NBER WORKING PAPER SERIES

DOES POLITICAL PARTISANSHIP CROSS BORDERS? EVIDENCE FROM INTERNATIONAL CAPITAL FLOWS

Elisabeth Kempf
Mancy Luo
Larissa Schäfer
Margarita Tsoutsoura

Working Paper 29280
http://www.nber.org/papers/w29280

NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
September 2021

We are grateful for comments from Tobias Berg, Mariassunta Giannetti (discussant), Laurence van Lent, Antoinette Schoar, and seminar/conference participants at POLFIN Workshop London, ESCP Business School Berlin, Durham University, Frankfurt School of Finance & Management, Goethe (SAFE) University, LUISS University, and University of Tübingen. Kempf gratefully acknowledges financial support from the Initiative on Global Markets and the Fama-Miller Center for Research in Finance at Chicago Booth. We thank Xinyu Cao, Emirhan Ilhan, Zichen Zhao and, especially, Laurenz De Rosa for excellent research assistance. The views expressed herein are those of the authors and do not necessarily reflect the views of the National Bureau of Economic Research.

Does Political Partisanship Cross Borders? Evidence from International Capital Flows
Elisabeth Kempf, Mancy Luo, Larissa Schäfer, and Margarita Tsoutsoura
NBER Working Paper No. 29280
September 2021
JEL No. G11,G15,G21,G23

ABSTRACT

Does partisan perception shape the flow of international capital? We provide evidence from two settings, syndicated corporate loans and equity mutual funds, to show that ideological alignment with foreign governments affects the cross-border capital allocation by U.S. institutional investors. Moreover, we find that ideological alignment with foreign countries also affects investments of non-U.S. investors and can explain patterns in bilateral FDI flows. Our empirical strategy ensures that direct economic effects of foreign elections or bilateral ties between countries are not driving the result. Combined, our findings imply that partisan perception is a global phenomenon and its economic effects transcend national borders.

Elisabeth Kempf
Booth School of Business
University of Chicago
5807 South Woodlawn Avenue
Chicago, IL 60637
and NBER
elisabeth.kempf@chicagobooth.edu

Larissa Schäfer
Frankfurt School of Finance &
Management
Adickesallee 32-34
60322 Frankfurt am Main
Germany
l.schaefer@fs.de

Mancy Luo
Erasmus University
Mandeville Building, Room T08-47,
Burgemeester Oudlaan 50,
3062 PA Rotterdam,
Netherlands
mancy.luo@rsm.nl

Margarita Tsoutsoura
SC Johnson College of Business
Cornell University
Ithaca, NY 14853
and NBER
tsoutsoura@cornell.edu

1 Introduction

A significant body of work in political science and economics has documented a rising partisan divide in the United States (Iyengar, Sood, and Lelkes (2012); Mason (2013); Mason (2015); Gentzkow (2016); Boxell, Gentzkow, and Shapiro (2017)).[1] In particular, voters have an increased tendency to view the economy through a "partisan perceptual screen;" i.e., their views of economic conditions are influenced by whether the White House is occupied by the party they support (e.g., Bartels (2002); Gaines, Kuklinski, Quirk, Peyton, and Verkuilen (2007); Gerber and Huber (2009); Curtin (2016); Mian, Sufi, and Khoshkhou (2018)). Recent work shows that this partisan perception influences not only the economic decisions of households, but also those of more sophisticated individuals, such as credit analysts (Kempf and Tsoutsoura (2020)), loan officers (Dagostino, Gao, and Ma (2020)), executives (Rice (2020); Fos, Kempf, and Tsoutsoura (2021)), and judges (Gormley, Kaviani, and Maleki (2020)).[2] However, it has remained an open question whether partisan perception only shapes voters' views of U.S. domestic conditions, or if it transcends national borders. We fill this gap by exploring whether cross-border investments by large institutional investors are shaped by their ideological alignment with elected foreign parties.

This is an important consideration for two reasons. First, it is not obvious that investors are as polarized over foreign politics as they are over domestic issues. In the United States, there is a long-standing belief that political disputes should be internal matters and not extend beyond the nation's borders. For example, U.S. Senator Vandenberg famously stated during the cold war that *"we must stop partisan politics at the water's edge."*[3] Second, cross-border capital flows have become an important factor of international firm investment and growth (Brunnermeier, De Gregorio, Eichengreen, El-Erian, and Fraga (2012)). If partisan perception affects not only U.S. domestic capital allocation but also cross-border capital flows, then the economic effects of partisan perception may be much broader than previously thought.

In this paper, we provide the first evidence that partisan perception of investors matters also in international contexts. Using two independent settings, syndicated corporate loans

[1] Trends in polarization vary across countries and are strongest in the United States, as shown by Boxell, Gentzkow, and Shapiro (2020).

[2] For households, political alignment with the government has been documented to affect decisions related to housing (McCartney and Zhang (2019)) and portfolio allocation (Addoum and Kumar (2016); Bonaparte, Kumar, and Page (2017); Meeuwis, Parker, Schoar, and Simester (2018)), as well as risk perception (Barrios and Hochberg (2020)). The evidence on consumption is mixed (e.g., Gerber and Huber (2009); Gillitzer and Prasad (2018); Mian, Sufi, and Khoshkhou (2018)).

[3] Despite this long held view, Jeong and Quirk (2019) find evidence of foreign policy polarization between Democrats and Republicans in the Senate.

and equity mutual funds, we show that investors invest less in another country when they are ideologically more distant from that country's party in power. The two settings provide an ideal laboratory for our tests for several reasons. First, syndicated loans represent around three-quarters of total cross-border lending to non-financial corporations (Gadanecz and von Kleist (2002); Chodorow-Reich (2013); Cerutti, Hale, and Minoiu (2015); Doerr and Schaz (2021)), and U.S. mutual funds invest more than $3 trillion abroad.[4] Combined, these two settings, therefore, speak to an important part of cross-border capital flows and an important source of corporate financing. Second, both settings allow us to observe private capital flows at the level of an individual investor, i.e., a bank or a mutual fund, whom we can then link to political affiliations using political contributions or voter registration records.

Isolating the effect of ideological alignment with foreign governments on capital allocation decisions is empirically challenging for two main reasons. First, the ideological alignment between an investor and a destination country could correlate with other measures of proximity, such as cultural, lingual, or religious commonalities. Second, expected investment returns in the destination country may be directly affected by changes in government policies or political uncertainty. To address these challenges, our empirical strategy examines changes in the capital allocation by partisan investors in the *same destination country* around the *same foreign national election*. Political elections provide a suitable setting for our tests, because they induce discontinuous changes in investors' ideological alignment with the destination country's party in power that are not under the control of the investors. Moreover, they are recurring events taking place at different points of time in different destination countries. This feature ensures that the documented effects are not driven by a single event or country.

The following example demonstrates our empirical approach. Assume there are two U.S. banks, one Republican and one Democrat, that 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 from the party in power increases relative to that of the Democrat bank. We can then compare the change in lending to Canadian firms by these two U.S. banks before and after the election using a difference-in-differences design.

The first part of our analysis focuses on U.S. investors due to the better availability of measures of political affiliations and because the U.S. has experienced the greatest increase

[4]According to the Investment Company Institute (ICI), a leading association of mutual funds, the U.S. mutual fund and ETF industry had about $22 trillion assets under management (AUM) as of 2017. Prior literature estimates that U.S. mutual funds invest around 15% of their assets abroad (Hau and Rey (2008)).

in polarization over the past decades (Boxell, Gentzkow, and Shapiro (2020)). We begin by testing whether U.S. banks issue more syndicated corporate loans in a foreign country when they are ideologically closer to that country's party in power. An important advantage of the corporate loan setting is that there is a direct link to the real economy because these loans are typically used for real activity. Assigning party affiliations to banks based on their political contributions, we find that, when a bank experiences an increase in ideological distance after a foreign election, it reduces its lending volume by 21% and the number of loans by 9%, relative to banks experiencing a decrease in distance. The magnitude of this effect is similar to the flight-home effect documented in Giannetti and Laeven (2012). We show that the effect is stronger for close elections and elections with higher media coverage, reinforcing our interpretation that the changes in capital allocations are driven by election-induced changes in ideological alignment. When we investigate the pricing of loans, we find a sizable, positive effect of ideological distance on loan spreads. The point estimates indicate that an increase in ideological distance is associated with a 6.4% increase in loan spreads, which translates to approximately 13 basis points for the average loan in our sample. This effect is comparable to the effect of alignment with the U.S. president documented by Dagostino, Gao, and Ma (2020) for U.S. loans. We further show that the effect on loan spreads is stronger for relationship banks, which have greater bargaining power vis-á-vis their clients. Finally, we document that loans issued by misaligned and aligned banks do not exhibit different ex-post default rates. The absence of ex-post differences in defaults further supports our interpretation that we are capturing differences in the economic perceptions of Republican and Democrat banks, rather than differences in the risk profile of their borrowers.

Next, we test whether international equity mutual funds invest less in a foreign country if they are ideologically more distant from that country's party in power. The mutual fund setting is convenient in two aspects. First, it allows us to identify individual decision makers (i.e., fund managers) and link them to party affiliations from U.S. voter registration records, which represent a cleaner measure of political ideology than political contributions (Fos, Kempf, and Tsoutsoura (2021)). Second, thanks to the richness of the mutual fund holdings data, we can include stock $\times$ election $\times$ time fixed effects. This ensures that our results are not driven by differences in the stocks held by Republican and Democrat fund managers. We find that, when the ideological distance between a mutual fund's management team and a foreign country increases following an election, the fund reduces the share of its portfolio allocated to this country by 25 basis points, relative to a fund that experienced a decrease in distance. The economic magnitude of this effect is comparable to that of home bias documented in Pool, Stoffman, and Yonker (2012).

While the above results indicate that investors who experience an increase in ideological distance reduce their investment in a foreign country relative to investors who experience a decrease in distance, it remains unclear which of these two groups is "right." Maybe investors experiencing an increase in ideological distance decrease their investment by too much relative to the rational benchmark, or funds experiencing a decrease in distance increase their investment by too much, or both groups are equally biased, in which case we should observe no significant performance differences. When we test for differences in mutual fund performance, we find that funds experiencing an increase in ideological distance tend to earn a \$1.4–\$2.2 million lower economic value added per year following the election, relative to funds experiencing a decrease in distance. However, this difference is not statistically significant. Hence, we cannot conclude that one set of funds performs systematically better than the other.

As a final step, we investigate whether partisan perception also shapes capital allocation by non-U.S. investors. We infer the political affiliation of non-U.S. investors using data on political contributions from Canada and the United Kingdom. For non-U.S. banks, there is no significant effect of partisan perception. For non-U.S. fund managers, we do find an economically and statistically significant effect. Although the results for non-U.S. investors are subject to more caveats, most notably the fact that we observe party affiliation only for a small subset of investors and with greater measurement error, they are nevertheless informative because they suggest that at least some non-U.S. investors also exhibit partisan behavior. Finally, we study bilateral foreign direct investment (FDI) flows. Although in this setting we cannot exploit within-country variation as in our previous tests, it has the advantage of allowing us to test if ideological alignment affects capital flows at a more aggregate level. We find that greater ideological distance between two countries is associated with lower FDI flows. In terms of economic magnitude, the decline implied by a one-standard-deviation increase in ideological distance is 7.2%, relative to the average FDI flow. When we repeat the analysis excluding any country-pair that involves the United States, the point estimates are similar. This is consistent with the view that partisan perception shapes not only cross-border investments of U.S. investors, but also those of investors from other countries.

Taken together, our results portray a compelling picture of partisan perception transcending national borders and shaping cross-border investments. Hence, the economic effects of partisan perception are not limited to the United States and propagate to other countries via the cross-border investments of large institutional investors. Our results also imply that ideological alignment is an important, omitted factor in models of international capital flows.

2 Related Literature

Our study contributes to several strands of the literature. First, we contribute to the literature that studies how partisanship influences investors' response to political events. For example, Bonaparte, Kumar, and Page (2017) find investors' portfolio allocation to risky assets is influenced by whether their preferred party is in power. Meeuwis, Parker, Schoar, and Simester (2018) document that Republican investors actively increase the equity share and the market beta of their portfolios relative to Democrats following the U.S. election of November 2016. Moreover, Kempf and Tsoutsoura (2020) and Dagostino, Gao, and Ma (2020) show that political alignment with the domestic party in power also affects the rating decisions by U.S. credit analysts and corporate loan spreads charged by U.S. loan officers. Related, Wintoki and Xi (2020) find that the political alignment between fund managers and firms matters for how funds' capital allocation. Our contribution, relative to these studies, is twofold. First, we show that financial investments by large institutional investors are also influenced by their ideological proximity to elected political parties. Second, we document that investors' partisan perception transcends national borders and is not just a U.S. domestic phenomenon. Specifically, we show that partisan perception influences cross-border investments by both U.S. and non-U.S. investors and can explain important patterns in cross-border flows of capital.[5]

Our paper also adds to a strand of the literature that examines the determinants of cross-border investments. Our paper is most closely related to the literature that emphasizes the influence of cultural and social proximity on cross-border capital flows. For example, Mian (2006) shows that cultural distance leads to reduced lending by multinational banks, and Giannetti and Yafeh (2012) find that more culturally distant banks offer borrowers smaller loans at a higher interest rate. Guiso, Sapienza, and Zingales (2009) find that cultural distance between countries reduces foreign direct investment. Hwang (2011) documents that higher levels of country popularity with Americans are associated with larger mutual fund inflows and larger foreign portfolio investments by U.S. retail investors. Bhattacharya and Groznik (2008) show that U.S. investments in a foreign country are positively affected by the size of the foreign-origin group from that country living in the United States. Bottazzi, Da Rin, and Hellmann (2016) document that the Eurobarometer measure

[5]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 political elections affects capital flows and securities prices. Boutchkova, Doshi, Durnev, and Molchanov (2012) find that industries sensitive to politics have more volatile returns around elections. Kelly, Pástor, and Veronesi (2016) document that political uncertainty is priced in financial options. Julio and Yook (2016) show that FDI flows are lower around elections due to policy uncertainty. In this study, we control for the channel of political uncertainty as we exploit cross-sectional heterogeneity across investors around the same foreign election.

of trust among nations positively predicts investment decisions by venture capital firms. Ahern, Daminelli, and Fracassi (2015) find that the volume of cross-border mergers is lower when countries are culturally more distant. Ma, Stice, Vasvari, and Zhang (2020) examine the effect of bilateral political relationships on cross-border bank lending and show that stronger political relationships between country pairs lead to more favorable loan terms and increases in loan capital flows. In this paper, we focus on variation in ideological proximity across investors from the same home country investing in the same destination country, and on time-variation in this proximity brought about by political elections. We can, therefore, control for any time-invariant differences across investor-country pairs, including cultural, lingual, religious, and geographical proximity.

Furthermore, we contribute to the literature that studies how political affiliation correlates with the behavior of financial analysts, corporate managers, professional investment managers, and retail investors. Prior studies have documented that mutual fund managers who make campaign donations to the Democratic party hold less of their portfolios in companies that are deemed socially irresponsible (Hong and Kostovetsky (2012)), left-wing voters are less likely to invest in stocks (Kaustia and Torstila (2011)), sell-side equity analysts who make political contributions to the Republican Party are less likely to issue bold recommendations (Jiang, Kumar, and Law (2016)), and Republican firm managers maintain more conservative corporate policies (Hutton, Jiang, and Kumar (2014)). These studies focus on the time-invariant attributes that characterize Democrats versus Republicans, whereas we focus on how the behavior of investors changes depending on their ideological proximity to the party in power. We can, therefore, separate the effect of partisan perception from unobserved time-invariant characteristics of individuals with different political affiliations.

3 Data

To measure ideological alignment between U.S. investors and elected foreign parties, this paper combines data on the ideology of political parties and information on investors' party affiliations from political contributions and voter registration records.

3.1 Measuring Political Ideology

In order to measure the ideology of political parties across different countries, we use data from the Manifesto Project (Volkens, Lehmann, Matthieß, Merz, Regel, and Weßels (2018)). The Manifesto Project has collected electoral manifestos of 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 (see Budge, Klingemann, Volkens, Bara, and Tanenbaumi (2001)). Based on each party's election program, the Manifesto Project codes the party's policy positions on various policy dimensions, which are pre-assigned to right versus left on the left-right political spectrum. We follow Lowe, Benoit, Mikhaylov, and Laver (2011) and compute the position of a given political party on the left-right spectrum as the relative percentage of the manifesto talking about left versus right policy categories.[6]

We also obtain election dates and the percentage of votes obtained by each party from the Manifesto database. For each election in each country, we treat the party with the highest voting share as the winning party. We cross-check the information on election dates and the inferred winning party with the Parliaments and Governments (ParlGov) Database, and manually verify all records that are inconsistent. Next, we build a time-series of the party in power for each country and use that party's ideological score to measure the dominating political ideology in the focal country.

Our data consists of 208 foreign elections covering 49 destination countries from 2000 to 2018. 47% of these elections involve party changes. The average (median) margin of victory, i.e., the absolute differences between the highest and the second-highest voting share, is 10.6 (7.6) percentage points. Following Julio and Yook (2016), we define close elections as elections with a margin of victory in the bottom quartile across all elections, i.e., all elections with a vote margin of less than ca. 3 percentage points.

3.2 Identifying Investors' Party Affiliation

To identify the political ideology 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 their "Open Secrets" database, aggregated at the bank level.[7] At a given point in time, we then assign the party that has received more than 55% cumulative contributions in last two years from a given bank as the bank's political party.

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, use party affiliation at the level of the individual fund manager using voter registration records. 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

[6]Specifically, the ideological score for party p at time t is calculated as $Ideology_{pt} = Log\frac{R_{pt}+0.5}{L_{pt}+0.5}$, where L_{pt} and R_{pt} refer to the total number of sentences across left and right policy categories, respectively.

[7]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.

to these locations because other states either do not provide voter registration data or they do not provide voter histories.[8] 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. See Fos, Kempf, and Tsoutsoura (2021) for a detailed description of the data set.

To identify party affiliations of non-U.S. investors, we manually collect donor-level data on political contributions for the top 20 investor countries in our sample that are also covered in the Manifesto database. We are able to find data for 14 countries that meet these two conditions. The contribution files are described in more detail in the Internet Appendix, which is available on the authors' websites.

To determine the ideological distance between the political party of investor i and the elected party in foreign country c at time t, we compute the absolute difference between the two parties' ideological scores:

$$Distance_{ict} = |Ideology_{it} - Ideology_{ct}|. \tag{1}$$

The median (average) ideological distance score is 0.73 (0.90) and exhibits substantial variation both across Democrat and Republican investors 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, Democrat investors are closer to elected foreign parties than Republican investors, but there is substantial heterogeneity both across countries and over time. For example, Democrat investors tend to be substantially closer to the ideology of elected parties in South America and Scandinavia, and Republican investors tend to be closer to elected parties in Switzerland. 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, Democrats become more ideologically distant from the same country. It is precisely this time-variation in ideological distance, induced by elections in foreign countries, that we are exploiting in our main tests.

[8] 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.

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 investment. We hypothesize that investors who are ideologically closer to the party in power in foreign country c have more positive expectations regarding the profitability of investment projects in country c. In the context of corporate loans, this means that an ideologically closer bank may underestimate the likelihood of a borrower's default relative to an ideologically distant bank. In the context of mutual funds, an ideologically closer fund manager may expect higher risk-adjusted returns for stocks in country c relative to an ideologically distant fund manager. As a result, the ideologically distant investor will invest less in country c relative to the ideologically close investor. Moreover, an ideologically distant investor would charge higher loan spreads, provided she has sufficient market power to influence pricing.

Isolating the effect of ideological alignment is empirically challenging for at least two reasons. First, the ideological alignment between a Democrat or Republican investor and the elected party in destination country c could correlate with other measures of proximity between the investor and country c, such as commonality of language, religion, or legal origin. Second, expected investment returns in country c may be directly affected by political elections or bilateral political and regulatory relationships (e.g., Ma, Stice, Vasvari, and Zhang (2020); Silvers (2021)). For example, if the newly elected party is more hostile towards the U.S. government, then U.S. investors may withdraw capital due to increasing difficulties in the given destination country, such as less favorable tax treatment or stricter regulation.

Our empirical strategy addresses these challenges by comparing investments by Democrat and Republican investors around the *same foreign election*. The following thought experiment illustrates our empirical approach. Assume there are two U.S. banks, one Republican and one Democrat, that 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 from the party in power increases relative to that of the Democrat bank. We can then compare the change in lending to Canadian firms by these two U.S. banks before and after the election using a difference-in-differences design.

Specifically, we estimate the following regression:

$$Investment_{iect} = \alpha_{ect} + \alpha_{iec} + \alpha_{it} + \beta Distance\,Increase_{iec} \times Post_{ect} + \epsilon_{iect}, \quad (2)$$

where $Investment_{iect}$ refers to a measure of how much capital investor i allocates to country c at time t around election e. $Distance\,Increase_{iec}$ is an indicator equal to one if the ideological distance between investor i's party and the party in power in country c increases after election e, and zero otherwise.[9] $Post_{ect}$ 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 $\tau = -1$). In the corporate loan setting, i refers to a bank holding company. In the mutual fund setting, i refers to a fund. We define the event window from $\tau = -4$ to $\tau = +4$ in order to avoid many overlapping event windows (the average (median) time gap between parliamentary elections in the same country is 3.5 (4) years). Throughout the paper, we cluster standard errors at the investor $\times$ country level.

By including election $\times$ time fixed effects (α_{ect}), we are able to control for the direct economic consequences of the election for expected investment returns, including changes in expected economic policies and policy uncertainty. Moreover, by restricting the analysis to investors from the same home country (e.g., United States), we can control for the degree of bilateral government cooperation, regulations, and trust between the two countries, including any potential restrictions on cross-border capital flows. By including investor $\times$ election fixed effects (α_{iec}), we can control for potential time-invariant differences in capital flows 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 cultural values. Finally, including investor $\times$ time fixed effects (α_{it}) allows to control for any unobserved time-varying shocks to capital flows at the level of the individual investor.

In order to better understand the precise timing of the effects, we also estimate the following dynamic specification:

$$Investment_{iect} = \alpha_{ect} + \alpha_{iec} + \alpha_{it} + \sum_{\tau=-4}^{\tau=+4} \beta_\tau Distance\,Increase_{iec} \times D^{\tau}_{ect} + \epsilon_{iect}, \quad (3)$$

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

[9] Specifically, $Distance\,Increase_{iec}$ is equal to one if the investor's ideological distance from country c increases between half-years $\tau = -1$ and $\tau = 0$ around election e. We fix the investor's ideological score as of $\tau = -1$, such that $Distance\,Increase_{iec}$ only reflects the effect of the foreign election.

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 reports summary statistics. Section 4.2 studies the effect of ideological distance between the bank and the borrower country on loan volume and 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 in all countries covered by the Manifesto database from Thomson Reuters' Dealscan database. The sample period spans the years 2000 to 2018. The database contains information on borrowers, lenders, and loan contract terms at origination.[10] A syndicate loan is typically given out by a group of banks that can be divided into lead arrangers and participants. While 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. To assign lending volume for each bank in a syndicate, we use information on loan shares when provided by Dealscan and split loan volumes equally when such information is missing, following Giannetti and Laeven (2012) and De Haas and Van Horen (2013).[11]

We exclude loans with a missing or negative loan amount, as well as loans with deal status "rumor," "suspended," or "cancelled" (0.5% of all observations). Since we are interested in cross-border capital flows by U.S. banks, we restrict our analysis to cross-border loans by U.S. banks, i.e., loans where the country of the bank parent is the United States and the country of the borrower is outside of the United States. We further focus on loans extended to non-financial borrowers by excluding borrowers with Standard Industrial Classification (SIC) codes 6000–6999. In order to assign each U.S. bank a political affiliation, we match our sample of U.S. banks to political contributions as described in Section 3.2. We perform this match using the linking table by Schwert (2018), which provides identifiers for the largest banks operating in the United States.[12] We further collect data on bank and firm characteristics from Compustat and S&P credit ratings from S&P Capital IQ. Our final sample consists of 29 U.S. banks extending 21,087 loans to 4,825 firms located in

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

[11] Information on loan shares is available for 23% of all deals. In our robustness tests below, we show that our main results are similar if we restrict the sample to lead banks only.

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

46 destination countries covered in the Manifesto database. In the Internet Appendix, we report the 20 largest destination countries by lending volume, as well as the party affiliation of each bank. Our sample covers 95% of the aggregate cross-border lending volume by U.S. banks between 2000 and 2018.

Table 1 reports summary statistics. In Panel A, the unit of observation is at the bank–destination country–half-year; i.e., we aggregate loan volumes and the number of loans within a given bank, destination country, and half-year and assign zero loan volume to half-years with no loan issuance. We drop all bank-country combinations with zero issuance throughout the full sample period. We further restrict the sample to half-years that fall within the event window $\tau = -4$ to $\tau = +4$ around a national parliamentary election. The average cross-border loan volume is \$171 million and the average number of cross-border loans per bank, destination country, and half-year is 2. The sample is roughly evenly split between banks that experience an increase in distance (54%) and banks that experience a decrease in distance (46%) after a foreign election. 70% of the banks in our sample donate primarily to the Republican party and are, therefore, classified as Republican (see Internet Appendix). The average bank has \$468 billion in total book assets and a leverage ratio of 11% (unreported for brevity).

Panel B reports summary statistics for our loan-level dataset. The average all-in-drawn loan spread over LIBOR is 208 basis points and the average size of a cross-border syndicated loan is \$76 million. Around 5% of borrowers default during the course of the average loan, which has a maturity of ca. 4.5 years. All variables are defined in Appendix Table A.1.

4.2 Corporate Loans: Ideological Distance and Corporate Lending

Our goal is to study whether banks experiencing an increase in ideological distance around a foreign election cut back their lending relative to other banks. We estimate equation (2) using the natural logarithm of one plus the aggregate loan volume extended by bank i to destination country c in half-year t as our measure of cross-border investment. We also report results for an alternative measure, which uses the natural logarithm of one plus the number of loans extended. Standard errors are clustered at the bank $\times$ country level.

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 loan number, respectively. Our preferred specification in column (3) implies that, when a bank experiences an increase in distance after a foreign election, it reduces its lending volume by 21% ($= exp(-0.238)-1$) relative to a bank that experiences a decrease in distance. As a reference point, the magnitude of this effect is similar to the flight-home effect documented in Giannetti and

Laeven (2012). In column (6), the effect on the number of loans is a reduction of 9%, which is smaller than the effect on loan volume but continues to be economically and statistically significant. Our preferred specifications in columns (3) and (6) contain election × half-year, bank × election, and bank × time fixed effects. This allows us to absorb any direct economic effects of the election, any unobserved differences across bank-country pairs prior to the election, as well as any time-varying unobserved bank characteristics.

In order to get a better sense of the exact timing of the effect, Figure 3 plots the coefficients β_τ from equation (3) for the full event window, using the natural logarithm of the cumulative loan volume between $\tau = -4$ and $\tau = +4$. The omitted period is $\tau = -4$; i.e., all subsequent differences are relative to the difference in $\tau = -4$. The figure shows a sharp and persistent decrease in the cumulative loan volume 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 in both panels. Since banks typically extend loans at average maturities around four to five years (see Panel B of Table 1), this reduction has a persistent effect on corporate capital supply.

In the Internet Appendix, we report robustness tests for our main specification in column (3) of Table 2. We estimate the same regression at a more disaggregated level, with the unit of observation being a bank–firm–half-year. This allows us to control for unobserved, time-varying differences in loan demand across industries and borrower-risk categories within a destination country. We further show that we obtain similar results if we restrict the sample to lead banks only. Our results also remain robust to using alternative measures of ideological distance. For example, we can replace the indicator *Distance Increase* by the continuous change in the bank's ideological distance, or 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 data also yields an even larger drop in loan volume of 30%. The main effect is also obtained when we use a 60% threshold for cumulative contributions to assign a party to a bank. Furthermore, we perform subsample analyses. Our results continue to hold if we exclude the three largest banks (Bank of America, Citi, and JP Morgan) in our sample. In terms of the geographical heterogeneity of the effect, we find a statistically significant effect of ideological distance on bank lending to 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. Finally, we show that our results are robust to different ways of clustering, such as clustering by bank, bank and time, or bank × destination country and time.

Finally, we also exploit heterogeneity across foreign elections. In Table 3, we investigate whether our effect is stronger when the election outcome is less expected and when it receives more media coverage. We re-estimate our main specification from column (3) of Table 2 and interact our main coefficient with a dummy for close elections (column (1)) and with an index for media news coverage (column (2)), respectively. Close elections are defined as elections with a victory margin in the bottom quartile across all elections, as in Julio and Yook (2016). News coverage is defined as the standardized natural logarithm of English-speaking news articles on a given election obtained from Factiva.[13] We observe substantially stronger effects for close elections relative to non-close elections, and the difference is statistically significant at the 5% level. We also find that our main effect is stronger for elections that are well covered by English-speaking media. Specifically, a one-standard-deviation increase in news coverage leads to roughly a doubling (=(-0.185-0.174)/-0.185) of the effect on loan issuance. These results further reinforce our interpretation that the changes in capital allocation documented above are indeed induced by the election outcome and the resulting change in ideological alignment.

4.3 Corporate Loans: Ideological Distance and Loan Pricing

In the previous section, we have shown that partisan perception affects cross-border lending by Democrat- and Republican-leaning banks. An important remaining question is whether partisan perception also affects loan pricing. To investigate this question, in Table 4, Panel A, we estimate equation (2) at the level of the individual loan, using the all-in-drawn loan spread over LIBOR as the dependent variable. The loan-level data also allows us to include a finer set of fixed effects, as well as controls for firm and loan characteristics. Most importantly, we include firm cluster $\times$ election $\times$ time fixed effects in all columns in order to control for time-varying loan demand across firm clusters. A firm cluster is defined as all firms belonging to the same risk category (A-letter rating, B-letter rating, C-letter rating, or not rated), 1-digit SIC industry, and destination country, following Khwaja and Mian (2008); De Haas and Van Horen (2013); Acharya, Eisert, Eufinger, and Hirsch (2018); and Hale, Kapan, and Minoiu (2019). We further add our standard set of fixed effects from equation (2), as well as firm-level control variables in column (2), and loan-level control variables in column (3). See Appendix Table A.1 for variable definitions.

We find a sizable positive effect of an increase in ideological distance on loan spreads. In our strictest specification in column (3), where we control for firm and loan characteristics,

[13] We perform a Factiva search using the search term "election" and count all news sources during the month leading up to and including the election date. We set the region to the country with the foreign election and require the source language to be English.

the effect on the loan spread is 13 basis points, which is comparable to the effect documented by Dagostino, Gao, and Ma (2020) for U.S. loans. Relative to the average loan spread in our sample, this effect translates into an increase of 6.4% (=13.288/208.2). The fact that we observe an increase in loan prices suggests that U.S. banks have some market power in foreign corporate loan markets. In the Internet Appendix, we show that the effect on loan spreads is indeed stronger when there is a closer relationship between the borrower and the bank; i.e., when the bank is more likely to have market power.

One possible alternative explanation for the increase in loan spreads is that banks that experience an increase in ideological distance start lending to firms that are riskier on observable dimensions. It is not obvious why that would be the case. Nevertheless, to rule out this potential explanation, in Panel B we examine the effect of distance increase on borrower defaults. The dependent variable is an indicator equal to one if a firm is assigned a default credit rating during the loan spell, and zero otherwise. We find a close-to-zero difference in the default rates of borrowers from banks that experience an increase vs. a decrease in ideological distance. The absence of ex-post differences in defaults further supports our interpretation that we are capturing differences in the economic perceptions of Republican and Democrat banks, rather than differences in the risk profile of their borrowers. In the Internet Appendix, we also find insignificant differences for credit rating downgrades during the loan spell.

5 International Equity Mutual Funds

Our second empirical setting is U.S. international equity mutual funds. Section 5.1 describes our mutual fund sample. 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. Section 5.3 analyzes portfolio performance.

5.1 International Mutual Funds: Data and Institutional Context

We obtain semi-annual fund holdings information for all open-ended mutual funds (OEF) in the Factset International Ownership database for the time period June 2000 to December 2018.[14] We match the sample with the Global Open-End Fund section of Morningstar Direct using the following order of priority: ISIN, ticker, CUSIP, and fund name.[15] We are able to match 76% of OEF FactSet funds to Morningstar Direct, which is comparable to the

[14]We follow Chuprinin, Massa, and Schumacher (2015) and use a semi-annual frequency to maximize the coverage.

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

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 obtain the names of all fund managers. To identify a given manager, we rely on a mapping file provided by Morningstar Direct in 2015, which contains unique manager identifiers linked to 80% of the manager names. For the remaining 20% of managers that are not covered in the mapping file, we identify them based on their fund management history and employment history. We exclude funds with missing manager names. We further restrict our sample to actively managed equity funds via Morningstar's *Index Fund* flag and *Broad Category Group* indicator. We focus on international funds, defined as funds that have a mandate to invest in more than one country and do not invest more than 90% of their TNA in a single country on average (see Schumacher (2018)).

After merging fund manager names with the voter registration records described in Section 3.2, and after restricting the sample to Democrat and Republican managers, the final sample consists of 385 U.S. international funds managed by 205 fund managers. The match rate of fund managers to registered voters for locations that provide voter registration data is about 8.4%.[16] Combined, these funds cover about 34% of the aggregate TNA of all U.S. international equity OEF funds. They invest in 24 foreign countries with available data on party manifestos. In the Internet Appendix, we report summary statistics for the main variables used in the subsequent analysis. The funds in our sample invest on average about 80% of their assets outside of the United States. A given foreign country's portfolio weight is right-skewed, with the average (median) fund investing 4.7% (2.7%) of its assets in the average 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 ideological distance between a given fund i and destination country c is an equal-weighted average of the ideological distance across its individual managers. Specifically, it is calculated as:

$$Distance_{ict} = \frac{1}{M} \sum_{m=1}^{M} Distance_{mct}, \tag{4}$$

where $Distance_{mct}$ is the ideological distance between an individual manager m's political party and destination country c at time t, as constructed in equation (1). In the Internet Appendix, we report robustness tests using a tenure-weighted average rather than an equal-weighted average across the fund's managers. We further show that we obtain similar

[16] Jagannathan, Jiao, and Karolyi (2017) 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 explain the lower match rate to voter registration records.

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.

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

$$Excess\,Weight_{ict} = w_{ict} - w_{sct}, \tag{5}$$

where w_{ict} is the fraction of fund i's equity TNA invested in the destination country c at time t.[17] w_{sct} indicates the value-weighted average portfolio weight invested in country c of all actively managed U.S. equity funds belonging to the same investment style s as fund i at time t, calculated as $\frac{\sum_{j\in s} TNA_{jt} w_{jct}}{\sum_{j\in s} TNA_{jt}}$.[18] We define the set of available investment countries (i.e., the investment opportunity set) for each investment style as all countries which cumulatively attract more than 90% of fund TNA over the sample period. We then set the portfolio weight w_{ict} equal to zero if a fund does not invest in country c that belongs to its investment opportunity set.

Finally, we construct performance measures of the fund's country-level portfolios. We define the benchmark-adjusted holdings return (before fees and expenses) for mutual fund i in destination country c during the half-year $t+1$ as

$$R_{ic,t+1} = \sum_{k=1}^{N} \frac{H_{ikt} P_{kt}}{TNA_{ict}} R_{k,t+1} - R_{bc,t+1}, \tag{6}$$

and the corresponding economic value-added in destination country c as

$$VA_{ic,t+1} = TNA_{ict} \times R_{ic,t+1}. \tag{7}$$

H_{ikt} is the number of shares in stock k held by fund i at the end of half-year t and P_{kt} is the price of stock k at the end of half-year t. TNA_{ict} is the total TNA of fund i invested in stocks in destination country c at the end of half-year t. $R_{k,t+1}$ is the return of stock k during half-year $t+1$, and $R_{bc,t+1}$ is the value-weighted average return of a benchmark portfolio b in country c during half-year $t+1$.

We use three benchmark portfolios. The first benchmark is the value-weighted return

[17] In our main analysis, we consider all equity investments (e.g., stocks, ADRs, and funds) to calculate the country-level portfolio weight. In the Internet Appendix, we report a robustness test using investments in stocks only and the result remains the same.

[18] 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)), to examine portfolio allocation decisions. In the Internet Appendix, we examine 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 to directly control for the average portfolio weight of funds in the same investment style (w_{sct}), as in Pool, Stoffman, and Yonker (2012). Our results remain very similar.

of all stocks in country c. The second benchmark is the value-weighted holdings return for country c of all passive funds tracking the same benchmark as fund i (ETF-adjusted return). The third benchmark is the value-weighted domestic holdings return of all active equity funds managed in country c (local funds-adjusted return).

We report summary statistics for all variables in the Internet Appendix 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. Table 5 reports the estimates of equation (2). Standard errors are clustered at the fund × country level. Across all specifications, we find that increase in ideological distance is associated with reduction in the fund's portfolio allocation towards 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 portfolio weight by 25 basis points, relative to funds experiencing no increase in distance. Economically, it implies a reduction of about 5.3% relative to the average portfolio weight (= 0.25/4.73).

How does the magnitude of the effect of ideological distance compare 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.[19] Hence, the economic magnitude of the effect of ideological alignment with foreign governments is comparable to that of home bias.

To understand the precise timing of the effects, Figure 4 plots the difference in excess portfolio weights between funds experiencing an increase versus decrease in ideological distance, separately for each half-year. Specifically, we plot the coefficients β_τ from equation (3). The omitted period is $\tau = -4$; i.e., all subsequent differences are relative to the difference in $\tau = -4$. 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 decline in the portfolio weight of funds with an increase in ideological distance, which continues during half-years $\tau = +1$ and $\tau = +2$, before levelling off.

One concern regarding our result is that it could be driven by differences in the fundamentals of stocks held by Democrat and Republican managers. For example, Democrat

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

funds may overweight socially responsible stocks (e.g., 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 disaggregated data at the fund-security level, which allows to include security $\times$ election $\times$ 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 $\times$ election $\times$ 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 the Internet Appendix. Funds with an increase in ideological distance reduce their security-level portfolio weight by about 5.6% to 7.0%. The event study graph 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 robustness tests in the Internet Appendix. We show that our main result from column (3) of Table 5 is robust to a battery of additional tests, including alternative measures of ideological distance and alternative treatments of standard errors. In the Internet Appendix, we also address the potential concern that our $Distance\,Increase$ variable picks up the effect of other fund manager characteristics that may be correlated with party affiliation. We do so by including interactions of additional fund manager characteristics with an indicator for elections leading to a shift in the political ideology of the elected government towards the right of the political spectrum. We consider characteristics that are known to be important predictors of political affiliation: ethnicity, gender, experience, and age. Across all specifications, the coefficient estimate on $Distance\,Increase \times Post$ is remarkably stable.

5.3 International Mutual Funds: Ideological Distance and Portfolio Performance

While the above results indicate that investors who experience an increase in ideological distance reduce their investment in a foreign country relative to investors who experience a decrease in distance, it remains unclear which of these two groups is "right." Maybe investors experiencing an increase in ideological distance decrease their investment by too much relative to the rational benchmark, or funds experiencing a decrease in distance increase their investment by too much, or both groups are equally biased, in which case we should observe no significant performance differences. In order to examine how ideological distance relates to funds' portfolio performance, we re-estimate equation (2), after replacing the excess portfolio weight with $R_{ic,t+1}$ and $VA_{ic,t+1}$, as defined in Section 5.1.

Table 6 presents the results. We find that funds with increased distance perform similarly to funds with decreased distance when performance is measured using risk-adjusted returns (columns (1) to (3)). For economic value added (columns (4) to (6)), the point estimates suggest that funds with increased distance add about $1.4 to $2.2 million less economic value per year. Although these differences are economically sizable, they are not statistically significant. Hence, we cannot conclude that one set of funds performs systematically better than the other.

6 Evidence from Non-U.S. Investors

So far, we have documented that partisan perception affects the behavior of U.S. banks and U.S. international equity mutual funds. Does partisan perception also affect the cross-border capital allocation of non-U.S. investors? In this section, we provide supporting evidence from non-U.S. banks and non-U.S. international equity mutual funds, as well as from bilateral FDI flows.

6.1 Cross-Border Corporate Loans and International Equity Mutual Funds

In order to map the political ideology of non-U.S. banks and fund managers, we collect data on political contributions for 14 investor countries.[20] We match corporate donors to the names of non-U.S. banks, and individual donors to the names of non-U.S. international equity mutual fund managers. We find a reasonably large number of matches for Australia, Canada, and the United Kingdom for banks, as well as Canada and the United Kingdom for fund managers.[21] In total, we are able to study 41 non-U.S. banks and 66 non-U.S. fund managers. This sample is much more selective than the sample of U.S. investors, largely because political contributions are either less common or reporting thresholds are higher outside of the United States. It nevertheless allows us to provide some initial evidence on partisan perception among non-U.S. investors. The Internet Appendix provides details on the data collection, the matching procedure, and the match rate by country. For our analysis below, we focus on banks and mutual funds located in the United Kingdom and Canada in order to have a consistent set of countries across both settings. We report results including Australia for banks in the Internet Appendix.

[20] The investor countries from our sample that make contributions data publicly available are: Australia, Austria, Brazil, Canada, Denmark, Finland, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Sweden, and the United Kingdom.

[21] We require at least 5 matched banks or matched mutual fund managers in a given country.

Table 7 presents the results. In Panel A, we analyze corporate loans. We control for a similar set of fixed effects as in Table 2, changing only bank fixed effects to home country fixed effects. The coefficient in Panel A, column (1) reveals a negative effect of an increase in ideological distance on lending volume. However, the coefficient declines substantially with the inclusion of additional fixed effects and even switches sign in column (4). Non-U.S. banks, therefore, do not seem to exhibit signs of partisan perception. In Panel B, we repeat the analysis for non-U.S. mutual funds. Here, we observe a robust, negative relationship between an increase in ideological distance and the excess portfolio weight, suggesting that at least some non-U.S. fund managers are also influenced by their ideological alignment.

These results are subject to more caveats than our analysis of U.S. investors. Most notably, our sample is much more selective because we are able to link relatively few banks and fund managers to political contributions. This is due to limited data availability and higher reporting thresholds outside of the United States. Despite these data limitations, our results represent the first evidence in the literature to indicate that ideological alignment also affects decisions of non-U.S. investors.

6.2 Foreign Direct Investment

As a final step, we study whether the ideological distance between countries can help explain patterns in bilateral foreign direct investment (FDI) flows. Analyzing FDI flows has the advantage that we are able to study the importance of ideological alignment at a more aggregate level. We can compute ideological distance for any country pair using the ideology score of the two parties in power, as long as both countries are covered in the Manifesto data. The main drawback of studying FDI flows is that, since it is an aggregate measure of investment and not an investor-level measure of investment, we cannot exploit within-country-and-time variation in FDI. This increases the set of potential omitted variables and requires us to make stronger assumptions to interpret the evidence as causal.

We obtain FDI data from the Bilateral FDI Statistics database of the United Nations Conference on Trade and Development (UNCTAD), which covers the time period from 2001 to 2012.[22] We restrict the set of outflow and inflow countries to countries covered in the Manifesto database. Our final regression sample covers bilateral FDI flows for 52 outflow and inflow countries. We will refer to outflow countries as the "home country" and to inflow countries as the "destination country." We estimate the following regression:

$$FDI_{hct} = \alpha_{hc} + \alpha_{ht} + \alpha_{ct} + \beta Distance_{hc,t-1} + \epsilon_{hct}, \tag{8}$$

[22]We thank Christensen, Maffett, and Rauter (2020) for sharing with us their FDI flow data.

where FDI_{hct} refers to the bilateral FDI flow from home country h to destination country c in year t. Following Julio and Yook (2016), we define FDI flows as the bilateral FDI flow in USD divided by the USD-GDP of the destination country. $Distance_{hc,t-1}$ refers to the ideological distance between the elected parties in countries h and c at the end of year $t-1$. Standard errors are double-clustered at the home country and destination country level.

Table 8 reports the results. We find that greater ideological distance between two countries is associated with lower FDI flows. In the strictest specification, reported in column (2), we include all three sets of fixed effects. This allows us to rule out that ideological alignment could be correlated with other persistent differences across country-pairs, such as cultural, religious or linguistic proximity. It also allows to exclude the possibility that unobserved economic shocks in the home country or destination country are driving the effect. In terms of economic magnitude, the results in column (2) imply that a one-standard-deviation larger ideological distance is associated with 0.63 (=1.1×0.57) percentage points lower FDI flows. Relative to the average FDI flow of 8.8 percentage points, this is a sizable effect.

The FDI analysis also allows us to investigate whether ideological distance matters only for FDI flows originating from the U.S., or whether it matters for a broader set of countries. In columns (3) to (4), we exclude any country-pair that involves the United States. The point estimate remains very similar, indicating that partisan perception represents a global, rather than a U.S.-specific, phenomenon.

7 Conclusion

We explore whether partisan perception shapes international capital flows. We provide evidence from two independent settings, syndicated corporate loans and international equity mutual funds, to show that the economic effects of partisan perception transcend national borders. Investors who are ideologically more aligned with a foreign government allocate more 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. Moreover, we show that partisan perception also affects cross-border capital allocation by non-U.S. investors, and ideological alignment between countries can help explain patterns in bilateral FDI flows. In sum, our findings imply that ideological alignment is an important, omitted factor in models of international capital flows.

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.

Addoum, Jawad M., and Alok Kumar, 2016, Political sentiment and predictable returns, *Review of Financial Studies* 29, 3471–3518.

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.

Barrios, John Manuel, and Yael V. Hochberg, 2020, Risk perception through the lens of politics in the time of the Covid-19 pandemic, *Journal of Financial Economics* forthcoming.

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

Bhattacharya, Utpal, and Peter Groznik, 2008, Melting pot or salad bowl: Some evidence from u.s. investments abroad, *Journal of Financial Markets* 11, 228–258.

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, 2017, Is the internet causing political polarization? Evidence from demographics, *National Bureau of Economic Research Working Paper* 23258.

——— , 2020, Cross-country trends in affective polarization, *National Bureau of Economic Research Working Paper* 26669.

Brunnermeier, Markus, Jose De Gregorio, Barry Eichengreen, Mohamed El-Erian, and Arminio Fraga, 2012, Banks and cross-border capital flows: Policy challenges and regulatory responses, *"Committee on International Economic Policy and Reform"*.

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

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 Adjustment in the Aftermath of the Global Crisis 2008-09: New Global Order?

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.

Chodorow-Reich, Gabriel, 2013, 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.

Christensen, Hans B., Mark G. Maffett, and Thomas Rauter, 2020, Policeman for the world: The impact of extraterritorial FCPA enforcement on foreign investment and internal controls, Working Paper.

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

Curtin, Richard, 2016, Economic policy preferences, *Survey of Consumers, University of Michigan, November*.

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

Doerr, Sebastian, and Philipp Schaz, 2021, Geographic diversification and bank lending during crises, *Journal of Financial Economics* 140, 768–788.

Fos, Vyacheslav, Elisabeth Kempf, and Margarita Tsoutsoura, 2021, The political polarization of U.S. firms, *Working Paper*.

Gadanecz, Blaise, and Karsten von Kleist, 2002, Do syndicated credits anticipate BIS consolidated banking data, *BIS Quarterly Review March* 65–74.

Gaines, Brian J., James H. Kuklinski, Paul J. Quirk, Buddy Peyton, and Jay Verkuilen, 2007, Same facts, different interpretations: Partisan motivation and opinion on Iraq, *The Journal of Politics* 69, 957–974.

Gentzkow, Matthew, 2016, Polarization in 2016, *Toulouse Network of Information Technology White Paper*.

Gerber, Alan S., and Gregory A. Huber, 2009, Partisanship and economic behavior: Do partisan differences in economic forecasts predict real economic behavior?, *American Political Science Review* 103, 407—426.

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

Gillitzer, Christian, and Nalini Prasad, 2018, The effect of consumer sentiment on consumption: Cross-sectional evidence from elections, *American Economic Journal: Macroeconomics* 10, 234–269.

Gormley, Todd A., Mahsa Kaviani, and Hosein Maleki, 2020, Are judges like umpires? Political affiliation and corporate prosecutions, *Working Paper*.

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.

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

Hale, Galina, Tumer Kapan, and Camelia Minoiu, 2019, Shock transmission through cross-border bank lending: Credit and real effects, *Review of Financial Studies* 33, 4839–4882.

Hau, Harald, and Helene Rey, 2008, Home bias at the fund level, *American Economic Review* 98, 333–38.

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

Hutton, Irena, Danling Jiang, and Alok Kumar, 2014, Corporate policies of Republican managers, *Journal of Financial and Quantitative Analysis* 49, 1279–1310.

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

Iyengar, Shanto, Gaurav Sood, and Yphtach Lelkes, 2012, Affect, not ideology, *Public Opinion Quarterly* 76, 405–431.

Jagannathan, Murali, Wei Jiao, and George Andrew Karolyi, 2017, Is there a home field advantage in global markets?, *Available at SSRN 3068322*.

Jeong, Gyung-Ho, and Paul J. Quirk, 2019, Division at the water's edge: The polarization of foreign policy, *American Politics Research* 47, 58–87.

Jiang, D., A. Kumar, and Kelvin Law, 2016, Political contributions and analyst behavior, *Review of Accounting Studies* 21, 37–88.

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

Kaustia, Markku, and Sami Torstila, 2011, Stock market aversion? Political preferences and stock market participation, *Journal of Financial Economics* 100, 98–112.

Kelly, Bryan, Ľuboš Pástor, 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, 2020, Partisan professionals: Evidence from credit rating analysts, *Journal of Finance* forthcoming.

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.

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

Ma, Zhiming, Derrald Stice, Florin P. Vasvari, and Yue Zhang, 2020, Bilateral political relationships and cross-border lending, *Working Paper*.

Mason, Lilliana, 2013, The rise of uncivil agreement: Issue versus behavioral polarization in the American electorate, *American Behavioral Scientist* 57, 140–159.

——— , 2015, "I disrespectfully agree": The differential effects of partisan sorting on social and issue polarization, *American Journal of Political Science* 59, 128–145.

McCartney, W.Ben, and Calvin Zhang, 2019, Short selling: Political affiliation and households' real estate decisions, *Working Paper*.

Meeuwis, Maarten, Jonathan A. Parker, Antoinette Schoar, and Duncan I. Simester, 2018, Belief disagreement and portfolio choice, *National Bureau of Economic Research Working Paper* 25108.

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

Mian, Atif R., Amir Sufi, and Nasim Khoshkhou, 2018, Partisan bias, economic expectations, and household spending, *The Review of Economics and Statistics* forthcoming.

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.

Rice, Anthony, 2020, Partisan investment cycles, *Working Paper*.

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

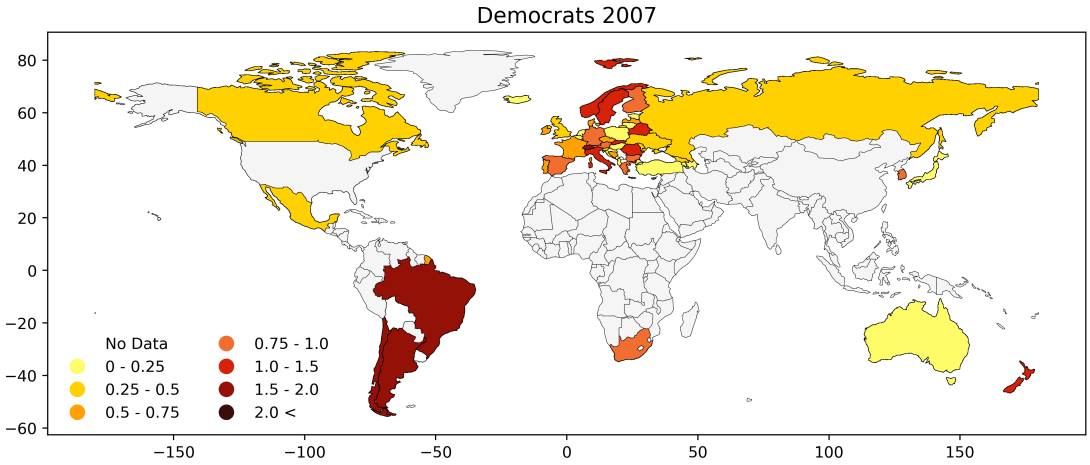
Schwert, Michael, 2018, Bank capital and lending relationships, *Journal of Finance* 73, 787–830.

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

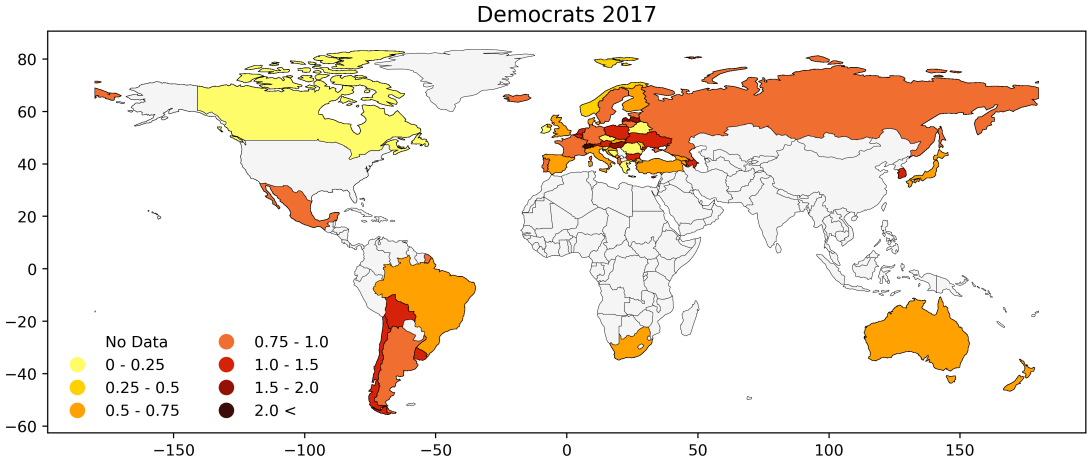
Volkens, Andrea, Pola Lehmann, Theres Matthieß, Nicolas Merz, Sven Regel, and Bernhard Weßels, 2018, The manifesto data collection. Manifesto project (mrg/cmp/marpor) Version 2018a, Wissenschaftszentrum Berlin für Sozialforschung.

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.



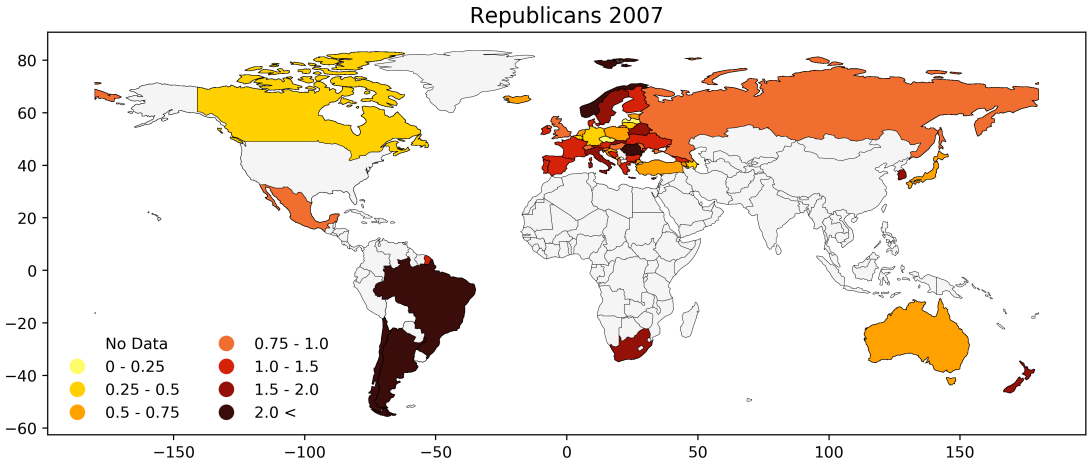
A. 2007



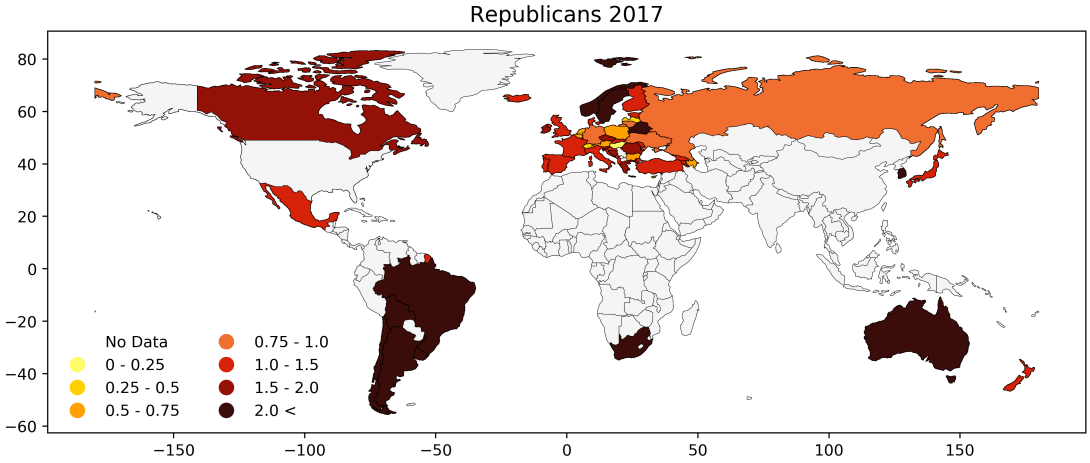
B. 2017

Figure 1: **Ideological Distance Between 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.



A. 2007



B. 2017

Figure 2: **Ideological Distance Between 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.

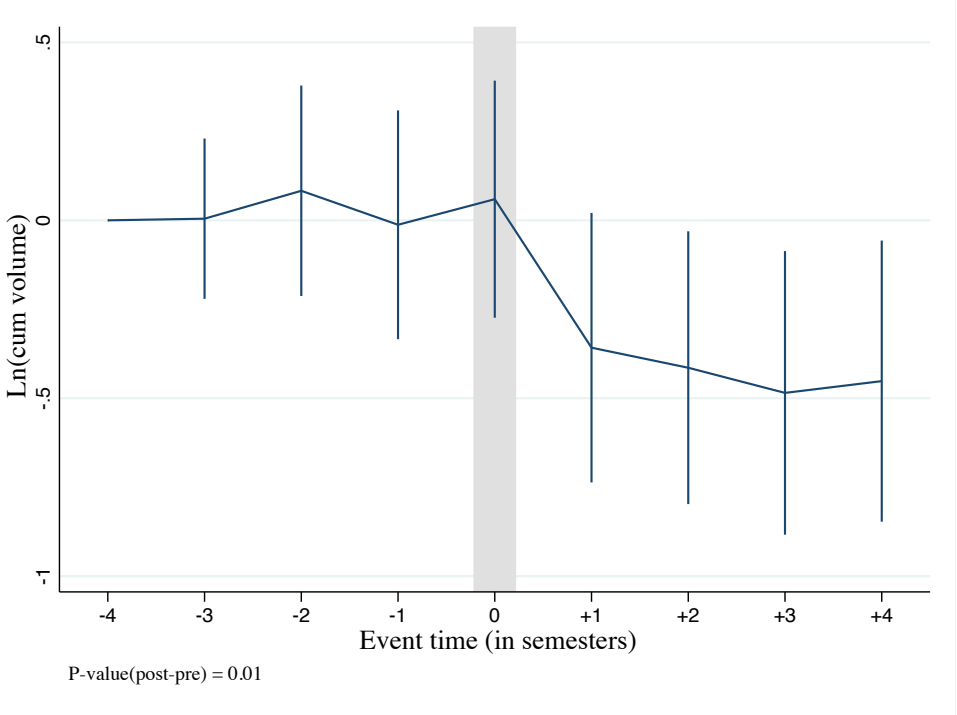


Figure 3: **Cross-Border Corporate Loan Issuance Around Foreign Elections**

The figure plots the difference in the cumulative 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 (3) for the 9-half-year window around elections. The dependent variable is the natural logarithm of one plus the cumulative dollar loan issuance volume from $\tau = -4$ to τ. We include election $\times$ time, bank $\times$ election, and bank $\times$ time fixed effects. The corresponding 95% confidence intervals are based on standard errors that are clustered at the bank $\times$ destination country level.

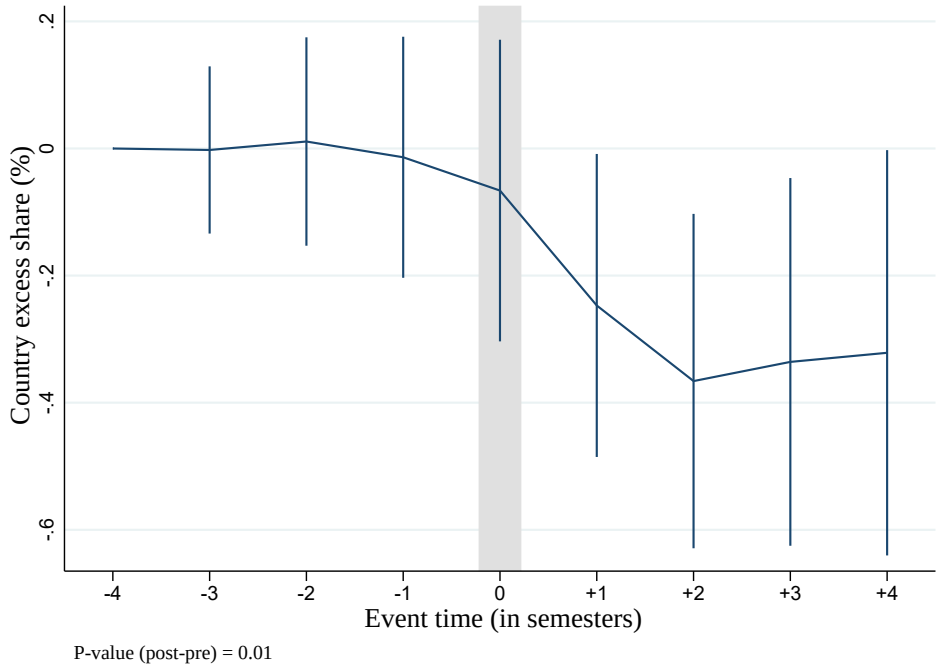


Figure 4: **International Mutual Fund Investments Around Foreign Elections**

The figure plots the difference in excess portfolio weights between U.S. international equity funds experiencing an increase versus a decrease in ideological distance around a foreign election. We plot the coefficients β_τ from equation (3) for a 9-half-year window around elections. The dependent variable is the excess portfolio weight. We include election $\times$ time, fund $\times$ election, and fund $\times$ time fixed effects. The corresponding 95% confidence intervals are based on standard errors that are clustered at the fund $\times$ destination country level.

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

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

Panel A: Panel Dataset

	Count	Mean	SD	P25	Median	P75
	(1)	(2)	(3)	(4)	(5)	(6)
Political Ideology Variables						
Distance Increase	19,174	0.54	0.50	0.00	1.00	1.00
Corporate Lending						
Loan Volume ($ in millions)	19,174	170.98	625.33	0.00	0.00	45.00
Ln(Volume)	19,174	1.59	2.56	0.00	0.00	3.83
Loan Number	19,174	2.00	5.69	0.00	0.00	1.00
Ln(Number)	19,174	0.49	0.88	0.00	0.00	0.69

Panel B: Loan-Level Dataset

	Count	Mean	SD	P25	Median	P75
	(1)	(2)	(3)	(4)	(5)	(6)
Political Ideology Variables						
Distance Increase	25,141	0.59	0.49	0.00	1.00	1.00
Loan Characteristics						
Loan Spread (in bp)	25,141	208.20	166.41	75.00	175.00	300.00
Loan Amount ($ in millions)	24,853	75.58	96.99	16.67	40.85	94.78
Maturity (in months)	24,873	55.64	26.78	36.00	60.00	72.00
Secured	25,141	0.40	0.49	0.00	0.00	1.00
Default	16,289	0.05	0.22	0.00	0.00	0.00
Firm Characteristics						
Log(Total Assets)	9,726	8.99	1.57	7.95	9.30	10.32
Leverage	9,726	0.62	0.22	0.50	0.61	0.73
Tobin's Q	8,991	1.68	1.38	1.07	1.32	1.80
Market to Book Ratio	8,984	3.56	19.98	1.16	1.83	3.07
EBITDA over Sales	9,677	0.21	0.26	0.12	0.19	0.31
Investment Grade Firm	25,141	1.23	0.79	1.00	1.00	2.00
Rating Category	25,141	1.77	1.18	1.00	1.00	3.00

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

The table reports the estimates of equation (2) using cross-border corporate loan issuance by U.S. banks. In columns (1) to (3), the dependent variable is the natural logarithm of one plus the dollar loan issuance volume to destination country c by bank i in half-year t. In columns (4) to (6), the dependent variable is the natural logarithm of one plus the number of loans issued. *Distance Increase* is an indicator equal to one if the ideological distance between a bank i's party 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 $\tau = -1$). The economic effect is calculated as the reported coefficient divided by the mean of the dependent variable. t-statistics, reported in parentheses, are based on standard errors that are clustered at the bank × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	Volume			Number		
	(1)	(2)	(3)	(4)	(5)	(6)
Distance Increase × Post	-0.250**	-0.232**	-0.238***	-0.086**	-0.088***	-0.096***
	(-2.36)	(-2.53)	(-2.96)	(-2.41)	(-2.79)	(-3.47)
Economic Effect (%)	-22.13	-20.73	-21.18	-8.20	-8.47	-9.12
Election × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Bank × Election FE	No	Yes	Yes	No	Yes	Yes
Bank × Time FE	No	No	Yes	No	No	Yes
R^2	0.171	0.753	0.774	0.187	0.809	0.829
N	19,174	19,173	19,124	19,174	19,173	19,124

Table 3: **Cross-Border Corporate Loan Issuance and Election Heterogeneity**

The table reports the estimates of equation (2) using cross-border corporate loan issuance by U.S. banks and adding an interaction term with election characteristics. The dependent variable is the natural logarithm of one plus the dollar loan issuance volume to destination country c by bank i in half-year t. *Distance Increase* is an indicator equal to one if the ideological distance between a bank i's party 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 $\tau = -1$). Column (1) interacts the variable of interest with a dummy for close elections, defined as elections with a victory margin in the bottom quartile across all elections. Column (2) interacts the variable of interest with the standardized natural logarithm of the number of election news articles. t-statistics, reported in parentheses, are based on standard errors that are clustered at the bank × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	Volume	
	(1)	(2)
Distance Increase × Post	-0.142	-0.185**
	(-1.45)	(-2.35)
Distance Increase × Post × Close Election	-0.374**	
	(-2.12)	
Distance Increase × Post × News Coverage		-0.174*
		(-1.95)
Election × Time FE	Yes	Yes
Bank × Election FE	Yes	Yes
Bank × Time FE	Yes	Yes
R^2	0.774	0.775
N	19,124	18,590

Table 4: **Cross-Border Corporate Loan Pricing and Loan Performance**

The table reports the estimates of equation (2) after replacing the dependent variable with the all-in-drawn load spread over LIBOR (Panel A) and an indicator for borrower defaults (Panel B), respectively. *Distance Increase* is an indicator equal to one if the ideological distance between a bank i's party 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 $\tau = -1$). Firm control variables that are lagged by one year include the natural logarithm of total assets, leverage ratio, market-to-book ratio, Tobin's Q, and EBITDA over sales ratio. Loan-level control variables include the natural logarithm of loan volume, the natural logarithm of loan maturity, an indicator whether the loan is secured, as well as loan type indicators (and, in Panel B, the natural logarithm of the all-in-spread-drawn). Firm cluster is defined as risk category (A-letter, B-letter, C-letter rating, or not rated) × industry (SIC 1) × destination country. t-statistics, reported in parentheses, are based on standard errors that are double clustered at the bank × destination country and firm level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Loan Pricing

	Loan Spread		
	(1)	(2)	(3)
Distance Increase × Post	16.425***	17.814***	13.288***
	(9.68)	(5.40)	(3.27)
Firm Controls	No	Yes	Yes
Loan Controls	No	No	Yes
Firm Cluster × Election × Time FE	Yes	Yes	Yes
Bank × Election FE	Yes	Yes	Yes
Bank × Time FE	Yes	Yes	Yes
R^2	0.679	0.687	0.736
N	22,985	22,985	22,492

Panel B: Loan Performance

	Default		
	(1)	(2)	(3)
Distance Increase × Post	-0.007	-0.002	-0.002
	(-0.40)	(-0.11)	(-0.11)
Firm Controls	No	Yes	Yes
Loan Controls	No	No	Yes
Firm Cluster × Election × Time FE	Yes	Yes	Yes
Bank × Election FE	Yes	Yes	Yes
Bank × Time FE	Yes	Yes	Yes
R^2	0.634	0.649	0.657
N	15,232	15,232	15,232

Table 5: **International Mutual Fund Investments around Foreign Elections**

The table reports the estimates of equation (2) for U.S. international equity mutual funds. The dependent variable is the excess portfolio weight of fund i in destination country c at the end of half-year t, in percentage points. *Distance Increase* is an indicator equal to one if the ideological distance between fund i's party 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 $\tau = -1$). The economic effect is calculated as the reported coefficient divided by the mean of the dependent variable. t-statistics, reported in parentheses, are based on standard errors that are clustered at the fund × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	Excess Weight		
	(1)	(2)	(3)
Distance Increase × Post	-0.226***	-0.232***	-0.246***
	(-2.62)	(-2.81)	(-2.78)
Economic Effect (%)	-4.77	-4.90	-5.21
Election × Time FE	Yes	Yes	Yes
Fund × Election FE	No	Yes	Yes
Fund × Time FE	No	No	Yes
R^2	0.042	0.826	0.848
N	52,547	52,543	52,278

Table 6: **Fund Performance around Foreign Elections**

The table reports the estimates of equation (2) for U.S. international equity mutual funds, after replacing the dependent variable with benchmark-adjusted holdings returns, in percentage points (columns (1) to (3)), and economic value added (columns (4) to (6)). *Distance Increase* is an indicator equal to one if the ideological distance between a fund i's party 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 $\tau = -1$). t-statistics, reported in parentheses, are based on standard errors that are clustered at the fund × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	Benchmark-Adjusted Returns			Value Added		
	(1)	(2)	(3)	(4)	(5)	(6)
	Market	ETF	Local funds	Market	ETF	Local funds
Distance Increase × Post	-0.276	-0.261	-0.318	-0.701	-0.903	-1.144
	(-0.92)	(-0.84)	(-1.03)	(-0.73)	(-0.87)	(-1.13)
Election × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Fund × Election FE	Yes	Yes	Yes	Yes	Yes	Yes
Fund × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.421	0.412	0.422	0.350	0.347	0.354
N	40,713	39,348	40,206	40,713	39,348	40,206

Table 7: **Non-U.S. Investors**

The table reports the estimates of (2) for banks and fund managers located in Canada and the UK. *Distance Increase* is an indicator equal to one if the ideological distance between a bank (fund) i's party 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 $\tau = -1$). t-statistics, reported in parentheses, are based on standard errors that are clustered at the bank (fund) × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Cross-Border Corporate Loans

	Volume			
	(1)	(2)	(3)	(4)
Distance Increase × Post	-0.622**	-0.199	-0.118	0.065
	(-2.03)	(-0.82)	(-0.45)	(0.34)
Election × Time FE	Yes	Yes	Yes	Yes
Home Country × Election FE	No	Yes	Yes	No
Home Country × Time FE	No	No	Yes	No
Bank × Election FE	No	No	No	Yes
Bank × Time FE	No	No	No	Yes
R^2	0.386	0.478	0.482	0.810
N	8,169	8,162	8,162	8,025

Panel B: International Equity Mutual Funds

	Excess Weight			
	(1)	(2)	(3)	(4)
Distance Increase × Post	-1.065***	-0.928**	-0.959**	-0.697**
	(-2.68)	(-2.45)	(-2.56)	(-2.14)
Election × Time FE	Yes	Yes	Yes	Yes
Home Country × Election FE	No	Yes	Yes	No
Home Country × Time FE	No	No	Yes	No
Fund × Election FE	No	No	No	Yes
Fund × Time FE	No	No	No	Yes
R^2	0.070	0.172	0.173	0.890
N	8,810	8,810	8,810	8,756

Table 8: **FDI Flows**

The table regresses bilateral FDI flows on the ideological distance between countries. The dependent variable is the dollar-FDI flow divided by the GDP of the destination country. *Distance* refers to the absolute difference in the ideology score between the elected parties in the two countries, obtained from the Manifesto database. *t*-statistics, reported in parentheses, are based on standard errors that are double-clustered at the home country and destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	FDI Flow			
	(1)	(2)	(3)	(4)
Distance	-0.014*	-0.011**	-0.018***	-0.011**
	(-1.96)	(-2.22)	(-2.78)	(-2.37)
Home × Destination Country FE	Yes	Yes	Yes	Yes
Destination Country × Year FE	Yes	Yes	Yes	Yes
Home Country × Year FE	No	Yes	No	Yes
Exclude U.S.	No	No	Yes	Yes
R^2	0.464	0.487	0.469	0.491
N	14,887	14,887	14,433	14,433

A Appendix

A.1 Variable Definitions

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

Variable	Description
Dependent variables	
Ln(Volume)	The natural logarithm of one plus the total loan volume issued by a bank in a destination country and half-year, obtained from Dealscan.
Ln(Number)	The natural logarithm of one plus the total number of loans issued by a bank in a destination country and half-year, obtained from Dealscan.
Loan spread	The all-in-drawn loan spread over LIBOR on a loan, obtained from Dealscan.
Default	Indicator equal to one if a borrower is downgraded to a default rating ("D" or "SD") during the course of the loan, based on S&P ratings.
Main independent variables	
Distance increase	Indicator equal to one if the distance change between the bank and the destination country from $\tau = 0$ to $\tau = -1$ is greater or equal to zero, and zero otherwise. To calculate the distance, we use the ideology of the bank as of $\tau = -1$.
Close election	Indicator equal to one if the victory margin of an election is in the bottom quartile across all elections in our sample, and zero otherwise.
News coverage	The logarithm of English-speaking news articles on a given election obtained from Factiva. The variable is standardized to have a mean of zero and a standard deviation of one.
Firm control variables	
Ln(Assets)	The natural logarithm of total book assets of a firm lagged by one year. Total book assets are obtained from Compustat (at).
Leverage	Leverage ratio of a firm lagged by one year, obtained from Compustat (lt/at).
Tobin's Q	The Tobin's Q of a firm lagged by one year, obtained from Compustat ((lt $\times$ $\text{prcc}_c\times$ csho)/at).
Market-to-book ratio	The market-to-book ratio lagged by one year, obtained from Compustat ($\text{prcc}_c\times$ csho/(at-lt).
EBITDA over Sales	The EBITDA over sales ratio lagged by one year, obtained from Compustat (ebitda/sale).
Investment grade firm	Equal to one if the firm is an investment grade firm; two if the firm is unrated, and zero if the firm is non-investment grade at loan issuance. Ratings are obtained from S&P.
Rating category	Equal to zero if a firm has an A-letter rating, one for a B-letter rating, two for a C/D-letter rating, and 3 if the firm is unrated at loan issuance. Ratings are obtained from S&P.
Loan control variables	
Loan amount	Loan amount in U.S. dollars, obtained from Dealscan.
Maturity	Loan maturity in months, obtained from Dealscan.
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: **International Mutual Funds: Variable Descriptions**

Variable	**Description**
Dependent variables	
Excess weight	The portfolio weight in excess of the average portfolio weight of all funds belonging to the same investment style in a given country. Measured in percentage points. Section 5.1 provides the detailed variable construction. Return data is obtained from FactSet.
Market-adj. return	The raw holdings return minus the benchmark return, where the benchmark portfolio includes all stocks from the given destination country. Measured in percentage points. Section 5.1 provides detailed variable construction. Return data is obtained from FactSet.
ETF-adj. return	The raw holdings return minus the benchmark return where the benchmark portfolio is constructed from the holdings of all physical-replication ETF and passive index funds that track the same benchmark of fund i. Measured in percentage points. Section 5.1 provides the detailed variable construction. Return data is obtained from FactSet.
Local funds-adj. return	The raw holdings return minus the benchmark return where the benchmark portfolio is constructed from the domestic holdings of all active equity funds managed in the given destination country. Measured in percentage points. Section 5.1 provides the detailed variable construction. Return data is obtained from FactSet.
Value added	The benchmark-adjusted holdings return multiplied by the fund's TNA (in USD million). Section 5.1 provides the detailed variable construction. Return data is obtained from FactSet.
Main independent variables	
Distance increase	Indicator equal to one if the ideological distance change between the fund and the foreign country from $\tau = 0$ to $\tau = -1$ is greater or equal to zero, and zero otherwise. To calculate ideological distance, we use the ideology of the management team as of $\tau = -1$. Section 5.1 provides the detailed variable construction.