DOES POLITICAL PARTISANSHIP CROSS BORDERS?
EVIDENCE FROM INTERNATIONAL CAPITAL FLOWS

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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 ideological alignment with
foreign governments affects the cross-border capital allocation by U.S. institutional investors.
Our empirical strategy ensures direct economic effects of foreign elections or government ties
between countries are not driving the result. Ideological alignment with foreign countries may
also affect capital allocation of non-U.S. investors and can explain patterns in bilateral
investment. Combined, our findings imply partisan perception is a global phenomenon and its
economic effects transcend national borders.

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1 Introduction

A significant body of work in political science and economics has documented a rising partisan divide in the U.S. (e.g., Iyengar, Sood, and Lelkes (2012); Mason (2013); Mason (2015); Gentzkow (2016); Boxell, Gentzkow, and Shapiro (2017); Fos, Kempf, and Tsoutsoura (2021)).[1] In particular, voters have an increased tendency to view the economy through a "partisan perceptual screen"; that is, their views of economic conditions are influenced by whether the White House is occupied by the party they support.[2] Recent work shows this partisan perception influences not only the economic decisions of households, but also those of more sophisticated individuals and in high-stakes environments, such as credit analysts (Kempf and Tsoutsoura (2021)), loan officers (Dagostino, Gao, and Ma (2020)), executives (Rice (2020)), entrepreneurs (Engelberg, Guzman, Lu, and Mullins (2021)), and mutual fund managers (Cassidy and Vorsatz (2021)).[3] However, we have a limited understanding of the scope of the economic implications of the partisan-perception phenomenon. In particular, no evidence exists to date regarding whether partisan perception transcends national borders, which could lead to distortions in capital allocation on a much larger scale. 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 consideration is important for several reasons. First, it is not obvious that investors are as polarized over foreign politics as they are over domestic issues. In the U.S., a long-standing belief is that partisan disputes should be internal matters and stop at

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

[2]See, for example, Bartels (2002), Gaines, Kuklinski, Quirk, Peyton, and Verkuilen (2007), Gerber and Huber (2009), Curtin (2016), Mian, Sufi, and Khoshkhou (2017), Coibion, Gorodnichenko, and Weber (2020)).

[3]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 (2017)).

the nation's border.[4] 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 domestic capital allocation but also cross-border capital flows, the economic effects of partisan perception are much broader than previously thought. Third, the extent to which the domestic partisan alignment effect reflects partisan animosity (i.e., pessimism induced by the other "team" being in power) or partisan disagreement about the effectiveness of different government policies (irrespective of which team implements them) has remained an open question. If partisan alignment matters in international contexts as well, this finding points toward disagreement about policies being the main driver of the effect, unless partisan investors adopt a very broad definition of who is on their team. Hence, studying international capital allocation also allows us to make progress on understanding the potential mechanisms behind the partisan-perception phenomenon.

In this paper, we provide the first evidence that partisan perception of private investors also matters in international contexts. Using two independent settings, syndicated corporate loans and equity mutual funds, we show 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, because they speak to an important part of cross-border capital flows. They further allow us to observe private capital flows at the level of an individual investor, that is, a bank or a mutual fund, whom we can then link to political affiliations, using political contributions or voter registration records.[5]

Isolating the effect of ideological alignment with foreign governments on capital-allocation decisions is empirically challenging for two main reasons. First, the ideological alignment

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[4]For example, U.S. Senator Vandenberg famously stated during the cold war that "we must stop partisan politics at the water's edge." Despite this long held view, Jeong and Quirk (2019) find evidence of foreign policy polarization between Democrats and Republicans in the Senate.

[5]Syndicated loans represent around three-quarters of total cross-border lending to non-financial corporations (Gadanecz and von Kleist (2002); Chodorow-Reich (2014); Cerutti, Hale, and Minoiu (2015); Doerr and Schaz (2021)). According to the 2021 Fact Book of Investment Company Institute (ICI), as of 2020, the U.S. open-ended mutual fund industry managed about $29 trillion assets, of which approximately 15% were invested abroad (Hau and Rey (2008)).

between an investor and a destination country could correlate with other measures of proximity, such as cultural, lingual, or religious commonalities (e.g., Fisman, Paravisini, and Vig (2017)). Second, expected investment returns in the destination country may be directly affected by changes in government policies or political uncertainty (e.g., Pastor and Veronesi (2012)). To address these challenges, our empirical strategy examines changes in the capital allocation by partisan investors from the *same home country* investing in the *same destination country* around the *same foreign national election*. The following thought experiment illustrates our empirical approach. Assume two U.S. banks, one Republican and one Democratic, 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 Democratic bank. We can then compare the change in lending to Canadian firms by the two banks before and after the election, using a difference-in-differences design.

Our main 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 in polarization over recent decades (Boxell, Gentzkow, and Shapiro (2020)). The first setting we analyze covers cross-border syndicated corporate loans. An important advantage of the corporate loan setting is that prior literature has established a direct link between the supply of syndicated loans and the real economy (e.g., Chodorow-Reich (2014); Acharya, Eisert, Eufinger, and Hirsch (2018)). We use banks' political contributions to infer their ideological leaning and compute their ideological distance to elected foreign parties, using the left-right ideology score from the Manifesto Project Database (Volkens, Lehmann, Matthieß, Merz, Regel, and Weßels (2018)). We find that, when a bank experiences an increase in ideological distance after a foreign election, it reduces its lending volume by 22% and the number of loans by 10%, relative to banks experiencing a decrease in distance. The magnitude of this effect is comparable to the flight-home effect documented in Giannetti

and Laeven (2012). We further document a decrease in the loan quantity provided by misaligned banks even *within the same loan.* This result is important because it allows us to rule out that the relative decline in loan quantity is driven by differences in borrower demand. In terms of loan pricing, we find a sizable, positive effect of ideological distance on loan spreads. An increase in ideological distance is associated with a 13.9% increase in loan spreads, which translates to approximately 30 basis points for the average loan in our sample. We further show that the effect on loan spreads is stronger for relationship banks, which have greater market power vis-à-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 Democratic banks, rather than differences in the riskiness of their borrowers.

The second setting we study is international equity mutual funds. The mutual fund setting is convenient in that 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)). We find that, when the ideological distance between a 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 26 basis points, relative to a fund that experiences a decrease in distance. The granularity of the mutual fund holdings data further allows us to compare capital allocation within the same security, ensuring our results are not driven by differences in the types of securities held by Republican and Democrat fund managers.

We argue the mechanism behind the observed differences in capital allocation is cross-partisan heterogeneity in investors' beliefs about aggregate economic conditions in the destination country (see Kempf and Tsoutsoura (2021) and Meeuwis, Parker, Schoar, and Simester (2018)). To further strengthen this interpretation, we study changes in banks'

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GDP growth forecasts around foreign elections. We find banks that experience an increase in ideological distance are more likely to revise their one-year-ahead GDP growth forecasts downward, relative to banks with a decrease in distance. In addition to supporting the mechanism, the GDP forecast result is interesting in its own right. To the best of our knowledge, it represents the first evidence of partisanship affecting professional forecasts around political elections.

Our main tests establish relative differences in capital supply between investors who experience an increase versus decrease in ideological distance. Does partisan perception also affect the net supply of capital? To explore this question, we study how ideological distance is associated with capital flows at a more aggregate level. First, we examine aggregate syndicated loan issuance by U.S. banks at the industry level. We find that in industries with a larger fraction of ideologically misaligned banks, a larger reduction in loan-issuance volume occurs around the election. This result is consistent with ideologically aligned banks not being able to increase their loan supply sufficiently to compensate for the reduction in capital supply by misaligned banks. Next, we show that ideological distance between two countries is negatively correlated with bilateral portfolio positions and bilateral foreign direct investment (FDI) flows. A one-standard-deviation greater ideological distance between the governing party in two countries is associated with 3.7% lower portfolio positions and 6.8% lower FDI flows. A caveat in this analysis is that we cannot exploit within-country variation as in our main tests. This increases the set of potential omitted variables and requires us to make stronger assumptions to interpret the evidence as causal.

Finally, we extend our analysis to *non-U.S.* investors. We infer the party affiliation of non-U.S. investors using novel, hand-collected data on political contributions from Canada and the United Kingdom (U.K.). The resulting evidence is mixed. Non-U.S. banks experience no significant effect of ideological alignment, consistent with political polarization being less pronounced outside the U.S. (Boxell, Gentzkow, and Shapiro (2020)). Neverthe-

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less, for non-U.S. fund managers, we do find an economically and statistically significant effect. This finding might be due to higher reporting thresholds for political contributions in the U.K., which may lead us to capture more partisan individuals. Understanding the sources of cross-country variation in the economic influence of political partisanship is a fruitful avenue for future research in our view.

Taken together, our results portray a compelling picture of partisan perception transcending national borders and shaping cross-border investments. The economic effects of partisan perception are thus much broader than previously thought. Our results also imply ideological alignment is an important, omitted factor in models of international capital flows and provide a new perspective on the macroeconomic risk of political election outcomes. In particular, our results suggest that even elections of fairly moderate political parties can trigger large changes in 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 (2021), Dagostino, Gao, and Ma (2020), and Cassidy and Vorsatz (2021) show political alignment with the domestic party in power also affects the rating decisions by U.S. credit analysts, corporate loan spreads charged by U.S. loan officers, and investments by professional money managers. Related, Wintoki and Xi (2020) find fund managers are more likely to allocate assets to firms whose leadership shares their political affiliation, and Duchin, Farroukh, Harford, and Patel (2019) show firms are more likely to merge if their employees have similar political attitudes. Our

contribution, relative to these studies, is to document that partisan alignment is not a U.S.-specific phenomenon and matters in international contexts as well. Specifically, we show 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.

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 FDI flows are lower around elections, due to policy uncertainty. Finally, Azzimonti (2019) finds a negative relationship between partisan conflict among U.S. lawmakers and private investment. In this study, we control for the channels of political uncertainty and partisan conflict among lawmakers by exploiting cross-sectional heterogeneity across investors around the same foreign election.

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. Guiso, Sapienza, and Zingales (2009) find cultural distance between countries reduces foreign direct investment. For bank lending, cultural distance between banks and their borrowers has been shown to lead to reduced lending by multinational banks (Mian (2006)) and to higher interest rates (Giannetti and Yafeh (2012)). For cross-border portfolio 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. Moreover, Bhattacharya and Groznik (2008) show U.S. investments in a foreign country are positively affected by the size of the foreign-origin group from that country living in the U.S.. Finally, Bottazzi, Da Rin, and Hellmann (2016) document that

the Eurobarometer measure of trust among nations positively predicts investment decisions by venture capital firms, and Ahern, Daminelli, and Fracassi (2015) find the volume of cross-border mergers is lower when countries are culturally more distant. In addition to cultural proximity between countries, a few papers have studied the importance of bilateral political relationships. Closer bilateral political relations have been shown to be associated with increased cross-border portfolio and direct investment flows (Gupta and Yu (2007)), as well as with increased cross-border M&A activity (Kose, Lin, and Qi (2016)). Moreover, cross-border investments benefit from heightened cooperation between securities regulators (Silvers (2021)). In this paper, we focus on variation in ideological proximity across investors from the same home country investing in the same destination country at the same point in time, 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, as well as for time-varying bilateral relationships between countries.

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 document 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)), Republican firm managers maintain more conservative corporate policies (Hutton, Jiang, and Kumar (2014)), and Republican-leaning lenders originate more climate-exposed loans (Zhang (2021)). 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

To measure the ideology of political parties across different countries, we use data from the Manifesto Project Database (MPD).[6]. 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 (Budge, Klingemann, Volkens, Bara, Tanenbaum, et al. (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 as the relative percentage of the manifesto talking about left versus right policy categories.[7] We provide more detailed information on the party ideology scores in the Internet Appendix, which is available on the authors' websites.

We also obtain election dates and the percentage of votes obtained by each party from the MPD. 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

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

[7]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 quasi-sentences assigned to left and right policy categories, respectively.

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 203 foreign elections covering 45 destination countries (excluding the U.S.) from 2002 to 2018.[8] Approximately half of these elections involve party changes. The average (median) margin of victory, that is, the absolute differences between the highest and the second-highest vote share, is 10.7 (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 in our sample; i.e., approximately 3 percentage points and less.

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 its "Open Secrets" database, aggregated at the bank level for each election cycle.[9] In any given year, we assign the party that has received more than 55% of a given bank's contributions during the most recent two-year election cycle as the bank's political party. If no party has received more than 55% contributions, we treat the bank's party as missing for that election cycle and use the most recent non-missing party affiliation.[10]

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 affiliations of the individual fund managers based on voter registration data. We obtain voter registration records from California (Contra Costa, Marin, San Francisco, San Mateo, Santa Clara, Sonoma), Colorado, Illinois, Massachusetts (Boston, Cambridge), New Jersey, New

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

[9]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.

[10]In the Internet Appendix, we show our results are robust to using a 50% or 60% cutoff for political contributions. We further document our main effect obtains when we use the party of the bank's CEO.

York (New York City), North Carolina, Ohio, and Texas. We restrict the sample to these locations because other states either do not provide voter registration data or they do not provide voter histories.[11] 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.

To identify party affiliations of non-U.S. investors, we manually collect donor-level data on political contributions for all countries that are among the top 20 investor countries in our sample and are also covered in the MPD. We are able to find data for 14 countries that meet these two criteria. We describe the contribution files in more detail in the Internet Appendix.

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 average (median) ideological distance score between Democratic or Republican party to foreign countries is 0.95 (0.87) and exhibits substantial variation both across Democratic 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, Democratic investors are closer to elected foreign parties than Republican investors, but substantial heterogeneity is present both across countries and over time. For example, Democratic investors tend to be substantially closer to the

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[11]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.

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. In about 34% of the elections in our sample, the change in ideological distance has the opposite sign for the Democratic Party and the Republican Party. This time variation in ideological distance, induced by elections in foreign countries, is precisely what we are exploiting in our main tests.

3.3 Other Data Sources

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

3.4 Empirical Strategy

This section describes the empirical framework used to identify the effect of ideological alignment with foreign governments on cross-border investment. We hypothesize that investors who are ideologically closer to the party in power in foreign country c have more positive expectations regarding the profitability of investment projects in country c. Thus, in the context of corporate loans, an ideologically distant bank may overestimate the likelihood of a borrower's default relative to an ideologically close bank. In the context of mutual funds, an ideologically distant fund manager may expect lower risk-adjusted returns for stocks in country c, than an ideologically close fund manager. As a result, the ideologically distant investor will invest less in country c, than the ideologically close investor. Moreover, an ideologically distant bank would—all else equal—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 Democratic or Republican investor and the elected party in the destination country could correlate with other measures of proximity, such as commonality of language, religion, or culture. Second, expected investment returns in the destination country may be directly affected by political elections or bilateral political and regulatory relationships (e.g., Silvers (2021)). For example, if the newly elected party is more hostile towards the U.S. government, U.S. investors may withdraw capital, due to increasing difficulties in the destination country, such as less favorable tax treatment or stricter regulation.

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

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

where $Investment_{iect}$ refers to a measure of how much capital investor i allocates to country c in half-year t around election e. $Distance\,Increase_{iec}$ is an indicator equal to 1 if the ideological distance between investor i's party and the party in power in country c increases after election e, and 0 otherwise. Specifically, $Distance\,Increase$ is equal to 1 if the investor's ideological distance to country c increases between half-years $\tau = -1$ and

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$\tau = 0$. We fix the investor's ideology score as of $\tau = -1$, such that *Distance Increase* reflects the effect of the foreign election. $Post_{ect}$ is an indicator equal to 1 if half-year t falls in the post-election period ($\tau = 0$ to $\tau = +4$), and 0 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 $\tau = +4$ to avoid many overlapping event windows (the average (median) time gap between parliamentary elections in the same country is 3.5 (4) years). Due to some overlapping event windows, the unit of observation is an investor $\times$ election $\times$ half-year rather than an investor $\times$ destination country $\times$ half-year. Throughout the paper, we cluster standard errors at the investor $\times$ destination-country level.

By including election $\times$ time fixed effects (α_{ect}), which subsume destination country $\times$ time fixed effects, we are able to control for the direct economic consequences of the election for expected investment returns, including changes in government policies and policy uncertainty. Moreover, by restricting the analysis to investors from the same home country (e.g., U.S.), we can control for the degree of bilateral government cooperation, regulations, and trust between the two countries. By including investor $\times$ election fixed effects (α_{iec}), which subsume investor $\times$ destination country fixed effects, 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 us to control for any unobserved time-varying shocks to capital flows at the level of the individual investor.

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

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

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

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4 Cross-Border Corporate Loans

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

4.1 Corporate Loans: Data and Institutional Context

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

We exclude loans with missing or negative loan amount as well as loans with deal status "rumor," "suspended," or "cancelled" (0.5% of all observations). The denomination of the loan amount is measured in USD million. After creating loan portions for each bank

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

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

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

in a syndicate, we drop observations with a loan portion of less than $10,000 to remove erroneously small loan amounts (0.04% of observations). We further restrict our main analysis to cross-border loans by U.S. banks, that is, loans for which the country of the bank parent is the U.S. and the country of the borrower's headquarters is outside of the U.S.. In the case of borrower subsidiaries, we use the headquarters of the subsidiary. We further focus on loans extended to non-financial borrowers by excluding borrowers with Standard Industrial Classification (SIC) codes 6000–6999.

To infer banks' political leanings, we hand-match our sample of U.S. banks to political contributions as described in Section 3.2. To obtain bank characteristics from Compustat, we rely on the linking file by Schwert (2018).[15] We link public borrowers to DealScan using the table provided by Chava and Roberts (2008) and obtain issuer credit ratings from S&P Capital IQ. Our final sample consists of 28 U.S. banks extending 19,209 loans to 4,288 firms located in 42 destination countries. 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 83% 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 a bank × foreign election × half-year; that is, we aggregate 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 foreign national parliamentary election. The average cross-border loan volume is $165 million and the average number of cross-border loans per bank, destination country, and half-year is around two. The sample is roughly evenly split between banks that experience an increase versus decrease in ideological distance (53% vs. 47%, respectively). Seventy percent of the banks in our sample donate primarily to the Republican party (see Internet Appendix). The average bank has $746 billion in total book assets and a leverage

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

ratio of 11% (unreported for brevity).

Panel B reports summary statistics for our loan-level dataset, where the unit of observation is a bank × election × loan. We focus on loans issued in half-years around elections and for which information on loan pricing is available. The average all-in-drawn loan spread over LIBOR is 214 basis points and the average loan size is \$78 million. Around 3% of borrowers default during the course of the average loan, which has a maturity of approximately 5 years. All variables are defined in Appendix Table A.1.

4.2 Corporate Loans: Ideological Distance and Loan Quantity

We begin by studying whether banks experiencing an increase in ideological distance around a foreign election reduce loan quantities relative to banks experiencing a decrease in distance. We estimate equation (2), using the 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, the logarithm of one plus the number of loans extended. Standard errors are clustered at the bank × destination country level.

Panel A of Table 2 reports the results. The coefficient on $Distance\,Increase \times Post$ captures the effect of an increase in ideological distance on loan volume and on the number of loans, respectively. Our preferred (and most conservative) specification in column (3) implies that, when a bank experiences an increase in distance after a foreign election, it reduces its lending volume by 22% ($= exp(-0.250) - 1$) 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 10%, which is somewhat 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 × time, bank × election, and bank × time fixed effects. These fixed effects allow us to absorb direct economic effects of the

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election, unobserved differences across bank-destination-country pairs prior to the election, as well as time-varying unobserved bank characteristics.

Note the type of elections generating variation in our *Distance Increase* variable tend to be elections of relatively moderate political parties. The reason is that the identifying variation is coming from elections in which Republicans experience an increase in ideological distance and Democrats experience a decrease in distance, or vice versa. For example, the election of François Hollande in 2012 would not generate such variation, because both Republicans and Democrats experienced an increase in ideological distance from the governing party in France following the election. This aspect of our analysis is what makes the sizable effect on loan quantity even more remarkable. The full list of elections generating identifying variation for our main tests is reported in the Internet Appendix.

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 logarithm of the cumulative loan issuance volume between $\tau = -4$ and $\tau = -1$ as well as $\tau = 0$ and $\tau = +4$. The omitted period is $\tau = -4$; that is, all subsequent differences are relative to the difference in $\tau = -4$. The figure shows a sharp and persistent decrease in the 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. Because banks typically extend loans at average maturities around five years (see Panel B of Table 1), this reduction has a persistent effect on corporate capital supply.

In the Internet Appendix, we report alternative specifications for our main regression in column (3) of Panel A, Table 2. We show our main effect also obtains when we use an indicator for any loan issuance during a given half-year as the dependent variable. Banks that experience a distance increase are thus more likely to stop lending afterwards. Our results are also 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 records and political contributions data yields an even larger drop in loan volume. The main effect is also obtained when we use a 50% or 60% threshold to infer party affiliations from political contributions, rather than a 55% threshold. Our results are similar if we restrict the sample to lead banks only, or if we exclude the three largest banks in our sample (Bank of America, Citi, and JP Morgan). Finally, our results are robust to clustering standard errors by bank, by bank and time, or by bank × destination country and time.

We report additional decomposition and heterogeneity tests in the Internet Appendix. For example, we find it is the distance to the prime minister that affects capital allocation, not the distance to the government (the ideology score of the prime minister may differ from the score of the government in the case of coalitions).[16] There are two potential explanations for this result. Either the winning party, which typically names the prime minister, has the most influence on government policies in the destination country, or the prime minister could be more salient in investors' minds. Moreover, we show the effect of *Distance Increase* is stronger for close elections and for elections that receive more media coverage. These results further reinforce our interpretation that the changes in capital allocation documented above are indeed induced by the election outcome and the resulting change in ideological alignment. 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.

One potential concern could be that the above differences in loan issuance are driven by differences in borrower demand for loans. In the Internet Appendix, we do observe some differences in the average borrower characteristics between Democrat and Republican

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[16]To obtain ideology scores for governments and prime ministers, we use the Seki-Williams Government and Ministers Data (Seki and Williams (2014)). See `http://web.missouri.edu/~williamslaro/data.html`.

banks, indicating some borrower heterogeneity. For example, Democrat banks are less likely to lend to borrowers operating in the energy sector, and they are more likely to lend to borrowers rated non-investment grade. To address concerns about heterogeneous borrower demand, we rerun our main regression at the individual loan level. The dependent variable is the loan size (loan share) provided by a specific bank in the syndicate, respectively. Because the loan size and the loan share can vary across banks within the same loan, we are able to introduce borrower × time and even individual loan fixed effects. We further control for the existing relationship in a bank-borrower pair via bank × borrower × election fixed effects. The results are reported in Panel B of Table 2. Despite this test being very demanding on the data, we are able to document that the loan size and the loan share decrease by 35% and 24%, respectively, when we include borrower × time fixed effects (see columns (1) and (3)). When we study variation in loan quantity within the same loan (columns (2) and (4)), the economic effects are 33% and 28%, respectively. These results imply that borrower heterogeneity cannot explain our results on loan issuance.

4.3   Corporate Loans: Ideological Distance and Loan Pricing

So far, we have shown that partisan perception affects the quantity of cross-border loans extended by Democrat- and Republican-leaning banks. Next, we examine whether partisan perception also affects loan pricing. To investigate this question, we estimate equation (2) at the level of the individual loan, using the logarithm of the all-in-drawn loan spread over LIBOR at issuance as the dependent variable. Since it is typically the lead bank that negotiates the contract terms, we focus on lead banks in our main analysis and report results including other participating banks in the Internet Appendix.

Table 3, Panel A, reports our results. In column (1), we use the same set of fixed effects as in equation (2). The loan-level data again allow us to include a finer set of fixed effects. Unfortunately, we cannot include borrower × time or loan fixed effects as in Table 2, Panel B, because the loan spread does not vary within the same loan. However, we can

replace election × time fixed effects with borrower cluster × election × time fixed effects in column (2). Following Khwaja and Mian (2008) and Acharya, Eisert, Eufinger, and Hirsch (2018), a borrower cluster is defined as all firms belonging to the same risk category (investment grade, non-investment grade, or not rated) and Fama-French 12 industry. Hence, we can at least control for time-varying heterogeneity across borrowers in different industries and in different risk categories.[17] In column (3), we further introduce observable loan-level characteristics as control variables. The loan-level controls are loan maturity, loan amount, an indicator for secured loans, and loan type (revolver, term-loan, or other). See Appendix Table A.1 for variable definitions.

We find a sizable positive effect of an increase in ideological distance on loan spreads, consistent with these lenders perceiving borrowers as riskier. In our strictest specification in column (3), where we control for loan characteristics, the effect on the loan spread is 13.9%, which is slightly larger than the effect documented by Dagostino, Gao, and Ma (2020) for U.S. loans.[18] The fact that we observe an increase in loan spreads 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 substantially stronger when there is a closer relationship between the borrower and the lead bank; that is, when the bank is more likely to have market power (Degryse and Ongena (2005); Petersen and Rajan (1995)).

One possible alternative explanation for the increase in loan spreads is that banks with a distance increase lend to firms that become riskier following the election. Our within-loan results in the previous section already mitigate this concern. To further rule out this explanation, in Panel B we examine the effect of distance increase on borrower defaults. The dependent variable is an indicator equal to one if a firm is assigned a default credit rating during the course of the loan spell, and zero otherwise. We find a statistically insignificant difference in the default rates of borrowers from lead banks that experience an increase

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[17]In the Internet Appendix, we also show that our results are robust if we replace investor × election fixed effects by investor × borrower cluster × election fixed effects.

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

vs. decrease in ideological distance. If anything, the point estimate is negative, indicating that borrowers from banks with a distance increase are somewhat less likely to default. Defaults are rare events and may not capture a small deterioration in credit quality. In the Internet Appendix, we document insignificant differences also for credit rating downgrades within one year after loan issuance. The absence of positive differences in ex-post defaults and downgrades further supports our interpretation that we are capturing differences in the economic perceptions of Republican and Democrat banks, rather than differences in the riskiness of their borrowers.

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

5   International Equity Mutual Funds

Our second empirical setting is U.S. 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.

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 ranging from 2000 to 2018. We follow Chuprinin, Massa, and Schumacher (2015) and use a semi-annual frequency to maximize coverage. We match the FactSet sample with the Global Open-End Fund section of Morningstar Direct, using the following order of priority: ISIN, ticker, CUSIP, and fund name.[19] We are able to match 76% of OEF FactSet funds to Morningstar Direct, which is comparable to the match rates obtained in previous studies (e.g.,

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

Schumacher (2018)). Combined, these funds account for 94% of the aggregate total net assets (TNA) in FactSet. From Morningstar Direct, we further obtain the names of all fund managers. We exclude funds with missing manager names and restrict our sample to actively managed equity funds via Morningstar's *Index Fund* flag and *Broad Category Group* indicator. We further focus on international funds, defined as funds that have a mandate to invest in more than one country and do not invest more than 90% of their TNA in a single country on average. We end up with a sample of 1,841 U.S.-based international funds run by 4,104 managers.

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, our 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%.[20] 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 our subsequent analysis. The funds in our sample invest on average about 80% of their assets outside of the United States. A country's portfolio weight is right-skewed, with the average (median) fund investing 4.7% (2.7%) of its assets in a given foreign country. Funds on average manage about $2.4 billion in assets and are managed by firms with about $78 billion assets under management.

Our main measure of the ideological distance between a given fund i and destination country c is the equal-weighted average of the ideological distance across its individual managers. Specifically, it is calculated as:

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

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[20]Jagannathan, Jiao, and Karolyi (2021) 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.

where $Distance_{mct}$ is the ideological distance between an individual manager m's political party and destination country c at the end of half-year t, as constructed in equation (1). In the Internet Appendix, we report robustness tests using a tenure-weighted average. We further show that we obtain similar results if we use the ideological distance of the party that represents the majority of the management team, or the party of the most senior manager.

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

$$Excess\,Weight_{ict} = w_{ict} - w_{sct}, \qquad (5)$$

where w_{ict} is the fraction of fund i's equity TNA invested in destination country c at the end of half-year t.[21] w_{sct} indicates the value-weighted average portfolio weight of country c in all actively managed U.S. equity funds belonging to the same investment style s as fund i at time t, calculated as $\frac{\sum_{j \in s} TNA_{jt} w_{jct}}{\sum_{j \in s} TNA_{jt}}$.[22] The set of potential investment countries (i.e., the investment opportunity set) for each investment style is defined as all countries which cumulatively attract more than 90% of fund TNA over the sample period. If a fund does not invest in a country that belongs to its investment opportunity set, then the country portfolio weight is set to zero.

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

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

[22]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)). In the Internet Appendix, we examine alternative specifications by replacing the excess portfolio weight with the raw portfolio weight and either including style $\times$ election $\times$ 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.

5.2 International Mutual Funds: Ideological Distance and Portfolio Allocation

We begin by studying the effect of ideological distance on funds' cross-border portfolio allocation. Panel A of Table 4 reports the estimates of equation (2), using the country's excess portfolio weight as the dependent variable. Standard errors are clustered at the fund × destination country level. Across all specifications, we find that increase in ideological distance is associated with a reduction in the share of the fund's assets allocated to that country. The estimates in column (3), with the full set of fixed effects, indicate that funds experiencing an increase in ideological distance reduce their excess portfolio weight by 26 basis points, relative to funds experiencing a decrease in distance. Economically, this is equivalent to a reduction of about 5.5% relative to the average portfolio weight (= 0.26/4.72).

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.[23] Hence, the economic magnitude of the effect of ideological alignment with foreign governments is roughly comparable to that of home bias.

To better understand the precise timing of this effect, Figure 4 plots the difference in excess portfolio weights between funds experiencing an increase versus decrease in ideological distance around an election. 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 relative 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.

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

Similar to the results on bank lending, one concern regarding these results is that they could be driven by differences in the fundamentals of stocks held by Democrat and Republican managers. For example, Democrat 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 granular data at the fund × security level, enabling us to include security × election × time fixed effects. Since we effectively compare funds investing in the *same security* at the *same point in time*, any changes in security fundamentals as a result of the election cannot explain our results. In addition, we include fund × election × security fixed effects to account for potential time-invariant differences in portfolio allocation across fund-security pairs, such as security-level information advantages or investment preferences. We report these results in the Panel B of Table 4. Funds with an increase in ideological distance reduce their security-level portfolio weight by 5.7% to 7.1%. The corresponding event study graph in the Internet Appendix shows a very similar pattern as in Figure 4: funds experiencing an increase in ideological distance reduce their investment sharply following the election.

We perform additional tests in the Internet Appendix. We show that our main result from column (3) of Table 4 is robust to a battery of alternative specifications, including alternative measures of ideological distance and alternative treatments of standard errors. We also address the potential concern that our *Distance Increase* variable may pick up the effect of other fund manager characteristics that could be correlated with party affiliation. We do so by including interactions of additional fund manager characteristics with an indicator for elections leading to a rightward shift in the political ideology of the elected government. We consider characteristics that are known to be important predictors of political affiliation: ethnicity, gender, experience, and age. Across all specifications, the coefficient estimate on *Distance Increase* × *Post* is remarkably stable.

Finally, in the Internet Appendix we also examine funds' portfolio performance around

elections. This analysis reveals no statistically significant differences in either the fund ×
country-level or the fund-level performance between the two groups of funds. We check
both performance measured using risk-adjusted returns and economic value added.

6 Mechanism

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

6.1 Belief Disagreement

Previous studies have documented that political alignment with the U.S. president affects
households' and financial analysts' beliefs about aggregate economic conditions (e.g., Bar-
tels (2002); Mian, Sufi, and Khoshkhou (2017); Kempf and Tsoutsoura (2021)). Thus,
a natural interpretation of our results is that partisan investors disagree about how the
policies of the governing party will affect the state of the local economy and, ultimately,
investors' return on investment.

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

We obtain monthly forecasts for the G7 countries and Western Europe. To match the
time period of our main analysis, we use forecasts made between 2000 and 2018. After
further restricting the sample to forecasts made by banks' research departments, our sample
consists of 142 forecasters issuing forecasts for 20 countries. Six forecasters can be linked to

one of the 28 U.S. banks from our syndicated loan dataset, for which we have a non-missing party affiliation. Combined, the six banks account for 67% of the aggregate cross-border loan issuance volume in our data.

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

We then re-estimate equation (2) on this forecast dataset, where the unit of observation is a bank × election × month. Following Kempf and Tsoutsoura (2021), we focus on forecast revisions and define the dependent variable as an indicator equal to one if bank i revises its 1-year ahead GDP growth forecast for destination country c downward (upward) in month t.[24] $Distance\,Increase$ is equal to one if the ideological distance between bank i's party and the party in power in country c increases after election e; zero if its ideological distance decreases, and 0.5 for all other banks. As in our baseline analysis, we focus on forecasts made between two years before and after an election.

Table 5 reports the results. In columns (1) and (2) ((3) and (4)), the dependent variable is an indicator equal to one if the bank revises its 1-year ahead GDP growth forecast downward (upward), respectively. In column (1), we find that banks with an increase in ideological distance are 8.1 percentage points more likely to revise their GDP growth forecasts downward, relative to banks with a decrease in ideological distance. This difference increases to 25.0 (=1.9 + 23.1) percentage points for close elections (see column (2)). Following Julio and Yook (2016), we define close elections as elections with a margin of victory in the bottom quartile across all elections in our sample. We do not observe statistically significant differences in the propensity to revise forecasts upward, but the point estimate is negative.

In the Internet Appendix, we focus our attention on a tighter event window around

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

close elections: four months before to four months after the election. We find a sharp and significant divergence in the propensity to downward-revise forecasts in the first month following the election. This pattern is strongly suggestive of ideologically misaligned banks becoming more pessimistic about economic growth as a result of the election.

6.2   Alternative Mechanisms

Although our results strongly support belief disagreement as a potential mechanism, other non-mutually exclusive mechanisms could be present. Although we cannot exclude all potential alternative explanations, our evidence so far allows us to rule out that investors who are ideologically more distant to the foreign party in power may have an information disadvantage. Such a disadvantage could arise, for example, because more distant banks have weaker political connections to the governing party or because they find it more difficult to interpret the policies of distant parties. However, differences in access to information are unlikely to explain our results for at least three reasons. First, worse access to information would predict a difference in investment performance, but not necessarily greater pessimism. To induce greater pessimism in GDP growth forecasts, the inferior signal that investors receive would have to be systematically more negative than the signals of other investors. It is not obvious why that would be the case. Second, we see no significant differences in loan or fund performance. Third, the timing of the differences in GDP forecasts around elections is inconsistent with differences in access to information. If the results reflected political connections, we should start to see a divergence after the new government's inauguration, which can happen a few months after the election. Instead, we see a sizable divergence shortly after the election (see Internet Appendix).

7 Extensions

7.1 Aggregate Effects

7.1.1 Corporate loans

One remaining question is to what extent partisan perception has the potential to affect the net supply of capital to firms in the local economy. In a frictionless world where the reduction in capital supply by ideologically misaligned banks is exactly equal to the increase in capital supply by aligned banks, and firms can costlessly switch between capital providers, the effect on net capital supply would be zero. In practice, however, the presence of frictions will likely lead to non-zero effects on net capital supply. One important friction is asymmetric information. Asymmetric information confers an information advantage to lenders that have an ongoing relationship with the borrower, making it costly for borrowers to switch banks (e.g., Sharpe (1990); Rajan (1992); Ioannidou and Ongena (2010)). Hence, when the borrower's relationship bank is ideologically misaligned and thus more pessimistic, the borrower may not be able to costlessly switch to an ideologically aligned bank. Our result that the effect of ideological distance on load spreads is significantly stronger for relationship banks highlights the importance of this friction.

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

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sets of results indicate a significant drop in loan issuance volume at the industry-level when there is a greater fraction of banks with an increase in ideological distance. These results are consistent with partisan perception affecting net capital supply at the industry-level.

7.1.2 Bilateral Portfolio and Foreign Direct Investment

A large part of the international capital flow literature has focused on bilateral portfolio investment and foreign direct investment (FDI) between countries. To shed light on these important types of investment, as well as to provide additional evidence on aggregate effects, we test whether ideological distance between countries can help explain patterns in foreign portfolio and direct investment. We can compute the ideological distance for any country pair using the ideology score of the governing parties, as long as both countries are covered in the Manifesto database. The main drawback of studying bilateral investment is that, since it is an aggregate measure and not an investor-level measure of investment, we cannot exploit within-country-and-time variation in portfolio positions. This increases the set of potential omitted variables and requires us to make stronger assumptions to interpret the evidence as causal.

We obtain annual data on restated external bilateral portfolio positions from `www.glob` `alcapitalallocation.com`. These restated data are based on U.S. Treasury International Capital (TIC) data and the IMF Coordinated Portfolio Investment Survey (CPIS), using the methodology outlined in Coppola, Maggiori, Neiman, and Schreger (2021). The data are available for the time period from 2008 to 2017. We sum up the sales-weighted equity (including fund shares) and bond holdings. Annual FDI data is obtained 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.[25] We drop country-pairs with missing FDI flows between 2001 and 2012. Our final sample covers bilateral portfolio positions for 22 home and 56 destination countries, as well as FDI flow data for 54 home

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[25]We thank Thomas Rauter for sharing with us the FDI flow data used in Christensen, Maffett, and Rauter (2020).

and 45 destination countries.

We then estimate the following regression:

$$Investment_{hct} = \alpha_{hc} + \alpha_{ht} + \alpha_{ct} + \beta Distance_{hc,t-1} + \epsilon_{hct}, \tag{6}$$

where $Distance_{hc,t-1}$ refers to the ideological distance between the elected parties in countries h and c at the end of year $t-1$. In our analysis of bilateral portfolio positions, the dependent variable is the weight of the holdings in the destination country in the foreign portfolio of the home country investors, calculated as the total portfolio holdings in the destination country divided by the sum of the portfolio holdings in all other countries covered by Manifesto, measured in percent. In our analysis of foreign direct investment, the dependent variable is the bilateral FDI flow from home country h to destination country c in year t, also measured in percent. 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. Standard errors are clustered at the level of the country pair. The inclusion of the three sets of fixed effects allows us to rule out that ideological distance could be correlated with other persistent differences across country-pairs, such as cultural, religious or linguistic proximity. It also allows to exclude the possibility that unobserved economic shocks in the home country or destination country are driving the observed relationship.

Table 6 reports the results. For easier comparison, all independent variables are standardized to have a mean of zero and a standard deviation of one. In Panel A, column (1), we find that greater ideological distance between two countries is correlated with lower foreign portfolio positions. In terms of economic magnitude, the estimate implies that a one-standard-deviation larger ideological distance is associated with a 0.035 percentage points lower country weight in the home investors' portfolio. Relative to the average country weight, this represents a decrease of 3.7%.

In Panel B, we find that greater ideological distance between countries is also associated with lower FDI flows. In column (1), a one-standard-deviation larger ideological distance

translates into a 0.006 percentage points lower FDI flow to the destination country. Relative to the average FDI flow, this is a sizable effect of 6.8%. However, the effect is only marginally statistically significant.

One limitation of the analysis above is that, unlike in our main tests, we cannot include country-pair $\times$ time fixed effects. Hence, it is difficult to rule out that the above estimates could partially reflect the effect of bilateral relationships between governments, which may directly affect investment returns via regulations and the degree of bilateral cooperation. In order to at least partially address this concern, in column (2) we directly control for the degree of bilateral political relationships, using the dyadic measure constructed by Bailey, Strezhnev, and Voeten (2017). This measure captures bilateral relationships using voting (mis)alignment in the United Nations General Assembly. We find that the magnitude of the effect of ideological distance is unaffected by this additional control. This result partially alleviates concerns that the observed relationship could reflect differences in the regulation of cross-border capital flows, rather than home country investors' optimism about economic conditions.

Taken together, the results in this section suggest that partisan perception has the potential to influence capital flows at higher levels of aggregation.

7.2   Non-U.S. Investors

Our main analysis focuses on the behavior of U.S. banks and U.S. international equity mutual funds. Does partisan alignment with foreign governments also influence the cross-border capital allocation of *non-U.S.* investors? In this section, we explore this question using novel data on cross-border investments of non-U.S. banks and non-U.S. 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.[26] We hand-match corporate

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[26]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,

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 U.K. for banks, as well as for Canada and the U.K. for fund managers.[27] In total, we are able to study 46 non-U.S. banks and 66 non-U.S. fund managers with cross-border investments. Despite its relatively small size, this sample 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 U.K. 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.

Table 7 presents the results. We repeat our main analysis from Table 2, Panel A for banks and from Table 4, Panel A for mutual funds. In Panel A, we analyze corporate loan issuance. Across all columns, we do not observe significant differences in the cross-border lending between banks that experience an increase vs decrease in ideological distance. Non-U.S. banks, therefore, do not seem to exhibit signs of partisan perception. This is consistent with evidence by Boxell, Gentzkow, and Shapiro (2020) that political polarization is less pronounced outside of the United States.

In Panel B, we repeat the analysis for non-U.S. mutual funds. Here, we observe a robust and 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. The discrepancy between our results on non-U.S. banks and non-U.S. fund managers might be driven by a more selective sample of fund managers. Limited data availability and higher reporting thresholds for political contributions in the UK may lead us to capture highly partisan individuals.[28] To the best of our knowl-

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Sweden, and the United Kingdom.

[27]We require at least 10 matched banks or 10 matched mutual fund managers in a given country.

[28]In the UK, the quarterly reporting threshold for donations to central parties is 7,500 GBP (see `https://www.electoralcommission.org.uk/sites/default/files/pdf_file/sp-reporting-with-au-rp.pdf`). In the United States, the reporting threshold for individual contributions is 200 USD (see `https://www.fec.gov/help-candidates-and-committees/filing-reports/individual-contributions/`).

edge, these results represent the first evidence in the literature to indicate that ideological alignment might also affect decisions of non-U.S. investors.

8   Conclusion

We explore whether partisan perception—the tendency of voters to view the economy through a partisan perceptual screen—shapes international capital flows. We provide evidence from two independent settings, syndicated corporate loans and international equity mutual funds, to show investors who are ideologically misaligned with a foreign government allocate less capital to that country. Our empirical strategy ensures that direct economic effects of foreign elections or bilateral ties between countries are not driving the result. Our paper is the first to show partisan perception transcends national borders and affects cross-border investments.

Moreover, we shed light on the potential channel through which ideological distance influences investment decisions. Using bank's macroeconomic forecasts around elections, we show that banks are more likely to downward-revise their GDP growth forecasts when they experience an increase in ideological distance, relative to banks that experience a decrease in distance. This result supports belief disagreement as the main mechanism driving the observed differences in capital allocation.

We further show that partisan perception can affect the net supply of capital by foreign investors. In particular, ideological alignment between countries can explain patterns in bilateral portfolio and foreign direct investment. Combined, our findings imply that ideological alignment is an important, omitted factor in models of international capital flows.

Finally, our study is the first to provide evidence on how partisan perception may affect non-U.S. investors, using contributions data from Canada and the U.K.. The resulting evidence is mixed. However, our analysis of non-U.S. investors has important limitations. Differences in data availability and reporting thresholds for political contributions across

countries make it difficult to reach firm conclusions. Understanding the sources of cross-country differences in the influence of partisan perception on economic decisions seems an interesting direction for future work.

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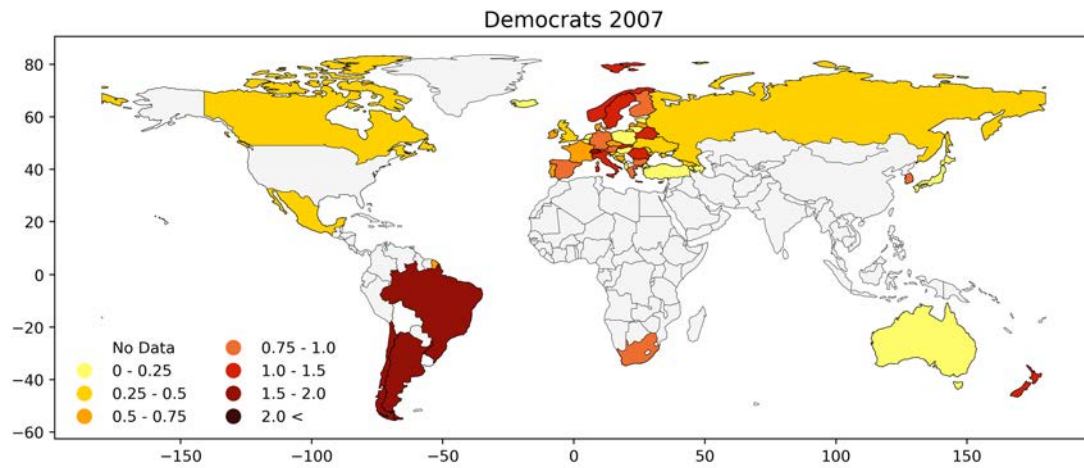
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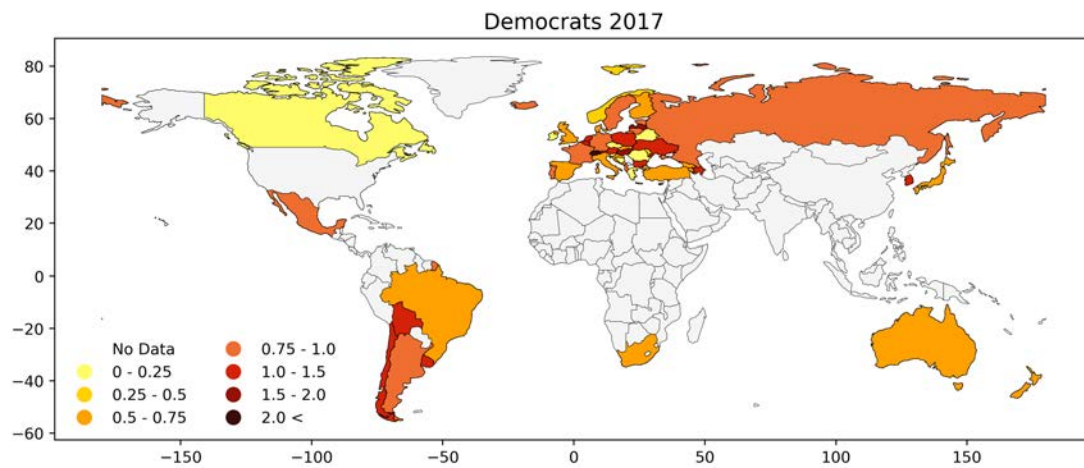
B. 2017

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, respectively.
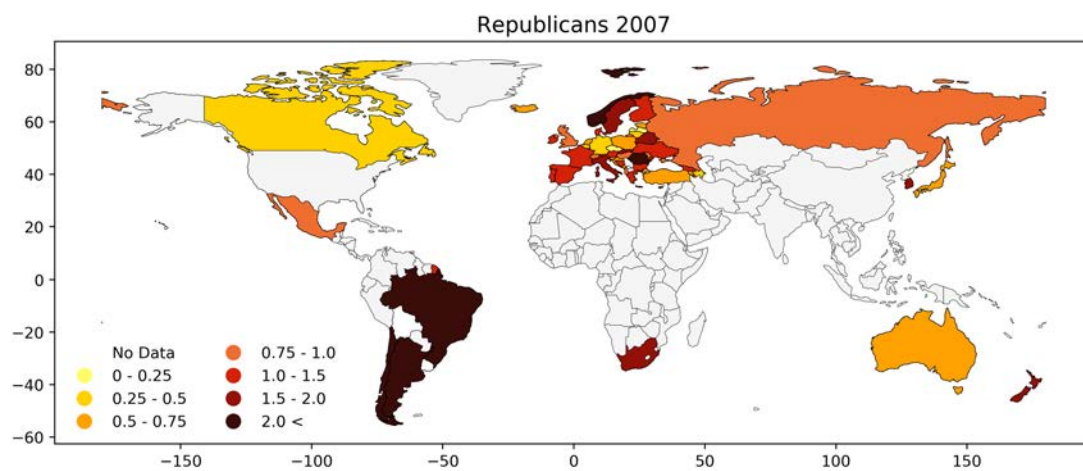
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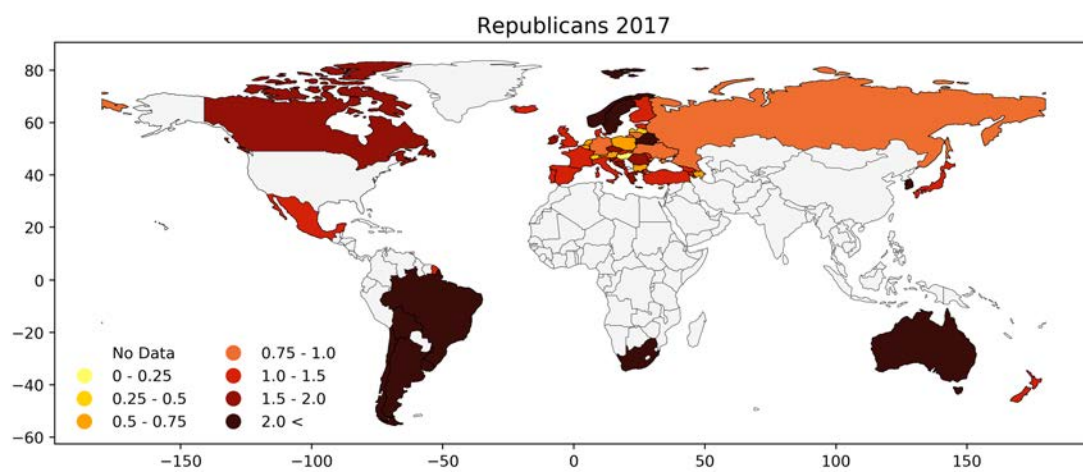
B. 2017

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, respectively.

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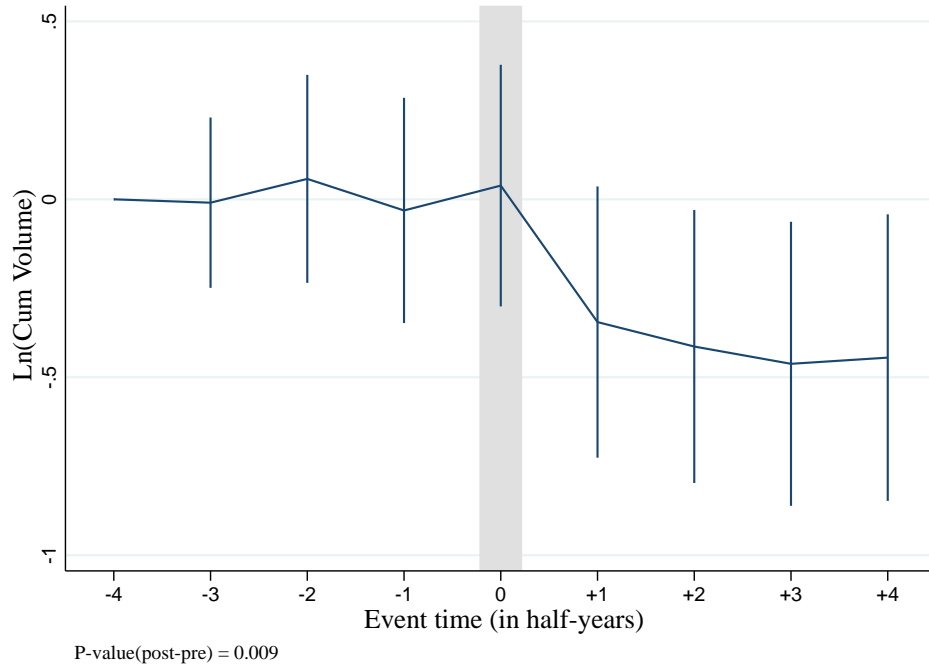
Figure 3: **Cross-Border Corporate Loan Issuance Around Foreign Elections**

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 nine half-years around elections. The dependent variable is the logarithm of one plus the cumulative dollar loan issuance volume from $\tau = -4$ to τ. We include election $\times$ time, investor $\times$ election, and investor $\times$ time fixed effects. The corresponding 95% confidence intervals are based on standard errors that are clustered at the investor $\times$ destination country level.

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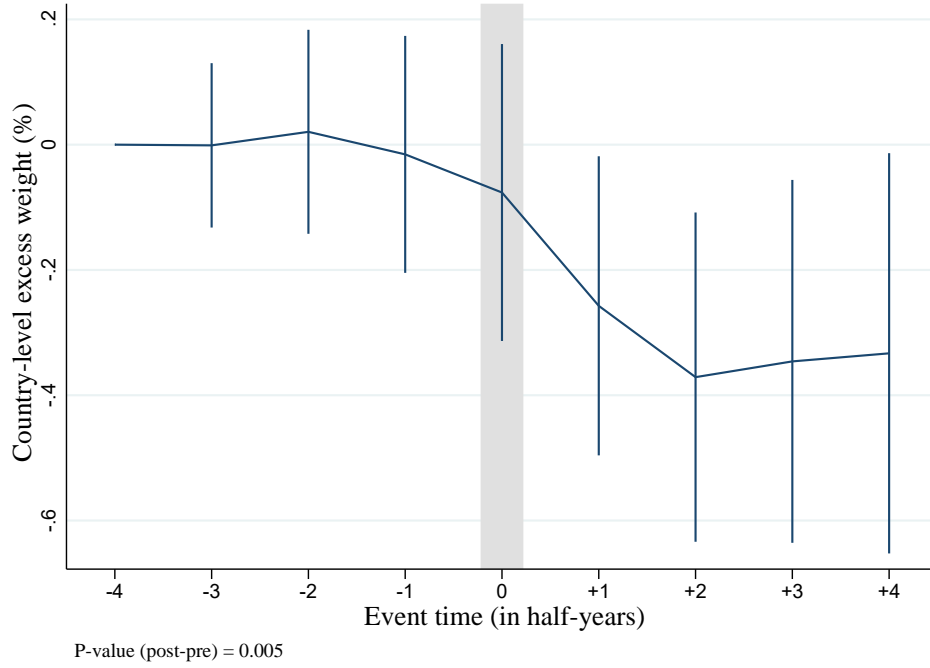
Figure 4: **International Mutual Fund Investments Around Foreign Elections**

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

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

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

Panel A: Country-Level Dataset

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

Panel B: Loan-Level Dataset

	Count	Mean	SD	P25	Median	P75
	(1)	(2)	(3)	(4)	(5)	(6)
Ideological Distance						
Distance Increase	24,926	0.56	0.50	0.00	1.00	1.00
Loan Characteristics						
Spread (in bps)	24,926	214.43	157.96	80.00	200.00	300.00
Ln(Spread)	24,926	5.02	0.94	4.38	5.30	5.70
Loan Amount ($ in millions)	24,926	77.54	97.73	17.05	42.83	99.66
Ln(Amount)	24,926	3.73	1.18	2.89	3.78	4.61
Maturity (in months)	24,689	57.07	24.92	36.00	60.00	72.00
Ln(Maturity)	24,689	3.93	0.58	3.61	4.11	4.29
Secured	24,926	0.43	0.49	0.00	0.00	1.00
Default	11,252	0.03	0.17	0.00	0.00	0.00
Loan Share	4,663	0.09	0.12	0.04	0.06	0.10
Borrower Characteristics						
Investment Grade	24,926	0.14	0.35	0.00	0.00	0.00
Non-Investment Grade	24,926	0.24	0.43	0.00	0.00	0.00
Unrated	24,926	0.62	0.48	0.00	1.00	1.00

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

The table reports differences in the loan issuance by U.S. banks experiencing an increase versus decrease in ideological distance around a foreign election. In Panel A, we estimate equation (2), using the log of one plus the dollar volume of loans issued (columns (1) to (3)) and the number of corporate loans issued (columns (4) to (6)) as dependent variables, respectively. In Panel B, we estimate equation (2) on our loan-level dataset, using the log of one plus the dollar loan issuance amount (columns (1) to (3)) and the loan share of a given bank in the syndicate (columns (4) to (6)) as dependent variables, respectively. $Distance\,Increase$ is an indicator equal to one if the ideological distance between the bank and the party in power in a destination country increases after the election, and zero otherwise. $Post$ is an indicator equal to one if a half-year t falls in the post-election period ($\tau = 0$ to $\tau = +4$), and zero if a half-year t falls in the pre-election period ($\tau = -4$ to $\tau = -1$). Loan controls include loan maturity, an indicator variable for secured loans, the all-in-spread-drawn, and loan type. The economic effect is calculated as the exponential of the coefficient minus one when the dependent variable is a logarithm, and as the coefficient divided by the mean of the dependent variable otherwise. t-statistics, reported in parentheses, are based on standard errors that are clustered at the investor $\times$ destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Country-Level Evidence

	Ln(Volume)			Ln(Number)		
	(1)	(2)	(3)	(4)	(5)	(6)
Distance Increase × Post	-0.210**	-0.222**	-0.250***	-0.077**	-0.085***	-0.102***
	(-2.09)	(-2.45)	(-3.07)	(-2.28)	(-2.67)	(-3.64)
Economic Effect (%)	-18.98	-19.94	-22.15	-7.41	-8.13	-9.66
Election × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Investor × Election FE	No	Yes	Yes	No	Yes	Yes
Investor × Time FE	No	No	Yes	No	No	Yes
R^2	0.161	0.741	0.762	0.173	0.794	0.816
N	19,153	19,153	19,090	19,153	19,153	19,090

Panel B: Loan-Level Evidence

	Ln(Amount)		Loan Share	
	(1)	(2)	(3)	(4)
Distance Increase × Post	-0.431***	-0.397***	-0.020***	-0.021***
	(-2.72)	(-2.67)	(-2.90)	(-3.00)
Economic Effect (%)	-35.02	-32.75	-23.76	-27.99
Loan Controls	Yes	No	Yes	No
Loan FE	No	Yes	No	Yes
Borrower × Time FE	Yes	No	Yes	No
Investor × Borrower × Election FE	Yes	Yes	Yes	Yes
Investor × Time FE	Yes	Yes	Yes	Yes
R^2	0.847	0.989	0.900	0.980
N	2,865	2,508	2,865	2,508

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

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

Panel A: Loan Pricing

	Ln(Spread)		
	(1)	(2)	(3)
Distance Increase $\times$ Post	0.084	0.143*	0.130*
	(0.88)	(1.75)	(1.87)
Loan Controls	No	No	Yes
Election $\times$ Time FE	Yes	No	No
Borrower Cluster $\times$ Election $\times$ Time FE	No	Yes	Yes
Investor $\times$ Election FE	Yes	Yes	Yes
Investor $\times$ Time FE	Yes	Yes	Yes
R^2	0.453	0.861	0.897
N	16,500	15,315	15,182

Panel B: Loan Performance

	Default		
	(1)	(2)	(3)
Distance Increase $\times$ Post	-0.025	-0.009	-0.010
	(-0.98)	(-0.69)	(-0.71)
Loan Controls	No	No	Yes
Election $\times$ Time FE	Yes	No	No
Borrower Cluster $\times$ Election $\times$ Time FE	No	Yes	Yes
Investor $\times$ Election FE	Yes	Yes	Yes
Investor $\times$ Time FE	Yes	Yes	Yes
R^2	0.506	0.913	0.914
N	7,215	6,739	6,708

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

The table reports differences in the capital allocation by U.S.-based international equity mutual funds experiencing an increase versus decrease in ideological distance around a foreign election. In Panel A, we estimate equation (2), using the excess portfolio weight of a given destination country in a given fund's foreign portfolio (in percent) as the dependent variable. In Panel B, we estimate equation (2) on a security-level dataset, using the excess portfolio weight of a given security in in a given fund's foreign portfolio (in basis points) as the dependent variable. The economic effect is calculated as the reported coefficient divided by the average raw portfolio weight. t-statistics, reported in parentheses, are based on standard errors that are clustered at the investor $\times$ destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Country-Level Evidence

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

Panel B: Security-Level Evidence

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

Table 5: **GDP Growth Forecast Revisions**

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

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

Table 6: **Aggregate Effects: Bilateral Portfolio and Foreign Direct Investment**

The table regresses bilateral portfolio positions and foreign direct investment on the ideological distance between countries. The unit of observation is a home country × destination country × year. In Panel A, the dependent variable is the weight of the destination country in the portfolio of investors from the home country, using restated bilateral external portfolios from Coppola, Maggiori, Neiman, and Schreger (2021). We sum up the sales-weighted equity (including fund shares) and bond holdings. In Panel B, the dependent variable is the foreign direct investment flow from a given home country to a destination country, scaled 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. *UN Voting Distance* refers to the voting misalignment in the United Nations General Assembly between two countries. Both independent variables are standardized to have a mean of zero and a standard deviation of one. *t*-statistics, reported in parentheses, are based on standard errors that are clustered at the home country × destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Bilateral Portfolio Investment

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

Panel B: Bilateral Foreign Direct Investment

	FDI Flow	
	(1)	(2)
Distance	-0.006*	-0.006
	(-1.69)	(-1.63)
UN Voting Distance		-0.017
		(-1.01)
Economic Effect (%)	-6.77	-6.59
Home × Destination Country FE	Yes	Yes
Destination Country × Year FE	Yes	Yes
Home Country × Year FE	Yes	Yes
R^2	0.487	0.499
N	14,887	14,196

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

The table reports differences in the capital allocation by non-U.S.investors experiencing an increase versus decrease in ideological distance around a foreign election. Panel A repeats the analysis from columns (1) to (3) in Panel A of Table 2, using the log of one plus the dollar volume of cross-border loans issued by Canadian and British banks as the dependent variable. Panel B repeats the analysis from Panel A of Table 4 using the capital allocation by Canadian and British international equity mutual funds as the dependent variable. t-statistics, reported in parentheses, are based on standard errors that are clustered at the investor $\times$ destination country level. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Cross-Border Corporate Loans

	Ln(Volume)		
	(1)	(2)	(3)
Distance Increase $\times$ Post	-0.208	-0.017	0.021
	(-1.00)	(-0.11)	(0.11)
Election $\times$ Time FE	Yes	Yes	Yes
Investor $\times$ Election FE	No	Yes	Yes
Investor $\times$ Time FE	No	No	Yes
R^2	0.299	0.786	0.803
N	7,856	7,856	7,455

Panel B: International Equity Mutual Funds

	Country Excess Weight		
	(1)	(2)	(3)
Distance Increase $\times$ Post	-1.065***	-0.761**	-0.697**
	(-2.68)	(-2.37)	(-2.14)
Election $\times$ Time FE	Yes	Yes	Yes
Investor $\times$ Election FE	No	Yes	Yes
Investor $\times$ Time FE	No	No	Yes
R^2	0.070	0.872	0.890
N	8,810	8,795	8,756

A Appendix

A.1 Variable Definitions

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

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

Variable	Description
Risk category	Equal to one if the borrower has an non-investment-grade issuer rating; two if the borrower is unrated, and zero if the borrower is rated investment grade at loan issuance. Credit ratings are obtained from S&P.
Ln(Maturity)	The logarithm of the loan maturity in months, obtained from DealScan. The variable is winsorized at the 1% and 99% levels.
Secured	Indicator equal to one if the loan is secured, and zero otherwise. Obtained from DealScan.
Loan type	A discrete variable that indicates if the loan is a term loan, a revolver loan, or another type of loan. Obtained from DealScan.

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

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