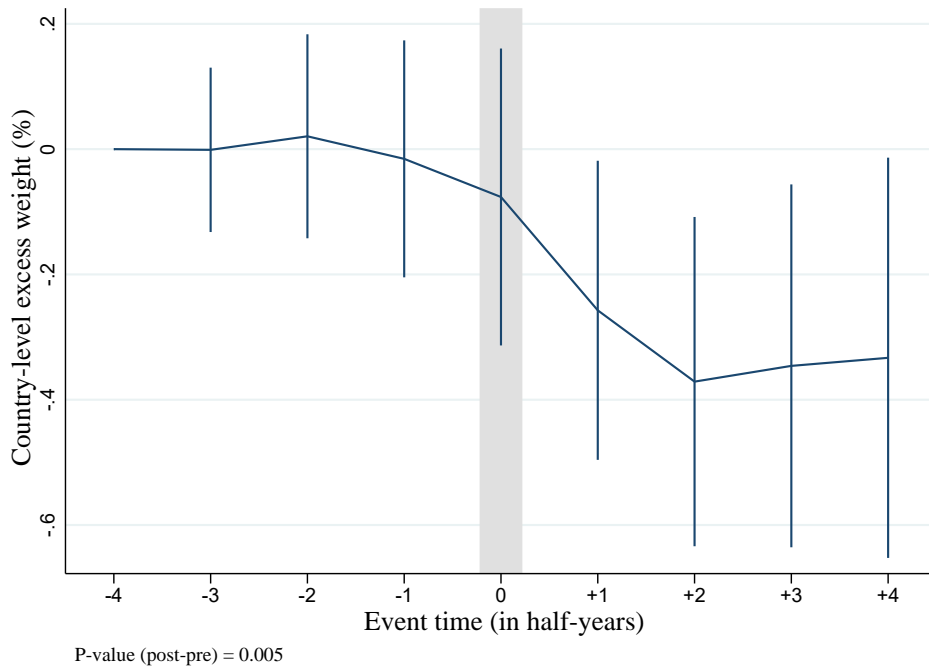
Figure 4: **International Mutual Fund Investments around Foreign Elections**

The figure plots the difference in excess portfolio weights between U.S. international equity funds that experience an increase versus a decrease in ideological distance around a foreign election. We plot the coefficients β_τ from equation (4) for nine half-years around elections. The dependent variable is the fund's excess portfolio weight in a given country, defined as the fund's portfolio weight minus the average portfolio weight of all other funds following the same investment style. We include election × time, investor × election, and investor × time fixed effects. The corresponding 95% confidence intervals are based on standard errors that are clustered at the investor × destination country level.
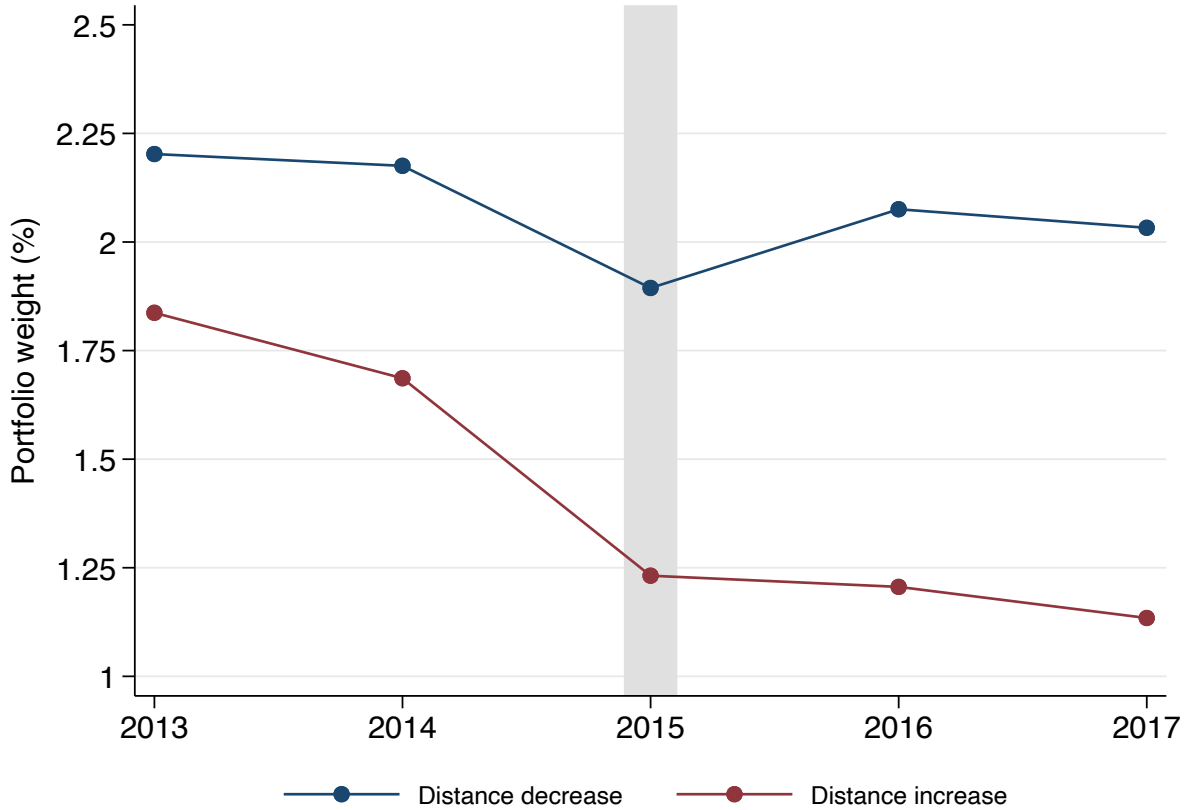
Figure 5: **Aggregate Effects: Case Study of the 2015 Election in Canada**

The figure plots the average portfolio positions of foreign investors in Canada around the 2015 Canadian federal election, separately for home countries that experience an increase versus decrease in ideological distance around the election. The dependent variable is the size of investors' portfolio investments in Canada as a fraction of the overall foreign portfolio of the home-country investors, using restated bilateral external portfolios from Coppola, Maggiori, Neiman, and Schreger (2021). We sum up the sales-weighted equity (including fund shares) and bond holdings.

Table 1: **Cross-Border Corporate Loans: Summary Statistics**

The table reports summary statistics for our dataset of syndicated corporate loans. The sample covers all cross-border syndicated loans issued during the period 2000 to 2018 by all U.S. banks that can be linked to a political party. Panel A reports summary statistics for our country-level dataset, where the unit of observation is a bank × election × half-year. Panel B reports summary statistics for our loan-level dataset, where the unit of observation is a bank × election × loan. All variables are defined in Appendix A.1.

Panel A: Country-Level Dataset

	Count	Mean	SD	P25	Median	P75
	(1)	(2)	(3)	(4)	(5)	(6)
Ideological Distance						
Distance Increase	19,153	0.53	0.50	0.00	1.00	1.00
Loan Issuance						
Loan Volume ($ in millions)	19,153	164.73	614.08	0.00	0.00	38.71
Ln(Volume)	19,153	1.54	2.53	0.00	0.00	3.68
Loan Number	19,153	1.90	5.51	0.00	0.00	1.00
Ln(Number)	19,153	0.47	0.86	0.00	0.00	0.69

Panel B: Loan-Level Dataset

	Count	Mean	SD	P25	Median	P75
	(1)	(2)	(3)	(4)	(5)	(6)
Ideological Distance						
Distance Increase	25,155	0.56	0.50	0.00	1.00	1.00
Loan Characteristics						
Spread (in bps)	25,155	214.98	157.89	80.00	200.00	300.00
Ln(Spread)	25,155	5.02	0.94	4.38	5.30	5.70
Loan Amount ($ in millions)	25,155	77.98	98.43	17.17	42.86	99.83
Ln(Amount)	25,155	3.73	1.18	2.90	3.78	4.61
Maturity (in months)	24,909	57.07	24.95	36.00	60.00	72.00
Ln(Maturity)	24,909	3.93	0.58	3.61	4.11	4.29
Secured	25,155	0.43	0.49	0.00	0.00	1.00
Default	11,252	0.03	0.17	0.00	0.00	0.00
Loan Share	4,676	0.09	0.12	0.04	0.06	0.10
Borrower Characteristics						
Investment Grade	25,155	0.14	0.34	0.00	0.00	0.00
Non-Investment Grade	25,155	0.24	0.43	0.00	0.00	0.00
Unrated	25,155	0.63	0.48	0.00	1.00	1.00

Table 2: **Cross-Border Corporate Loan Issuance around Foreign Elections**

The table reports differences in the loan issuance by U.S. banks experiencing an increase versus decrease in ideological distance around a foreign election. In Panel A, we estimate equation (3), using the log of one plus the dollar volume of loans issued (columns (1) to (3)) and the number of corporate loans issued (columns (4) to (6)) as dependent variables, respectively. In Panel B, we estimate equation (3) on our loan-level dataset, using the log of one plus the dollar loan issuance amount (columns (1) to (3)) and the loan share of a given bank in the syndicate (columns (4) to (6)) as dependent variables, respectively. *Distance Increase* is an indicator equal to one if the ideological distance between the bank and the party in power in a destination country increases after the election, and zero otherwise. *Post* is an indicator equal to one if a half-year t falls in the post-election period ($\tau = 0$ to $\tau = +4$), and zero if a half-year t falls in the pre-election period ($\tau = -4$ to $\tau = -1$). Loan controls include loan maturity, an indicator variable for secured loans, the all-in-spread-drawn, and loan type. The economic effect is calculated as the exponential of the coefficient minus one when the dependent variable is a logarithm, and as the coefficient divided by the mean of the dependent variable otherwise. t-statistics, reported in parentheses, are based on standard errors that are clustered at the investor $\times$ destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Country-Level Evidence

	Ln(Volume)			Ln(Number)		
	(1)	(2)	(3)	(4)	(5)	(6)
Distance Increase × Post	-0.210**	-0.222**	-0.242***	-0.077**	-0.085***	-0.100***
	(-2.07)	(-2.42)	(-2.97)	(-2.28)	(-2.67)	(-3.58)
Economic Effect (%)	-18.98	-19.94	-21.51	-7.41	-8.13	-9.50
Election × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Investor × Election FE	No	Yes	Yes	No	Yes	Yes
Investor × Time FE	No	No	Yes	No	No	Yes
R^2	0.161	0.752	0.774	0.173	0.806	0.829
N	19,153	19,153	19,064	19,153	19,153	19,064

Panel B: Loan-Level Evidence

	Ln(Volume)		Loan Share	
	(1)	(2)	(3)	(4)
Distance Increase × Post	-0.431***	-0.397***	-0.020***	-0.021***
	(-2.72)	(-2.67)	(-2.90)	(-3.00)
Economic Effect (%)	-35.02	-32.75	-23.69	-27.99
Loan Controls	Yes	No	Yes	No
Loan FE	No	Yes	No	Yes
Borrower × Time FE	Yes	No	Yes	No
Investor × Borrower × Election FE	Yes	Yes	Yes	Yes
Investor × Time FE	Yes	Yes	Yes	Yes
R^2	0.847	0.989	0.901	0.980
N	2,868	2,508	2,868	2,508

Table 3: **Cross-Border Corporate Loan Pricing and Loan Performance**

The table repeats the analysis in Panel B of Table 2, using loan pricing and loan performance as dependent variables and restricting the sample to lead banks only. In Panel A, the dependent variable is the log of the all-in-drawn loan spread over LIBOR. In Panel B, the dependent variable is an indicator equal to one if the borrower defaults during the loan spell, and zero otherwise. Loan control variables include the loan amount, loan maturity, an indicator for secured loans, and loan type indicators. In Panel B, we further add the all-in-drawn loan spread as a control. A borrower cluster is defined as risk category (investment grade, non-investment grade, or not rated) $\times$ Fama-French 12 industry. t-statistics, reported in parentheses, are based on standard errors that are at the investor $\times$ destination country. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Loan Pricing

	Ln(Spread)		
	(1)	(2)	(3)
Distance Increase $\times$ Post	0.061	0.140*	0.129*
	(0.67)	(1.68)	(1.87)
Loan Controls	No	No	Yes
Election $\times$ Time FE	Yes	No	No
Borrower Cluster $\times$ Election $\times$ Time FE	No	Yes	Yes
Investor $\times$ Election FE	Yes	No	No
Investor $\times$ Time FE	Yes	Yes	Yes
R^2	0.451	0.858	0.896
N	16,695	15,511	15,373

Panel B: Loan Performance

	Default		
	(1)	(2)	(3)
Distance Increase $\times$ Post	-0.025	-0.009	-0.010
	(-0.98)	(-0.69)	(-0.71)
Loan Controls	No	No	Yes
Rating Class FE	No	Yes	Yes
Election $\times$ Time FE	Yes	No	No
Borrower Cluster $\times$ Election $\times$ Time FE	No	Yes	Yes
Investor $\times$ Election FE	Yes	No	No
Investor $\times$ Time FE	Yes	Yes	Yes
R^2	0.507	0.913	0.914
N	7,211	6,734	6,703

Table 4: **International Mutual Fund Investments around Foreign Elections**

The table reports differences in the capital allocation by U.S.-based international equity mutual funds experiencing an increase versus decrease in ideological distance around a foreign election. In Panel A, we estimate equation (3), using the excess portfolio weight of a given destination country in a given fund's foreign portfolio (in percent) as the dependent variable. In Panel B, we estimate equation (3) on a security-level dataset, using the excess portfolio weight of a given security in in a given fund's foreign portfolio (in basis points) as the dependent variable. The economic effect is calculated as the reported coefficient divided by the average raw portfolio weight. t-statistics, reported in parentheses, are based on standard errors that are clustered at the investor $\times$ destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Country-Level Evidence

	Country Excess Weight		
	(1)	(2)	(3)
Distance Increase $\times$ Post	-0.223***	-0.237***	-0.258***
	(-2.58)	(-2.87)	(-2.91)
Economic Effect (%)	-4.71	-5.02	-5.47
Election $\times$ Time FE	Yes	Yes	Yes
Investor $\times$ Election FE	No	Yes	Yes
Investor $\times$ Time FE	No	No	Yes
R^2	0.042	0.826	0.849
N	52,329	52,325	52,059

Panel B: Security-Level Evidence

	Security Excess Weight		
	(1)	(2)	(3)
Distance Increase $\times$ Post	-0.079**	-0.084**	-0.100***
	(-2.25)	(-2.41)	(-2.84)
Economic Effect (%)	-5.66	-5.98	-7.12
Security $\times$ Election $\times$ Time FE	Yes	Yes	Yes
Investor $\times$ Election $\times$ Security FE	No	Yes	Yes
Investor $\times$ Time FE	No	No	Yes
R^2	0.056	0.675	0.676
N	17,815,858	17,574,112	17,574,112

Table 5: **GDP Growth Forecast Revisions**

The table examines banks' propensity to revise their 1-year ahead GDP growth forecast around elections. The unit of observation is a forecaster × election × month. We define *Distance Increase* as in Table 2, except it is equal to 0.5 for all forecasting banks with missing party affiliation. The dependent variable is an indicator equal to one if there is a downward (upward) revision of the 1-year ahead GDP growth forecast in month t, and zero otherwise, respectively. *Close Election* is an indicator for close elections, defined as elections with a victory margin in the bottom quartile across all elections in our sample. t-statistics, reported in parentheses, are based on standard errors that are clustered at the forecaster × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

| | GDP Growth Forecast Revision | | | |
| | Downward | | Upward | |
	(1)	(2)	(3)	(4)
Distance Increase × Post	0.081***	0.019	-0.018	0.002
	(3.01)	(0.67)	(-0.58)	(0.07)
Distance Increase × Post × Close Election		0.231***		-0.074
		(3.47)		(-1.20)
Election × Time FE	Yes	Yes	Yes	Yes
Forecaster × Election FE	Yes	Yes	Yes	Yes
Forecaster × Time FE	Yes	Yes	Yes	Yes
R^2	0.645	0.645	0.606	0.606
N	15,804	15,804	15,804	15,804

Table 6: **Distance to Prime Minister vs. Government**

The table repeats our main analysis, after defining *Distance Increase* based on the ideological distance between the investor and the party of the prime minister or the government, respectively. Panel A estimates the regression from column (3) of Table 2, Panel A. Panel B estimates the regression from column (3) in Panel A of Table 4. In column (1), we use the distance to the party of the prime minister only. In column (2), we use the distance to the government, computed as the weighted average distance to the parties that form the governing coalition. In column (3), both measures are included simultaneously. *t*-statistics, reported in parentheses, are based on standard errors that are clustered at the investor $\times$ destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Cross-Border Corporate Loans

	Ln(Volume)		
	(1)	(2)	(3)
Distance Increase to Prime Minister $\times$ Post	-0.280**		-0.494***
	(-2.36)		(-2.68)
Distance Increase to Government $\times$ Post		-0.050	0.265
		(-0.45)	(1.49)
Election $\times$ Time FE	Yes	Yes	Yes
Investor $\times$ Election FE	Yes	Yes	Yes
Investor $\times$ Time FE	Yes	Yes	Yes
R^2	0.780	0.775	0.780
N	11,391	11,930	11,391

Panel B: International Equity Mutual Funds

	Country-Level Excess Weight		
	(1)	(2)	(3)
Distance Increase to Prime Minister $\times$ Post	-0.450***		-0.510***
	(-3.00)		(-3.21)
Distance Increase to Government $\times$ Post		-0.196	0.116
		(-1.11)	(0.61)
Election $\times$ Time FE	Yes	Yes	Yes
Investor $\times$ Election FE	Yes	Yes	Yes
Investor $\times$ Time FE	Yes	Yes	Yes
R^2	0.864	0.864	0.864
N	23,033	23,033	23,033

Table 7: **Policy Dimensions**

The table repeats our main analysis, after defining *Distance Increase* separately for positions on economic, social, and other policies. Panel A estimates the regression from column (3) of Table 2, Panel A. Panel B estimates the regression from column (3) in Panel A of Table 4. We use ideological distance based on economic policies in column (1), based on social policies in column (2), and based on other policies in column (3). The list of policy positions used to define ideology on economic, social, and other issues is presented in the Internet Appendix. In column (4), all measures are included simultaneously. t-statistics, reported in parentheses, are based on standard errors that are clustered at the investor $\times$ destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Cross-Border Corporate Loans

	Ln(Volume)			
	(1)	(2)	(3)	(4)
Distance Increase Econ. Policy $\times$ Post	-0.225***			-0.221***
	(-2.75)			(-2.72)
Distance Increase Social Policy $\times$ Post		-0.198**		-0.184**
		(-2.31)		(-2.15)
Distance Increase Other Policy $\times$ Post			0.079	0.063
			(0.92)	(0.75)
Election $\times$ Time FE	Yes	Yes	Yes	Yes
Investor $\times$ Election FE	Yes	Yes	Yes	Yes
Investor $\times$ Time FE	Yes	Yes	Yes	Yes
R^2	0.774	0.774	0.774	0.774
N	19,064	19,064	19,064	19,064

Panel B: International Equity Mutual Funds

	Country-Level Excess Weight			
	(1)	(2)	(3)	(4)
Distance Increase Econ. Policy $\times$ Post	-0.152*			-0.144*
	(-1.88)			(-1.79)
Distance Increase Social Policy $\times$ Post		-0.239***		-0.260***
		(-3.00)		(-3.29)
Distance Increase Other Policy $\times$ Post			-0.054	-0.120
			(-0.47)	(-1.05)
Election $\times$ Time FE	Yes	Yes	Yes	Yes
Investor $\times$ Election FE	Yes	Yes	Yes	Yes
Investor $\times$ Time FE	Yes	Yes	Yes	Yes
R^2	0.849	0.849	0.849	0.849
N	52,059	52,059	52,059	52,059

Table 8: **Aggregate Effects: Bilateral Portfolio Investment**

The table regresses bilateral portfolio positions on the ideological distance between countries. The unit of observation is a home country × destination country × year. The dependent variable is the weight of the destination country in the foreign portfolio of investors from the home country, using restated bilateral external portfolios from Coppola, Maggiori, Neiman, and Schreger (2021). We sum up the sales-weighted equity (including fund shares) and bond holdings. In Panel A, the main independent variable is an interaction between *Distance Increase*, an indicator equal to one if the home country does not experience an increase in ideological distance around the 2015 election, and zero otherwise, and *Post*, an indicator equal to one in the election year and thereafter, and zero otherwise. Controls include contemporaneous and lagged GDP growth and population growth in the home country. In Panel B, *Distance* refers to the absolute difference in the ideology score between the elected parties in the two countries. *UN Voting Distance* refers to the voting misalignment in the United Nations General Assembly between two countries. Both independent variables are standardized to have a mean of zero and a standard deviation of one. *t*-statistics, reported in parentheses, are based on standard errors that are clustered at the home country × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Case Study of the Canadian Federal Election in 2015

	Country Portfolio Weight	
	(1)	(2)
Distance Increase × Post	-0.604**	-0.606**
	(-2.43)	(-2.35)
UN Voting Distance		-0.473
		(-1.04)
Economic Effect (%)	-11.43	-11.46
Year FE	Yes	Yes
Home Country FE	Yes	Yes
Controls	Yes	Yes
R^2	0.951	0.953
N	128	128

Panel B: Full Sample

	Country Portfolio Weight	
	(1)	(2)
Distance	-0.035**	-0.036**
	(-2.56)	(-2.55)
UN Voting Distance		-0.051
		(-1.12)
Economic Effect (%)	-3.66	-3.68
Home × Destination Country FE	Yes	Yes
Destination Country × Year FE	Yes	Yes
Home Country × Year FE	Yes	Yes
R^2	0.926	0.926
N	11,751	11,533

A Appendix

A.1 Variable Definitions

Table A.1: **Cross-Border Corporate Loans: Variable Descriptions**

Variable	Description
Dependent variables	
Ln(Volume)	The logarithm of one plus the total USD volume of loans issued by a bank to all borrowers operating in a foreign destination country and half-year, obtained from DealScan. Measured in millions. The variable is winsorized at the 1% and 99% levels. If the bank does not issue loans in a country to which it has lent in the past, loan volume is set to zero.
Ln(Number)	The logarithm of one plus the total number of loans issued by a bank to all borrowers operating in a foreign destination country and half-year, obtained from DealScan. The variable is winsorized at the 1% and 99% levels. If the bank does not issue loans in a country to which it has lent in the past, the number of loans is set to zero.
Ln(Amount)	The logarithm of the USD loan amount provided by a given bank to a borrower in a foreign destination country at issuance, obtained from DealScan. Measured in millions. The variable is winsorized at the 1% and 99% levels.
Loan share	The fraction of the total loan commitment held by a specific bank in a syndicate at issuance, obtained from DealScan. The variable is winsorized at the 1% and 99% levels.
Ln(Spread)	The logarithm of the all-in-drawn loan spread over LIBOR at issuance on a loan by a given bank to a borrower in a foreign destination country, obtained from DealScan. Measured in basis points. The variable is winsorized at the 1% and 99% levels.
Default	Indicator equal to one if a borrower is downgraded to a default rating ("D" or "SD") during the loan spell, based on S&P ratings.
Main independent variables	
Distance increase	Indicator equal to one if the change in the ideological distance between the bank and the foreign country, as defined in equation (2), is non-negative, and zero otherwise.
Post	Indicator equal to one if the time period falls after a given election ($\tau = 0$ to $\tau = +4$), and zero otherwise.
Control variables	
Risk category	Equal to one if the borrower has an non-investment-grade issuer rating; two if the borrower is unrated, and zero if the borrower is rated investment grade at loan issuance. Credit ratings are obtained from S&P.

Table A.1 – continued

Variable	Description
Ln(Maturity)	The logarithm of the loan maturity in months, obtained from DealScan. The variable is winsorized at the 1% and 99% levels.
Secured	Indicator equal to one if the loan is secured, and zero otherwise. Obtained from DealScan.
Loan type	A discrete variable that indicates if the loan is a term loan, a revolver loan, or another type of loan. Obtained from DealScan.

Table A.2: **Other Variable Descriptions**

Variable	Description
Mutual fund investment	
Excess country weight	The country's portfolio weight of a given fund, in excess of the average weight of the same country across all active equity funds managed in the same home country and belonging to the same investment style. Measured in percentage points. Section 5.1 provides the detailed variable construction. Return and holdings data are obtained from FactSet.
Excess security weight	The security's portfolio weight of a given fund, in excess of the average weight of the same security across all active equity funds managed in the same home country and belonging to the same investment style. Measured in basis points. Section 5.1 provides the detailed variable construction. Return and holdings data are obtained from FactSet.
GDP growth forecast revisions	
Downward revision	An indicator equal to one if $f_{ic,t}^{y+1} - f_{ic,t-1}^{y+1} < 0$, and zero otherwise. $f_{ic,t}^{y+1}$ denotes the forecast of the 1-year ahead GDP growth rate for country c in target year $y + 1$ made during month t of year y by forecaster i. Forecast data is obtained from Consensus Economics.
Upward revision	An indicator equal to one if $f_{ic,t}^{y+1} - f_{ic,t-1}^{y+1} > 0$, and zero otherwise. $f_{ic,t}^{y+1}$ denotes the forecast of the 1-year ahead GDP growth rate for country c in target year $y + 1$ made during month t of year y by forecaster i. Forecast data is obtained from Consensus Economics.
Bilateral portfolio investment	
Country portfolio weight	The weight of a given destination country in the foreign portfolio of investors from a given home country, using restated bilateral external portfolios from Coppola, Maggiori, Neiman, and Schreger (2021) and measured in percentage points. Portfolio holdings are the sum of the sales-weighted equity (including fund shares) and bond holdings. The variable is winsorized at the 1% and 99% levels.