Extended abstract of: "The determinants of mutual fund aggregate flow. An emerging markets' push-pull analysis"[1]

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JEL Classification: G02, G12

Main objective: The paper identifies short-term determinants of mutual fund aggregate flow and it shows that investors in emerging markets (EMs) look at past returns and at the recent financial scenario in mature economies. This work extends empirical findings of Greenwood and Shleifer (2014) to EMs. They argue that investors' expectations, highly correlated with mutual fund flows, in the period 1963-2011 follow past stock returns rather than model-implied expectations.

Data and methodology: I download individual data on mutual funds denominated in US$ that invest on EMs from Bloomberg. The dataset considers a wide sample of funds and covers a substantial part of portfolio equity investment in EMs from financial account. The time interval is 2001-2015 at monthly frequency. The analysis follows the 'push-pull' approach, first introduced by Calvo et al. (1996) and often used to identify determinants of EM capital flows. Among pull variables I include realizations of the MSCI EM index and its dividend price ratio, while among the push determinants I consider the US stock market, the developed economy interest rate, the VIX index (as a measure of global risk aversion) and the US Consumer Sentiment index. Therefore I develop a structural VAR in order to evaluate the likely response of net aggregate flow to different determinants.

Findings: I find that recent past realizations of both pull and push variables are significant drivers of mutual funds' flow in EMs. Structural analysis shows that mutual funds net flow responds to a one-standard deviation shock of performance with an average inflow of over 500 million US$ one-month after the shock and this response lasts for 6 months, while the response of flow to the US Sentiment is negative, higher than 300 millions one-month after the shock and more persistent. Results do not significantly change after the burst of the Great recession. Findings confirm the intuition that investors try to extrapolate information from past return and they are also influenced by the general sentiment in the economy.

[1]A revised version of the paper will be available soon.

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Existing literature: I follow two main branches of literature. The first one concerns the identification of key drivers of capital flows to EMs, a very complete literature review has been recently made by Koepke (2015). The other is focused on the link between investors' expectations and short-term past performance. This area of reseach is gaining new relevance over the last years under both theoretical and empirical approaches. Barberis et al. (2015) build a consumption-based asset pricing model in which some investors form beliefs about future price changes in the stock market by extrapolating past price changes, while recent empirical works link mutual funds' flows with past realizations. See for example Ferreira et al. (2012) and Lou (2012).

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