LIDAM Published Papers LFIN

LIST OF ABSTRACTS . 2022

REPRINT | 2022 / 01

Fragmentation in the European Monetary Union: Is it really over?

Bertrand Candelon, Angelo Luisi , Francesco Roccazzella

Sovereign bond market fragmentation represents one of the major challenges European authorities have had to tackle since the outburst of the euro area debt crisis in 2010. By investigating the inter-country shock transmission through a new methodology that reconciles Factor and Global Vector Autoregressive models, we first show that fragmentation risk well preceded the sovereign debt crisis outburst. Most importantly, by analyzing the recent period, we document a rise in fragmentation risk in the euro area during the COVID pandemic. This rise, connected to the pressure on public debts and deficits due to the pandemic period, questions the European integration process and calls for early measures to avoid a new sovereign debt crisis.

REPRINT | 2022 / 02

International Earnings Announcements: Tone, Forward-looking Statements, and Informativeness

Elaine Henry, James Thewissen, Wouter Torsin

This paper examines two attributes of earnings press releases issued by firms cross-listed on U.S. stock exchanges: the tone and frequency of forward-looking statements. A more conservative tone and a greater proportion of forward-looking statements are often viewed as contributing to more credible disclosures. Our analysis indicates that culturally and institutionally more distant firms are generally less positive in their disclosures and include more forward-looking statements than U.S. firms. Further, we find that the tone and frequency of forward-looking statements of crosslisted firms' earnings announcements are more informative than those of U.S. firms in predicting future firm performance, and this informativeness generally increases with the cultural and institutional distance of the home country from the U.S. In explaining market reaction to earnings announcements, tone informativeness in particular increases with the cultural distance of the home country from the U.S. Overall, in the context of home bias theory, we interpret our findings as suggesting that a cautious disclosure tone and more forward-looking information serve to mitigate potential home bias-related credibility and asymmetric information concerns arising from cultural and institutional distance.

REPRINT | 2022 / 03

Earnings Management Methods and CEO Political Affiliation

Arslan-Ayaydin Özgür, James Thewissen, Wouter Torsin

This paper examines whether CEO risk aversion – proxied by their political affiliation – explains the method used to manage earnings. We argue that, even though real earnings management can have severe long-term consequences for firm performance, Republican managers are likely to prefer real over accruals-based earnings management because the former incurs significantly lower litigation risk costs than the latter and is relatively more difficult to detect. Based on a sample of more than 20,000 firm-year observations, we find that firms led by Republican (i.e. more risk averse) CEOs tend to manage their earnings through real activities manipulation, while those led by Democratic (i.e. more risk taking) CEOs tend to favor accruals-based earnings management. We also show that the positive (negative) relation between Republican-leaning managers and real (accruals-based) is more positive (less negative) for CEOs whose compensation is more oriented towards risk-taking.

LIST OF ABSTRACTS . 2022

REPRINT | 2022 / 04

Does the yield curve signal recessions? New evidence from an international panel data analysis

Jean-Baptiste Hasse, Quentin Lajaunie

In this paper, we reexamine the predictive power of the yield spread across countries and over time. Using a dynamic panel/dichotomous model framework and a unique dataset covering 13 OECD countries over the period 1975–2019, we empirically show that the yield spread signals recessions. This result is robust to different econometric specifications, controlling for recession risk factors and time sampling. Using a new cluster analysis methodology, we present empirical evidence of a partial homogeneity of the predictive power of the yield spread. Our results provide a valuable framework for monitoring economic cycles.

REPRINT | 2022 / 05

Unpacking the black box of ICO white papers: a topic modeling approach

Anna M. Pastwa, Prabal Shrestha, James Thewissen, Wouter Torsin

We apply a novel topic modeling method to map Initial Coin Offerings' (ICOs') white paper thematic content to analyze its information value to investors. Using a sentence-based topic modeling algorithm, we determine and empirically quantify 30 topics in an extensive collection of 5,210 ICO white papers between 2015 and 2021. We find that the algorithm produces a semantically meaningful set of topics, which significantly improves the model performance in identifying successful projects. The most value-relevant topics concern the technical features of the ICO. However, we find that white paper's informativeness substantially diminishes after the token is listed. Moreover, we show that credibility-enhancing mechanisms (i.e., regulations and ICO analysts) reinforce the information value of ICO white papers. Overall, our results suggest that the topics discussed in white papers and the attention devoted to each topic are useful ICO performance indicators.

REPRINT | 2022 / 06

A dynamic conditional score model for the log correlation matrix

Christian M. Hafner, Linqi Wang

This paper proposes a new model for the dynamics of correlation matrices, where the dynamics are driven by the likelihood score with respect to the matrix logarithm of the correlation matrix. In analogy to the exponential GARCH model for volatility, this transformation ensures that the correlation matrices remain positive definite, even in high dimensions. For the conditional distribution of returns, we assume a student-t copula to explain the dependence structure and univariate student-t for the marginals with potentially different degrees of freedom. The separation into volatility and correlation parts allows for a two-step estimation, which facilitates estimation in high dimensions. We derive estimation theory for one-step and two-step estimation. In an application to a set of six asset indices including financial and alternative assets we show that the model performs well in terms of diagnostics, specification tests, and out-of-sample forecasting.

REPRINT | 2022 / 07

Dynamic portfolio selection with sector-specific regularization

Christian M. Hafner, Linqi Wang

A new algorithm is proposed for dynamic portfolio selection that takes a sector-specific structure into account. Regularizations with respect to within- and between-sector variations of portfolio weights, as well as sparsity and transaction cost controls, are considered. The model includes two special cases as benchmarks: a dynamic conditional correlation model with shrinkage estimation of the unconditional covariance matrix, and the equally weighted portfolio. An algorithm is proposed for the estimation of the model parameters and the calibration of the penalty terms based on cross-validation. In an empirical study, it is shown that the within-sector regularization contributes significantly to the reduction of out-of-sample volatility of portfolio returns. The model improves the out-of-sample performance of both the DCC with nonlinear shrinkage and the equally-weighted portfolio.

LIST OF ABSTRACTS . 2022

REPRINT | 2022 / 08

A general firm-value model under partial information

Cheikh Mbaye, Abass Sagna, Frédéric Vrins

We introduce a new structural default model which purpose is to combine enhanced economic relevance and affordable computational complexity. Our approach exploits the information conveyed by a noisy observation of the firm value combined with the firm's actual default state. Moreover, it is rather general since any diffusion can be used to depict the firm's dynamics. However, this realistic setup comes at the expense of important computational challenges. To mitigate them, we propose an implementation based on recursive quantization. A thorough analysis of the approximation error resulting from our numerical procedure is provided. The power of our method is illustrated on the pricing of CDS options. This analysis reveals that the observation noise has a significant impact on the credit spreads' implied volatility.

REPRINT | 2022 / 09

Is cross-listing a panacea for improving earnings quality? The case of H- and B-share firms in China

Özgür Arslan-Ayaydin, Shimin Chen, Serene Xu Ni, James Thewissen

This study examines whether cross-listed Chinese H- and B-share firms exhibit higher earnings quality relative to non-cross-listed A-share firms based on seven accounting- and market-based earnings quality attributes, including accrual quality, persistence, predictability, smoothness, conservatism, timeliness and value relevance. We find that earnings quality does not differ between cross-listed and non-cross listed firms in terms of accrual quality, timeliness and value relevance, and that H- and B-share firms report earnings with lower quality in terms of persistence and predictability. We also find that the B-firms report smoother earnings, while the H-firms report more conservative earnings. The results of a battery of cross-sectional, endogeneity and sensitivity analyses either confirm our primary findings of no earnings quality difference or reveal lower earnings quality for cross-listed firms than for non-cross-listed firms. Considering that cross-listing in China is primarily driven by government decisions, our findings suggest that, without proper incentives, cross-listing is not likely to be a panacea for higher quality financial reporting.

REPRINT | 2022 / 10

Superstitious beliefs, locus of control, and feeling at risk in the face of Covid-19

Arvid Hoffmann, Daria Plotkina, Patrick Roger, Catherine D'Hondt

Unprecedented uncertainty during the Covid-19 pandemic stimulated anxiety among individuals, while the associated health restrictions contributed to a feeling of loss of control. Prior research suggests that, in times of crisis, some individuals rely on superstitious beliefs as a coping mechanism, but it remains unclear whether superstition is positively or negatively associated with fear of Covid-19 during the pandemic, and the role that individuals' locus of control plays in this regard. In two studies conducted among individuals in Belgium and the U.S., we therefore examined the relationship between superstitious beliefs, locus of control, and feeling at risk of Covid-19. Across both countries, we found that superstition is positively, and internal locus of control negatively, related with feeling at risk of Covid-19. Moreover, in Belgium, the effect of superstition was less pronounced for individuals with a higher level of internal locus of control. The absence of an interaction effect between su- perstition and locus of control in the U.S. could be explained by this country's higher level of superstitious beliefs and lower level of internal locus of control combined with a stronger feeling of being at risk of Covid-19 or cultural differences such as Belgium's higher uncertainty avoidance compared to the U.S.

LIST OF ABSTRACTS . 2022

REPRINT | 2022 / 11

Meta-Learning Approaches for Recovery Rate Prediction

Paolo Gambetti, Francesco Roccazzella, Frédéric Vrins

While previous academic research highlights the potential of machine learning and big data for predicting corporate bond recovery rates, the operations management challenge is to identify the relevant predictive variables and the appropriate model. In this paper, we use meta-learning to combine the predictions from 20 candidates of linear, nonlinear and rule-based algorithms, and we exploit a data set of predictors including security-specific factors, macro-financial indicators and measures of economic uncertainty. We find that the most promising approach consists of model combinations trained on security-specific characteristics and a limited number of well-identified, theoretically sound recovery rate determinants, including uncertainty measures. Our research provides useful indications for practitioners and regulators targeting more reliable risk measures in designing micro- and macro-prudential policies.

REPRINT | 2022 / 12

Number 19: Another Victim of the COVID-19 Pandemic?

Patrick Roger, Catherine D'Hondt, Daria Plotkina, Arvid Hoffmann

Conscious selection is the mental process by which lottery players select numbers nonran- domly. In this paper, we show that the number 19, which has been heard, read, seen, and googled countless times since March 2020, has become significantly less popular among Belgian lottery players after the World Health Organization named the disease caused by the coronavirus SARS-CoV -2 "COVID-19". We argue that the reduced popularity of the number 19 is due to its negative association with the COVID-19 pandemic. Our study tri- angulates evidence from field data from the Belgian National Lottery and survey data from a nationally representative sample of 500 Belgian individuals. The field data indicate that the number 19 has been played significantly less frequently since March 2020. However, a potential limitation of the field data is that an unknown proportion of players selects num- bers randomly through the "Quick Pick" computer system. The survey data do not suf- fer from this limitation and reinforce our previous findings by showing that priming an increase in the salience of COVID-19 prior to the players' selection of lottery numbers reduces their preference for the number 19. The effect of priming is concentrated amongst those with high superstitious beliefs, further supporting our explanation for the reduced popularity of the number 19 during the COVID-19 pandemic.

REPRINT | 2022 / 13

Macroprudential policies, economic growth and banking crises

Mohamed Belkhir, Sami Ben Naceur, Bertrand Candelon, Jean-Charles Wijnandts

Using a sample covering emerging market and advanced economies, we assess the impact of macroprudential policies on financial stability. Our empirical setup is designed to account for the potential direct and indirect effects that macroprudential policies can have on banking crises. We find that while macroprudential policies (MPPs) exert a direct stabilizing effect, they also have an indirect destabilizing effect, which works through the depressing of economic growth. It turns out that mitigating effects of MPPs on the likelihood of banking crises is more pronounced in emerging market economies relative to advanced economies.