US Political Shocks, Global Banks, and International Financial Markets: Evidence from the 2016 Presidential Election*

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Abstract

What are the global financial spillovers of major political shocks in the United States? How does leadership turnover in the White House and accompanying expectations of US policy shifts affect the economic prospects of other nations? To answer these questions, we analyze the response of international financial markets to the 2016 US presidential election. The surprise outcome of the election represents an exogenous shock that affords us a unique opportunity to estimate the effect of a partisan shift in the White House on international economic outcomes. We argue that, due to the unanticipated nature of Donald Trump's victory and given the candidate's campaign promises of deregulation of the financial industry, investors updated their expectations of economic return in other nations in accordance to those countries' exposure to the US election shock. In particular, we expect countries with dense financial ties to the United States to benefit from expectations of sweeping regulatory reform in Wall Street. We use data on single-country exchange-traded funds (ETFs) to estimate the impact of the election on foreign equity markets. We show that the election had an overall negative effect on international financial markets. Nonetheless, countries with close ties to the US banking system were better off—a finding consistent with renewed expectations of financial deregulation after the election and an anticipated growth in cross-border lending by US banks. We further test this mechanism by assessing the impact of the election on US global banks and find support for our hypothesis.

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1 Introduction

What are the global financial spillovers of major political shocks in the United States? How does leadership turnover in the White House and accompanying expectations of US policy shifts affect the economic prospects of other nations? To answer these questions, we analyze the response of international financial markets to the 2016 US presidential election. The surprise outcome of the 2016 election represents an exogenous shock that affords us a unique opportunity to estimate the effect of a partisan shift in the White House on international economic outcomes. We argue that, due to the unanticipated nature of Donald Trump's victory and given the candidate's campaign promises of deregulation of the financial industry, investors updated their expectations of economic return in other nations in accordance to those countries' exposure to the US election shock. In particular, we expect countries with dense financial ties to the United States to benefit from expectations of sweeping regulatory reform in Wall Street. The 2016 election surprise allows us to identify the countries that are least and most vulnerable to sudden shifts in US politics and economic policy. More importantly, it allows us to examine the channels through which the political shock was transmitted to the rest of the world. We show that the election outcome had an overall negative effect on international financial markets. Nonetheless, countries with close ties to the US banking system were better off (or at least less negatively affected)—a finding consistent with renewed expectations of financial deregulation after the election and an anticipated growth in cross-border lending by US banks.

Existing research emphasizes the central role of the United States in the international financial system, calling attention to the effects of US hegemony in international economic affairs and financial markets (Oatley et al., 2013; Oatley, 2015; Winecoff, 2015; Chaudoin, Milner and Pang, 2015). The dominant position of the American financial system within global capital markets implies that economic, political, and policy shocks in the U.S. are transmitted to other countries, potentially playing an important role in determining the economic performance of these nations. A critical element linking US financial prominence to global economic outcomes is the role of American financial institutions in the provision of international credit and liquidity. Indeed, as recent research shows, monetary and fiscal policy in the United States is one of the main drivers of global financial cycles, affecting capital flows, credit growth, and the accumulation of risk across the globe (Rey, 2015; Danzman, Oatley and Winecoff, Forthcoming; Eichengreen and Gupta, 2015; Aizenman, Chinn and Ito, 2016). Moreover, the global prominence of American financial institutions has

been credited with shaping numerous other outcomes in global finance, such as the international harmonization of banking regulations (Singer, 2004; Drezner, 2008; Oatley and Nabors, 1998; Wilf, 2016) and multilateral efforts to bail out nations in financial distress (Gould, 2003; Oatley and Yackee, 2004; Broz and Hawes, 2006; Copelovitch, 2010; McDowell, 2016).

We build on the literature on American financial hegemony by investigating the transmission of political shocks in the United States to the world economy. In particular, we identify an overlooked transmission channel made evident by the 2016 election shock: an expected boost in international credit and liquidity—in the form of increased cross-border banking activity—driven by expectations of financial deregulation under the Republican administration. The Republican candidate's rhetoric emphasized deregulation, especially with respect to the banking and financial sectors. Therefore, we expect investors to act upon the expectation of regulatory relaxation in the US. We argue that this effect leads investors to update their expectations of financial return in economies where American financial institutions account for a significant share of private credit and financial assets. More specifically, large-scale financial deregulation in the United States potentially (a) frees up additional capital flows to these economies, (b) leads to a relaxation of global regulatory standards, and (c) allows countries to benefit from the onset of a financial cycle in the US. Therefore, we argue that participants in international financial markets should hold a more positive outlook towards equity returns in these countries conditional on a Donald Trump victory.

Our empirical strategy leverages the surprise victory of Donald Trump in an event study design. The exogenous or unanticipated nature of the political shock allows us to obtain a clean identification of the election effect on asset prices in third countries and to examine the mechanisms through which the election shock was transmitted to these countries. In particular, we can identify cross-border banking ties between the United States and other countries as central propagation mechanism behind the transmission of political shocks.

To capture the effect of the election outcome on foreign equity markets, we analyze daily price data for 134 single-country exchange-traded funds (ETFs) covering 48 developed and emerging economies. Exchange-traded funds are among the most popular investment vehicles for investors seeking portfolio exposure to global equity markets. In fact, ETFs are among the most liquid assets in today's international capital markets, and have become one of the main sources of capital flows to emerging markets. Country

ETFs, in particular, specialize in individual countries by holding a portfolio of stocks that replicates a broad-based stock market index of a given foreign country. They allow investors to take investment positions in specific countries, trading an entire portfolio of stocks from a country in a single transaction. The high liquidity and low transaction costs of ETF markets imply that these funds tend to be efficiently priced, making ETF markets an ideal setting for capturing effects arising from political shocks and new information on country-specific asset prices (Fuhr, 2001; Harper, Madura and Schnusenberg, 2006; Levy and Lieberman, 2013). We thus use data on country ETFs to assess the impact of the 2016 election on international financial markets, inferring investor expectations of the election's consequences for specific countries from ETF price movements around the election date.

Our analysis shows that the 2016 US presidential election had an overall negative effect on foreign equity markets. This finding is consistent with investor concerns about the potential consequences of a nationalistic turn in US international economic policy, especially with respect to trade, immigration, and monetary relations. However, we find that countries were not equally affected by the election shock. Countries with stronger financial ties to the US—as measured by cross-border US bank lending—were less affected by the November 8 electoral surprise. Our results imply that a one-standard-deviation increase in a country's ratio of US bank assets to GDP is associated with a 0.5 to 1 percentage-point increase in equity returns in response to the election. Similarly, we find that investors in ETF markets judged countries that serve as major financial intermediaries routing capital to tax havens to be better off under a Trump presidency.

Importantly, we show that these differential effects of the election on third countries are persistent. Short-lived price movements would have indicated that the effects were possibly based on market overreactions or contagion. In contrast, we find persistent price effects, which leads us to conclude that the market response was based on the countries' ties to the United States. The results are robust to adjustments for a country's trade with the United States, other measures of economic and political proximity, as well as macroeconomic fundamentals.

The analysis thus reveals the importance of financial ties as an offsetting factor to the overall negative impact of the 2016 election on international financial markets. Finally, we find weak evidence that trade was an important transmission channel for the election shock. Countries with close trade relations with the US appear to have been more negatively affected by Donald Trump's election, but the results are driven by

Mexico—an outlier in terms of the market response and one of the United States' closest trade partners.

At the center of our argument are American financial institutions as conduits for the transmission of US political shocks to the world economy. In particular, our analysis of country ETFs is consistent with the interpretation that promises of large-scale financial deregulation under Trump's presidency led to expectations of increased international lending and cross-border financial activity by American banks. To assess this mechanism, we estimate the effect of the 2016 election on the stock market valuations of US banks, paying special attention to the scale of their international operations. Our results indicate that the financial industry in general was judged by financial investors to be better off under a Trump presidency as opposed to a Clinton presidency. We find a positive average effect of the election on bank stock returns.[1] More importantly, we find that global banks experienced greater valuation effects in response to the election than domestically-oriented banks, adjusting for bank size, profitability, risk, and other confounders. The results support the inference that financial regulation was one the main policy differences between the two main candidates as perceived by market participants, with Donald Trump seen as more likely to pursue policies that benefit the banking industry. Furthermore, the findings support the hypothesis that US global banks are particularly well-positioned to take advantage of a loosening of domestic and global regulatory standards by expanding their international operations.

This article pushes forward the literature on the international political economy of finance by tackling head on the effects of financial interdependence and systemic shocks on national economic outcomes (Oatley, 2011; Chaudoin, Milner and Pang, 2015; Brooks, Cunha and Mosley, 2015; Ballard-Rosa, Mosley and Wellhausen, 2016). In particular, we contribute to the flourishing research agenda on American financial prominence by identifying the role of countries' financial ties to the United States in propagating political shocks from the US domestic political system to the global economy (Oatley et al., 2013; Winecoff, 2015; Danzman, Oatley and Winecoff, Forthcoming). In addition, we add to the body of knowledge on the effects of elections on capital markets. While it has been extensively documented that political events such as elections affect outcomes in financial markets, existing work has largely focused on domestic markets (see, e.g., Leblang and Mukherjee, 2005; Bernhard and Leblang, 2006; Pastor and Veronesi, 2012; Sattler, 2013; Gaikwad, 2013; though see Bernhard and Leblang, 2006, Ch. 4). We bridge these two literatures by

[1]The results are consistent with existing estimates of the effect of the 2016 election across different sectors of the US economy. Wagner, Zeckhauser and Ziegler (2017) find that banks were among the biggest winners from the election relative to other industries.

stressing the effects of elections in systemically-important countries on global financial markets.

2 The 2016 Election Shock and International Financial Markets

Political events often move financial markets. Financial investors care about political events to the extent that outcomes from political processes have the potential to bring about policy changes that affect the return on their investments. Elections are one of the main types of political events to elicit market reactions. Because democratic turnover has the potential to affect returns to capital through shifts in economic and regulatory policy, investors pay close attention to elections, trying to assess the probabilities of future policies and to form expectations of future returns (Bernhard and Leblang, 2006; Bechtel, 2009; Sattler, 2013).

Political events in the United States affect investor behavior on a global scale. Given the country's size and importance for international trade and finance, events affecting the direction of US economic policy can have substantial repercussions on the economic performance of foreign economies, firms' profits, and equity market returns. Recent research on global shocks emanating from US economic policymaking, for example, finds strong evidence for the existence of spillover effects into foreign markets through effects on capital flows, exchange rate pressure (Eichengreen and Gupta, 2015; Aizenman, Chinn and Ito, 2016), debt and risk accumulation (Rey, 2015; Danzman, Oatley and Winecoff, Forthcoming), and global equity prices (Wongswan, 2009; Hausman and Wongswan, 2011).

We focus instead on how major *political* shocks originating in the US political system elicit reactions from global markets (Blyth and Matthijs, 2017).

2.1 Deciphering the 2016 Election Shock

From a theoretical perspective, if financial asset prices reflect the available information on the asset's value, the market price of a country's equities should reflect investor expectations of the future return to capital in the country in question. When it comes to the impact of US elections on third countries, the change in the market price of a country's assets in response to the election outcome reflects the difference in the expected payoff under the two potential election outcomes—the victory of one of the two main candidates—and the expected probability of each outcome. In the particular case of the 2016 election, the expected payoff under each potential outcome is a function of the expected policies under a Hillary Clinton or a Donald Trump

presidency.

The size and direction of the response of global equity markets to Donald Trump's election can thus be decomposed into two main factors: the distance between the two candidates' policy positions as perceived by market participants and the predictability of the election outcome. We build on Wagner, Zeckhauser and Ziegler (2017) to formally state the effect of Trump's election on foreign equity markets and to guide our estimation of the importance of countries' financial ties to the United States in the global propagation of political shocks. We start by defining the expected price of a country's stocks under the two potential election outcomes—Hillary Clinton's or Donald Trump's victory—as P_C and P_T, respectively. In other words, P_C and P_T embody investor expectations on the value of foreign country stocks under the economic and foreign policies of Clinton and Trump. Before the election outcome is revealed, the value of a portfolio of stocks from a given foreign country reflects the expected payoff from the country's stocks under the two potential presidencies, weighted by each candidate's expected chances of winning. If we define the probability of each outcome as π_C and π_T, such that $\pi_T = 1 - \pi_C$, we can represent a country's equity price before the election as:

$$P = \pi_T P_T + \pi_C P_C.$$

The change in value of a foreign country's equity resulting from Trump's election can then be written as:

$$\begin{aligned} \Delta P &= P_T - P \\ &= (P_T - P_C)(1 - \pi_T). \end{aligned}$$

The above expression shows that the effect of Trump's election on a country's assets is a function of two factors: (a) the degree to which Donald Trump's victory was unexpected and (b) the difference in the expected value of a country's assets under Trump's policies and under Clinton's policies (Wagner, Zeckhauser and Ziegler, 2017). If investors expect a country to fare equally well under Trump's or Clinton's presidency, then the price of the country's stocks should not move in response to the election. If, on the other hand, investors expect a country to fare better under Trump's than under Clinton's policies, then the price of the country's assets should increase following the realization of the election outcome. The opposite would be true in the case of a Clinton victory. We turn to these two factors in more detail below.

First, if Trump's election had been nearly certain, there should have been no market reaction, as investors would have already priced any expected impact of a Trump presidency into countries' stock valuations. The 2016 election result, however, was largely unanticipated. The presidential race was a close one, and the prevailing expectation until the very last moments of the poll was that Hillary Clinton had the upper hand. Renowned sources of election forecasting, such as FiveThirtyEight, the Princeton Election Consortium, and the New York Time's The Upshot, using statistical models based on polling data, predicted a Clinton victory with 71%, 99%, and 85% probability, respectively, on the eve of the election.[2] Similarly, prices in prediction markets, where participants trade the outcome of events, implied much better odds for Hillary Clinton than for Donald Trump. Betfair, for example, gave Clinton an 83% chance on the eve of the election[3], while the Iowa Electronic Markets gave her a 79% chance.[4] PredictWise, using information both from polls and prediction markets, gave Clinton an 89% chance of winning.[5]

Those odds were reflected in the market prices of financial assets, as investor activity indicated a general expectation of a Clinton victory.[6] Financial investors, for example, started to hedge against a possible Trump upset victory when, on October 28, FBI Director James Comey reopened the investigation on Clinton's email practices, possibly helping narrow her lead in the polls.[7] Investors, however, dialed back their hedges against Trump once the FBI finally announced, on November 6, that it would not be pursuing charges.[8] On election day, therefore, expectations among market participants and specialists pointed toward a Democratic win (Crane and Martin, 2017). The unanticipated nature of the result suggests that conditional on there being important policy differences between the candidates, we should expect noticeable responses from international capital markets.

Since the size of the election surprise is constant across different foreign markets, we are left with determining the difference in the expected value of countries' assets under Trump's and Clinton's economic and foreign policies. To the extent that US policy directly or indirectly affects economic activity in third

[2] *The New York Times*. "Who Will Be President?" November 8, 2016.

[3] *Betfair*. "US Presidential Election: Clinton backed in as FBI investigation comes to nothing." November 7, 2016.

[4] http://tippie.biz.uiowa.edu/iem/markets/pres16.html.

[5] http://predictwise.com/politics/2016-president-winner.

[6] *CNBC*. "Wall Street doesn't just see a Hillary win, it sees a landslide." August 29, 2016. See also *CNBC*. "Wall St is pretty certain Hillary Clinton will be president." April 7, 2016.

[7] *FiveThirtyEight*. "How Much Did Comey Hurt Clinton's Chances?" November 6, 2016.

[8] *Bloomberg*. "US Election Guide to Markets: What to Watch With One Day to Go." November 7, 2016. See also *CBS News*. "Markets predict Clinton will beat Trump." November 8, 2016. See also *Forbes*. "Global Markets Begin To Price In Clinton Victory After FBI Director Comey Closes Email Probe." November 7, 2016.

countries, differences in policy expectations for each candidate should be incorporated into market valuations of country assets. A US election shock, therefore, will have an effect on international asset prices if the expected policies of each candidate have distinct economic consequences for third countries. Moreover, given the multidimensional nature of policy platforms in presidential campaigns, differences between the candidates' positions on different policy areas should have different effects on foreign markets.

We focus on the financial repercussions of the 2016 election. Among Donald Trump and Hillary Clinton's clearest policy disagreements was the issue of financial regulation. We argue that 2016 election represented a sizable shock in expectations concerning financial deregulation. We then posit that country's financial ties to the United States were critical in transmitting the election shock to global equity markets.

In what follows, we focus on the often overlooked, but no less economically significant global financial consequences of the 2016 election. In doing so, we do not turn a blind eye to the role of other economic and security factors. The Republican and Democratic campaigns differed markedly in various areas of economic and foreign policy (Lieven, 2016; Cha, 2016; Noland et al., 2016). Differences on trade, immigration, and military alliances raised immediate concerns for foreign nations. Trump was outspoken about shifting US economic and foreign policy towards an "America First" doctrine, singling out trade partners such as Mexico and China as threats to US manufacturing and calling into question the viability of free trade agreements such as NAFTA and the Trans-Pacific Partnership. He also questioned the value of US military alliances, such as NATO, and proposed US allies to shoulder a larger share of their defense costs. The Clinton campaign, in contrast, was expected to be a modified continuation of President Obama's liberal internationalism in foreign and economic policymaking. To the extent that trade and security ties contribute to a country's overall economic prosperity, we expect them to play a role in transmitting the election shock to global markets, and we take them into account in the empirical analysis.

2.2 The 2016 Election Outcome and Expectations of Financial Deregulation

The 2016 election offers an opportunity to study the relationship between shifts in US regulatory policy for the financial industry and international financial markets. Research on the international political economy of banking has typically focused on international regulatory harmonization (Oatley and Nabors, 1998; Singer, 2004; Wilf, 2016), but much remains to be understood about the global effects of regulatory reform in the

United States. One of the main challenges in assessing those effects is that changes in regulatory policy are rarely fully exogenous to global financial conditions (see, e.g., Frieden, 1987; Oatley, 2015). While truly exogenous regulatory shocks are hard to come by, the unanticipated outcome of the 2016 election offers the opportunity to assess the effect of an exogenous shock to *expectations* of financial deregulation. Since market participants trade on expectations of future return, movements in asset prices around the time of the episode allow us to make inferences about market assessments of the effect of regulatory reform.

A central assumption is that the Democratic and Republican candidates had significantly contrasting views on the regulation of the financial sector. Indeed, a close inspection of the candidates' policy statements and campaign promises, as well as perceptions about the two candidates among members of the financial industry, reveals that Donald Trump was expected to work on relaxing banking regulations and lower corporate taxes if elected president. In contrast, Hillary Clinton was seen as the status quo candidate with respect to financial regulation, maintaining and possibly strengthening the regulatory regime initiated by the previous administration through the Dodd-Frank Act. As *The Wall Street Journal* reported, "the Republican standard-bearer says he wants to rip up the landmark 2010 Dodd-Frank Act enacted in response to the financial crisis. His Democratic opponent says she wants to extend its reach."[9] For the Republican candidate, stringent regulations were preventing banks from providing sufficient private credit to sustain economic growth. When asked about his plans concerning financial regulation, Trump stated that his reform agenda would be "close to dismantling of Dodd-Frank."[10] In contrast, Hillary Clinton vowed to prevent "any legislation that would weaken financial reform."[11] The Democratic candidate also indicated she would be in favor of breaking up large financial institutions that pose systemic risks to the economy.[12] A closer look at the policy proposals of the Clinton campaign reveals that many of the proposed regulations would have had adverse effects on the profits of financial intermediaries.[13]

Market participants expected a positive shock to the US financial sector from Donald Trump's election. The policy differences between the two candidates appeared credible to the financial industry and to investors in general, as did the ability of a future Republican administration to enact regulatory reform. House Repub-

[9] *The Wall Street Journal*. "Clinton vs. Trump – Where They Stand on Wall Street." October 25, 2016.

[10] *Fortune*. "Donald Trump Says He Would Dismantle Dodd-Frank Wall Street Regulation." May 18, 2016.

[11] *The New York Times*. "? o— .e lo $ Wall Street.e mem18 2 16.11

licans had already been pressing for the repeal of central provisions of the Dodd-Frank Act. A Republican president in the White House surrounded by an advisory team with close ties to Wall Street, who would also be backed by a majority in Congress signaled to observers that large-scale deregulation of the financial industry would be likely (see, e.g., Whalen, 2017). Therefore, investors saw the candidates' positions on financial regulation as central to the election. This was reflected in the correlations between banks' performance in the stock market and polling results throughout the campaign: stocks from financial-sector companies moved closely with Donald Trump's winning odds.[14]

2.3 Global Financial Spillovers from the 2016 Election

This leaves us with the task of explaining observed cross-country variation in equity returns. We argue that expectations of financial deregulation under the Republican administration induce expectations of a boost to international credit and liquidity in the form of increased cross-border bank lending by American financial institutions. As a result, countries with close financial ties to the United States are expected to benefit from the election outcome.

Expectations of financial deregulation should lead to expectations of cross-border credit and liquidity expansion by US global banks. US global banks draw resources from major financial centers and allocate them to businesses or banks around the world. The United States' prominence in international financial relations thus implies that American banks are at the center of a global system of cross-border funding, in which global banks supply credit and liquidity to local banks in other nations. Local banks in turn provide credit to local firms and households in their respective countries or regions (Cohen et al., 2017; Bruno and Shin, 2015; Oatley et al., 2013; Winecoff, 2015).

As Cohen et al. (2017) put it, "when global banks apply more lenient funding conditions to local banks, these may be transmitted to the borrowers in the local region. In this way, more permissive financial conditions, in the sense of greater availability of credit, will be transmitted across borders through the interactions of global and local banks (...)." Similarly, Van Rijckeghem and Weder (2003) show that in situations where a common lender experiences a shock, these shocks are transmitted via cross-border lending to borrowing countries. Among different types of shocks, regulatory measures such as changes in bank capital require-

[14] *Bloomberg.* "Why Bank Stocks Have the Most to Lose in the U.S. Election." November 1, 2016.

ments have been shown to have cross-border liquidity effects, with regulatory reform in international financial centers ultimately spilling over into borrower countries (Aiyar et al., 2014; Berrospide et al., 2017). In sum, regulatory reforms that affect US global banks' ability to lend affect the supply of credit around the world.

Countries with closer cross-border banking ties to the US economy should thus be more susceptible to shocks to expectations of US financial deregulation, as in the case of the 2016 election. Given market expectations of credit expansion and increased business from US global banks, equity markets in countries with close ties to the US banking system should benefit from the relaxation of US funding conditions. More specifically, as large-scale financial deregulation in the United States potentially frees up additional capital flows to these economies, leads to a relaxation of global regulatory standards, and allows countries to benefit from the onset of a financial cycle in the US, we argue that participants in international financial markets should hold a more positive outlook towards equity returns in countries with dense financial ties to the US economy, conditional on Donald Trump's election.[15]

Therefore, cross-border banking ties constitute a distinct channel through which political shocks originating in the United States—such as election surprises that translate into new expectations of financial reform—spill over into global financial markets. However, cross-border banking ties cannot account for the global repercussions in all issue ares. For example, while some of the US closest trade partners and military allies are expected to lose from Donald Trump's election, countries with dense financial relations are expected to win. Yet, in most instances these issue areas are closely related. Military allies often benefit from enhanced trade and financial relations (Aklin and Kern, 2015). Also, dense trade ties often lead to increased cross-border financial flows (Rose and Spiegel, 2010). Thus, in countries with close trade, banking, and political ties to the United States, political shocks such as the 2016 election can work at cross-purposes, with different transmission channels possibly offsetting each other. Which channels prevail is an empirical matter, which we tackle in the next section.

We can then describe the distribution of global market responses to the 2016 election across countries as a function of countries' financial connectedness to the US economy, as well other economic and political

[15] For instance, Rose and Spiegel (2010) use financial linkages to model the contagion in international financial markets arising from the bust in the US subprime market. In addition, a substantial share of literature analyzing spillover effects from US monetary shocks find that adverse effects of interest rate increases are more pronounced in economies that are more integrated into global financial markets (Van Rijckeghem and Weder, 2003; Laeven and Tong, 2012). Similarly, research concerning the impact of US regulatory shifts on global banking relations arrive at similar results (Kleymenova, Rose and Wieladek, 2016; Wilf, 2016).

ties. The change in asset valuations for country *i* in response to Trump's election can be expressed as:

$$\Delta P_i = f(\beta Fin_i + \Lambda \mathbf{E} + \Theta \mathbf{S}),$$

where Fin_i is country *i*'s financial ties to the United States, $\mathbf{E}$ is a set of economic factors defining country *i*'s other types of economic ties to the United States, such as trade, as well as its overall vulnerability to external economic shocks, and $\mathbf{S}$ are country *i*'s security and political ties to the United States. The parameters β, Λ, and Θ capture the weight of these different factors in determining the impact of Donald Trump's election on country *i*'s asset prices. This framework allows us to disentangle competing mechanisms and guides our empirical analysis.

3 Research Design

3.1 Country Exchange-Traded Funds and the Market Response to the 2016 Election

To capture financial investors' assessment of the impact of the 2016 US presidential election on third countries, we examine the performance of single-country exchange-traded funds around the election date. Exchange-traded funds (ETFs) are passively-managed investment vehicles designed to track a given stock index. They do so by holding a portfolio of stocks that replicate the benchmark index. In contrast to conventional passively-managed mutual funds, ETFs are listed and trade on exchanges such as the New York Stock Exchange and Nasdaq throughout the day like regular stocks. By buying or selling shares in an ETF, an investor can trade an entire portfolio in a single transaction (Deville, 2008; Fuhr, 2001; Gastineau, 2001).

Country ETFs specialize in individual countries by holding a portfolio of stocks that replicates a broad-based stock market index of a foreign country, such as a specific MSCI country index (Levy and Lieberman, 2013; Deville, 2008; Pennathur, Delcoure and Anderson, 2002). They offer a simple, low-cost, high-liquidity vehicle for international diversification, allowing investors to take quick and inexpensive positions in foreign stock indices. Indeed, ETFs have become an increasingly popular option for international diversification over time (Blitz and Huij, 2012; Harper, Madura and Schnusenberg, 2006; Pennathur, Delcoure and Anderson, 2002; Kostovetsky, 2003). ETFs in general are among the most heavily traded equity securities in the world, whereas country and regional ETFs in particular are among the most sought after international

equity securities. The largest emerging-market ETF, for example, had a daily turnover of approximately $2.5 billion in 2016, second only to Apple stocks.[16] As such, ETFs have become increasingly important sources of capital for emerging markets. In 2016, three-quarters of the flows to emerging-market funds were allocated to ETFs.[17]

ETF markets thus provide a favorable setting for studying the impact of US presidential elections on international financial markets. Low transaction costs and high liquidity mean that country ETFs tend to be efficiently priced. Shocks that change investor assessments of a country's future economic performance will cause investors to act accordingly, with the change reflected in the price of the country ETF. In other words, new information will be swiftly incorporated into fund prices. As such, country ETF prices offer a useful measure of the expectations of global investors about the future economic performance of particular countries. Price movements around consequential political events should reflect investors' reassessments of a country's prospects: a favorable shock should result in a higher prices for a country ETF, while an adverse shock should have the opposite effect.

We therefore use data on country ETF prices to examine financial investors' responses to the 2016 US presidential election and its impact on third countries. We compiled a dataset of daily prices for 134 single-country ETFs covering 48 countries. A complete list of the included funds is provided in Table A1 of the Data Appendix. As an illustration, Figure 1 shows the performance of a sample of country ETFs around the 2016 election, as well as the performance of the S&P 500 index in the same period for comparison. The country ETFs tend to follow the performance of the S&P 500 relatively closely in the run-up to the election. However, many of the country funds depart from the broader US stock market following the announcement of the election result on November 8, 2016.

The examples suggest that a number of countries were perceived as economic losers from the election outcome. Among the selected funds, the Germany, Mexico, New Zealand, Philippines, South Korea, and Turkey ETFs were adversely affected by the election, while the Ireland, Pakistan, Russia, and United Kingdom ETFs seem to show small or no reactions. Not surprisingly, the Mexico ETF suffered the largest negative response, consistent with the outsize attention that Mexico received in Donald Trump's campaign promises as a future target of trade and immigration barriers. Nonetheless, Mexico is not the only country

[16] *Financial Times*. "Exchange traded funds: taking over the markets." December 5, 2016.
[17] *Financial Times*. "ETFs and EMs: a difficult marriage." December 12, 2016. See also BlackRock (2017).

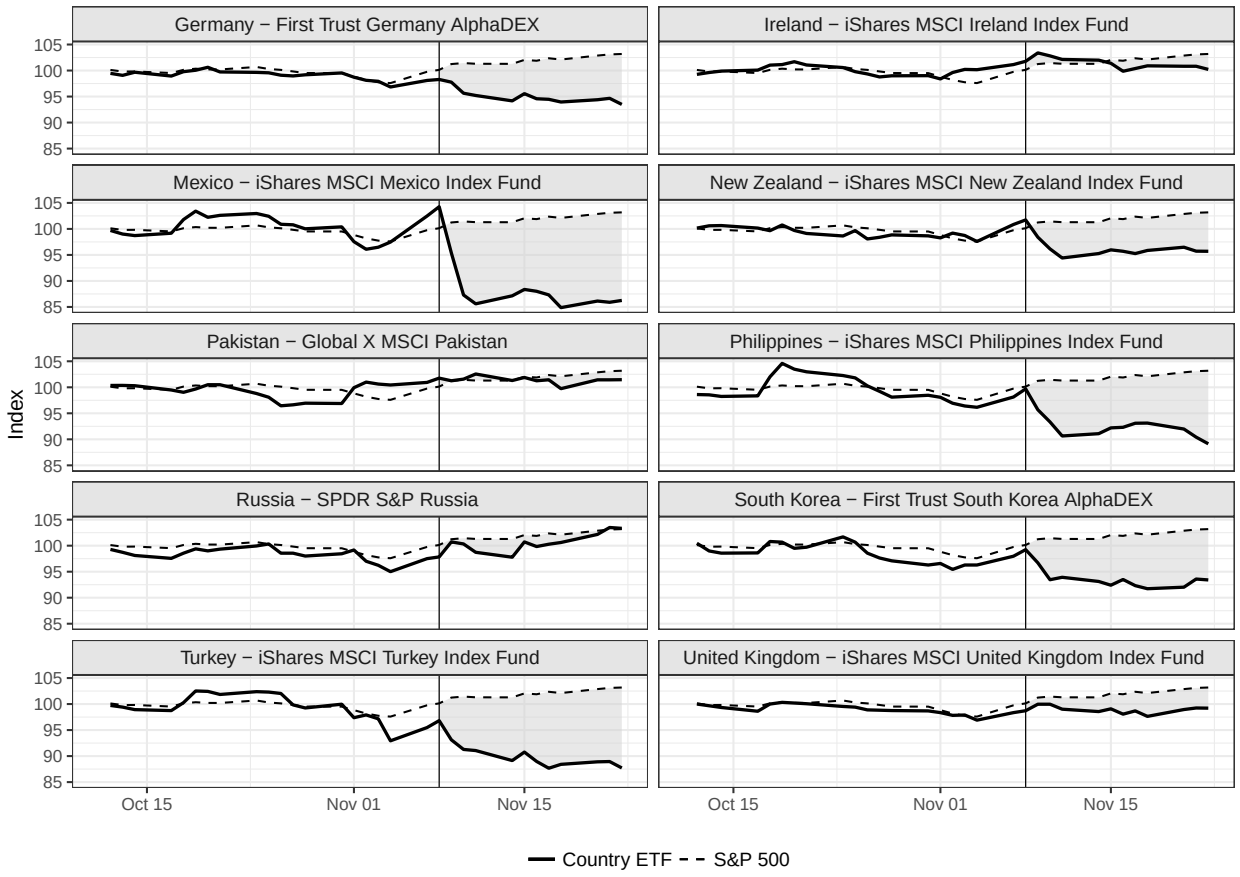

Figure 1. Country exchange-traded funds around the 2016 US presidential election. The plot shows the performance of a sample of single-country ETFs relative to the S&P 500 index before and after the election on November 8, 2016. In the plot, the fund price and the S&P 500 index are normalized, with 100 as the starting value, to facilitate the comparison of their performance in the period shown.

identified by investors as being adversely affected by the election outcome.

To systematically identify the economic impact of the election on third countries, we resort to an event study, as described below.

3.2 Event Study Design

We conduct an event study to uncover the impact of the 2016 US presidential election on third countries as manifested in country ETF prices. Event studies are commonly used by financial economists to estimate the effect of an event on the value of a firm or financial asset (Campbell, Lo and MacKinlay, 1997). Political scientists have more recently recognized their usefulness for determining the effects of political processes and

events—especially elections—on financial markets (e.g. Bernhard and Leblang, 2006; Bechtel and Schneider, 2010; Gaikwad, 2013; Sattler, 2013; Campello, 2015; Wilf, 2016).

The quantity of interest to be estimated in the event study is the abnormal return on country ETFs, defined as the difference between the actual country ETF return and the expected country ETF return in the absence of the election. We define the ETF return as the daily percentage change in the ETF price, formally: $R_{i,t} = (P_{i,t} - P_{i,t-1})/P_{i,t-1}$, where $P_{i,t}$ is the price of ETF i at time t. Since ETF prices embody available information about the value of the underlying country stocks, changes in prices, as measured by ETF returns, should reflect changes in the expected value of the country assets. The abnormal return for ETF i is then defined as

$$AR_{it} \equiv R_{it} - E[R_{it}], \tag{1}$$

where AR_{it}, R_{it}, and $E[R_{it}]$ are the abnormal, observed, and expected (or normal) return of country ETF i at time t. The normal return is the ETF return we would have expected in the absence of the election. The notion of abnormal returns is therefore explicitly counterfactual: it establishes a hypothetical scenario of normal ETF performance, absent the election, against which the observed ETF performance is compared. Inference on the abnormal return thus allows us to assess whether and by how much the event of interest—the 2016 election—affected country ETF valuations.

To estimate the abnormal return on country ETFs, we must define a few elements of the empirical design: a clear definition of the event of interest; a delimitation of the event window—that is, the period over which the impact of the election is to be estimated—and the estimation window—the period over which normal ETF behavior is to be assessed; and a model for estimating normal ETF behavior, which will be used to produce the counterfactual estimates of normal ETF return against which observed ETF behavior will be compared.

Since we are interested in uncovering the effect of the 2016 presidential election on country ETFs, we define the event as the announcement of the election outcome on November 8, 2016. Donald Trump's victory over Hillary Clinton became known on the night of November 8, after polls closed and votes were counted. US stock exchanges where ETFs are traded close at 4 p.m. Therefore, any trading of ETFs based on new information about the election outcome had to have taken place on November 9 or later. We thus define the event window as the day after the election and estimate the abnormal return on country ETFs on

November 9, 2016.

Following common practice in the event study literature, we also estimate abnormal returns for event windows longer than one day to account for the possibility that investors might take some time to fully appreciate the implications of the election outcome for third countries. This is important because short-term market responses for individual countries may be contaminated by investor assessments of peer countries (Brooks, Cunha and Mosley, 2015). Observing only short-term reactions might also lead to overestimation of the election impact, as markets often overreact to unexpected or dramatic events (Bondt and Thaler, 1985; Chopra, Lakonishok and Ritter, 1992). To guard against these possibilities and ensure that our estimates reflect investor assessments of fundamentals—countries' actual exposure and susceptibility to the election outcome—we estimate the effect of the election for varying lengths of the event window: from one day to one month and through the end of 2016. For event windows longer than one day, we compute another quantity of interest: the cumulative abnormal return (CAR). CAR is the sum of the daily abnormal returns over the event window, and thus captures the accumulated impact of the event over the period of interest.

To estimate the normal return, $E[R_{it}]$, that is, the expected ETF return over the event window absent the election, we use a market model in which the ETF return is expressed as a linear function of the market return. For each country ETF, we estimate a normal performance model given by:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}, \tag{2}$$

where R_{it} is the daily return on country ETF i, R_{mt} is the return on the stock market, ε_{it} is the fund-specific return, and α and β are the parameters of the market model to be estimated, where β captures the extent to which the return on the country ETF co-moves with the broader market. We specify the market return, R_{mt}, as a combination of common systematic risk factors that are expected to affect country ETF returns: the return on a broad index of the US stock market (S&P 500), the return on a stock index of developed economies (MSCI World), and the return on an emerging market stock index (MSCI Emerging Markets). These market factors capture exogenous risks that are common to different countries, so that the remaining variation in ETF returns reflects investor responses to the country-specific risks posed by the 2016 US election.

The parameters of the normal performance model are estimated for a subset of the data defined as the

estimation window. We use data from January 1, 2013 to November 7, 2016, a long enough window to allow for the precise estimation of the parameters. For funds established after the start of the estimation window, we use all the available price data. We estimate the normal return—$E[R_{it}]$ in Eq. 1—as the out-of-sample prediction of the market model for the event window, November 9-11. We then subtract the normal return from the observed ETF return, thus obtaining estimates of the abnormal return on country ETFs.

Because some countries have more than one exchange-traded fund dedicated to them, we adopt two approaches in measuring our dependent variable. First, we estimate the abnormal return for each individual ETF, allowing our estimates of investor reaction to vary by fund. We also analyze the abnormal performance in ETF markets at the country level, aggregating ETF returns by country. To do that, we construct country portfolios where the return on the portfolio is the unweighted average of the return on the individual ETFs for the country in question. We then estimate the abnormal return on the country portfolios in the aftermath of the 2016 election.

A common concern about event studies is that market participants might anticipate the event in question. When that happens, asset prices will incorporate the expected impact of the event before the event takes place. In other words, when the event of interest finally occurs, its effect will already have been priced in by investors, rendering the effect undetectable by the event study. Event studies, therefore, are effective when the event of interest is a surprise or reveals new information. A critical assumption for identifying the effect of the 2016 presidential election on international financial markets is that the election outcome was a surprise. As already discussed, on election day, all major forecasting outlets and prediction markets pointed towards a Democratic win. In line with this virtual consensus, financial market participants had already started to price in a Democratic victory. Donald Trump's victory thus came as a surprise to markets and observers.[18] We leverage the unanticipated nature of the Republican candidate's victory to estimate the election's effect on the asset prices of third countries, specifically on country ETFs.

[18] See *The Economist*. "Fright Night – Donald Trump's Surprise Early Success Causes a Sell-Off in Equities and the Mexican Peso." November 8, 2016. See also *The Wall Street Journal*. "Stock Futures Plunge as Donald Trump Posts Surprising Win." November 9, 2016. See also *CNN Money*. "Global markets drop as U.S. election results shock investors." November 9, 2016.

3.3 Regression Analysis of the Market Response to the 2016 Election

Abnormal returns provide a measure of the direction and magnitude of market reactions to the election. We can use the abnormal return estimates to test hypotheses about the determinants of the market reactions in a regression framework. In particular, we test whether countries with closer financial ties to the United States benefited from Donald Trump's election relative to countries with weaker ties. The model specification is:

$$AR_i = \beta_0 + \beta_1 \text{Financial Ties}_i + \Gamma \mathbf{X} + \varepsilon_i,$$

where AR_i is the abnormal return on the individual country ETF or country ETF portfolio on the day after the 2016 election, Financial Ties$_i$ is a measure of the banking or financial relations between the US and country i, $\mathbf{X}$ is a vector of relevant controls, and ε_i is a disturbance term. If markets indeed expected countries with close financial ties to the United States to benefit economically from Donald Trump's election, we should see $\beta_1 > 0$, indicating that investors revised their return expectations upward for those countries when faced with the election surprise.

We adopt two complementary approaches to measuring financial ties between the US and third countries. First, we use data on international banking activity from the Bank of International Settlements (BIS) Locational Banking Statistics. The BIS data provide a comprehensive view of cross-border bank activity by tracking assets held by banks from reporting countries in counterparty countries. In other words, it provides a geographic breakdown of the exposure of lender countries to borrower countries (Avdjiev, McGuire and Wooldridge, 2015; Kalemli-Ozcan, Papaioannou and Perri, 2013; Cerutti, Hale and Minoiu, 2015; Cerutti, Claessens and Ratnovski, 2017; Bruno and Shin, 2015). We thus use data on the reported assets of US banks in third countries to construct a measure of the economic importance of US bank lending in a given country. Specifically, we use the ratio of total US bank assets (in the third quarter of 2016) to GDP. Given the market expectations about Donald Trump's policies toward the banking sector (deregulation, corporate tax reductions), we expect countries with close banking ties to the United States to benefit from the expected increase in banking activity and credit expansion.

Alternatively, we examine whether offshore financial centers benefited relatively more than other countries from Donald Trump's election. Offshore financial centers occupy a central position in international

financial networks. They act as intermediaries channeling resources from international financial centers into various other jurisdictions. Expectations of financial deregulation, lower corporate taxation, and a reduced willingness to address issues of tax and regulatory arbitrage in a Trump administration suggest that offshore financial centers would gain from Trump's election. We thus expect offshore financial centers to benefit from the shock in expectations of financial deregulation emanating from the 2016 election.

In particular, we rely on Garcia-Bernardo et al. (2017)'s concept and operationalization of offshore financial centers, which define two types of OFCs. Sink-OFCs are jurisdictions that attract and retain capital, typically countries characterized as tax havens. Conduit-OFCs, in turn, are intermediate countries through which capital is routed to tax havens, because they exempt the transfer of capital to other countries from taxation. Garcia-Bernardo et al. (2017) estimate countries' positions in the network of global corporate ownership to classify them as sink- or conduit-OFCs. We use their classification to test whether and which types of offshore financial centers were expected to benefit relatively more from the outcome of the 2016 election.

We control for a number of alternative mechanisms and potential confounders. Trade was a major campaign issue in the 2016 election, with countries like China, Mexico, and Canada (by way of NAFTA) appearing as potential targets of new trade barriers. Because trade and financial flows are correlated, we account for a country's total trade with the United States as a share of its GDP, using data from the IMF's Direction of Trade Statistics. Alternatively, we control for countries' trade surplus with the United States. Similarly, we account for potential correlation between cross-border bank lending and FDI by including the stock of US FDI in a country as a share of its GDP, using data on the US direct investment position abroad from the Bureau of Economic Analysis. We also account for a country's level of financial development, as countries with a more developed financial system should both attract more foreign capital and enjoy higher rates of economic growth and thus growth in equity valuation. To that end, we include private credit by deposit money banks as a share of GDP, from the World Bank's Global Financial Development database. Relatedly, we account for the quality of governance and the regulatory environment by including Cerutti, Claessens and Laeven (2017)'s macroprudential policy index and the World Economic Forum's property rights indicator (Pepinsky, 2014). In addition, we control for countries' overall vulnerability to external financial shocks by including the Chinn-Ito index of capital account openness (Chinn and Ito, 2008) and the ratio of international reserves to

GDP. We adjust for economic size and development (GDP and GDP per capita, respectively). Finally, we include measures of political and security ties: whether a country is a formal US military ally (Gibler, 2009) and a liberal democracy (Coppedge et al., 2016).

Because the dependent variable—the ETF abnormal return—is an estimated quantity, it is measured with error. Therefore, we estimate the model using weighted least squares, in which observations are weighted by the inverse of the *AR* standard error (Romano and Wolf, 2017; Lewis and Linzer, 2005). In the analysis of individual ETFs, standard errors are clustered at the country level to account for correlated errors among funds dedicated to the same country.

4 Results

Figure 2 shows our event study estimates for the response of financial investors in ETF markets to the expected impact of the 2016 election outcome on third countries. The plot depicts the abnormal return on the portfolio of ETFs for each country on the day after the election. Overall, country ETFs responded negatively to Donald Trump's election. In most cases, investors revised downward their expectations of economic performance for the countries in the sample following the election surprise. As expected, Mexico appears as an outlier, with an abnormal return of -10% on the first day after the election—a very large reaction by any standards. Still, the market response was substantively large in many other cases, with country portfolios such as South Africa, Philippines, Turkey, Malaysia, Indonesia, and Brazil showing an abnormal performance of -4% to -6%. A few country portfolios—such as the United Kingdom, Ireland, Saudi Arabia, and Russia—showed positive abnormal returns, although uncertainty around the estimates does not allow us to statistically distinguish them from zero. In any case, Figure 2 shows considerable cross-country variation in financial market assessments of the election impact.

The election's impact on global equity markets, moreover, seems to persist over time. Table A3 in the Data Appendix shows the full set of estimates using event windows of 1 and 3 † electiob day $ The resulte are nsestent crose z/ ent for the wind t. The estimates of e normal return ? ouggist th t investors eptat_ their ns cases b $ acco ulateb impact br enb of the b ee 3eveb e in

for most countries. The Mexico ETF portfolio, for example, closed the election week with a cumulative abnormal return of −20%; countries like Brazil, Colombia, Indonesia, Malaysia, Philippines, and South Africa saw a −10% to −16% impact on their equity ETFs; and countries such as Argentina, Chile, India, New Zealand, Poland, Portugal, Turkey, and the United Arab Emirates showed an abnormal performance of −5% to −8%. The estimates suggest that the election shock was almost fully incorporated into global equity prices in the first few days after the election. For most countries, the accumulated effect on country ETFs remained stable until the end of 2016, suggesting that the global financial spillovers from the election did not just reflect market overreactions to a dramatic event, but rather involved investor assessments of country fundamentals.

To assess the role of financial channels in transmitting the election shock across borders, we regress abnormal returns on our two measures of financial ties between a country and the United States. We expect countries with close banking and financial ties to benefit from Donald Trump's election in terms of equity valuations, given investor expectations of financial deregulation and tax reform in the Republican administration. Table 1 reports the results for the regression analysis of individual country ETFs in which the dependent variable is the abnormal return on the day following the election and the independent variables of interest are US bank assets/GDP and whether a country is considered an offshore financial center. The results in Table 1 exclude Mexico ETFs, since the country is an outlier in terms of the negative market response to the election. Given Mexico's close trade and financial ties with the United States, it features as a potentially influential outlier.

We find a positive and statistically significant association between US bank assets as a share of GDP and the response of ETF markets. In other words, while markets showed an overall negative response to Trump's election, countries with denser banking ties to the United States performed better. The association is substantively significant, with an increase from the 25th to the 75th percentile of US bank assets/GDP (0.076) accounting for an increase in abnormal returns of 1 percentage point, based on the coefficient estimate from model 1 in Table 1.

To make sure the results capture the transmission of shocks through linkages established by American financial institutions, rather than simply a country's overall openness to cross-border bank lending, we conduct a placebo test by including all foreign bank assets as a share of GDP (excluding US assets). If American

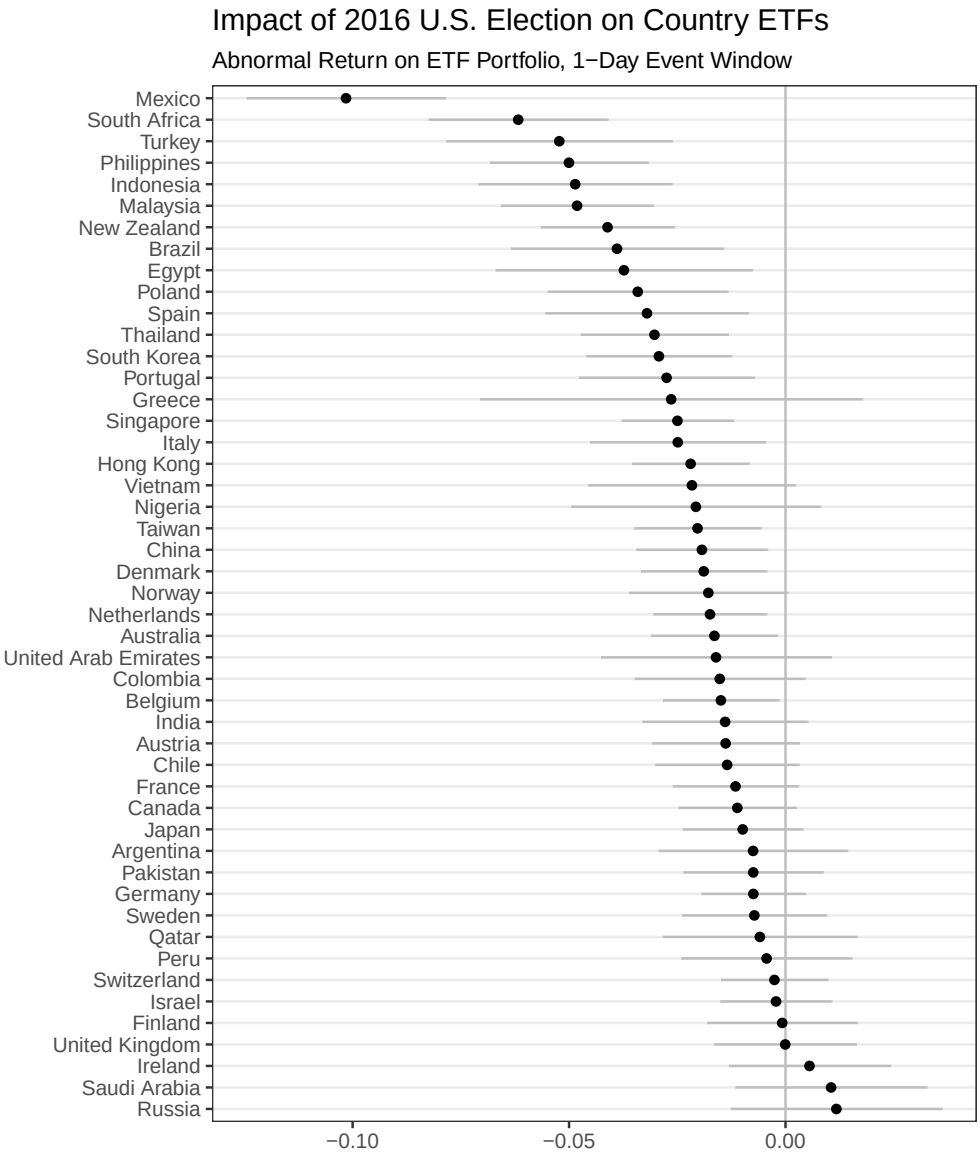

Figure 2. Stock market performance of country ETFs in response to the 2016 US presidential election. The figure shows the abnormal return on the equally-weighted portfolio of ETFs for a given country on the day after the election (November 9, 2016). Horizontal bars are 90% confidence intervals.

banks are indeed the transmission channel for the election shock, then we should not observe an association between a country's ties with banks established elsewhere and the size of the election shock. Model 2 in Table 1 replaces US bank assets with foreign bank assets (ex-US), while model 3 includes both measures. We find no association in either model between the response of ETF markets and a country's financial ties with countries other than the United States, which increases our confidence in the hypothesis that American

financial institutions played a distinct role in transmitting the election shock across borders.

Table 1 also shows the results for conduit offshore financial centers—i.e., countries that serve as international financial intermediaries, channeling capital from major international financial centers into tax havens. Here, too, the coefficient on the OFC variable is positive and statistically significant. The results indicate that OFCs experienced an abnormal return 2.7 percentage points greater than non-OFCs on average, confirming our expectations that offshore financial centers were perceived by market participants as potential winners from a Trump presidency. The results, therefore, indicate that international financial centers that serve as global financial intermediaries had the most to be gained from the expected regulatory reforms of a Republican administration.

While the analysis in Table 1 excludes Mexico due to its potentially distorting role as an outlier, the results are robust to the inclusion of Mexico ETFs, as reported in Table A4 (Data Appendix). As expected, the results for US bank ties are stronger when Mexico is included, since the country is one of the United States' closest economic partners and received much attention during the presidential campaign. We also find weaker evidence of an OFC advantage when Mexico is included, with a positive but smaller association significant at the 10% level. Interestingly we only find a statistically significant and negative effect of trade when Mexico is included in the analysis, which suggests that except for Mexico, most US trading partners were not significantly affected by Trump's election. Finally, we find that US military allies were also perceived by financial markets as losers from the 2016 election. Estimates are negative and significant in most specifications, with military allies experiencing abnormal returns that were 1.2 to 1.7 percentage points lower than non-allies.

A potential concern is that the market reaction to the election and its international spillovers might reflect short-lived price movements resulting from market overreaction or from short-term contagion processes. We thus assess whether our estimates of the financial transmission channel are sensitive to the length of the event window over which the election effects are observed. If the market response is based on country fundamentals—i.e., countries' actual susceptibility to US political shocks—then estimates of the role of financial ties should not quickly decay over time. Figure 3 shows the effect of US bank assets, foreign bank assets (ex-US), and offshore financial centers for event windows of increasing length. The effects are remarkably persistent. The association between US bank assets and the response of ETF markets becomes gradually

Table 1. Regression analysis of the performance of single-country exchange-traded funds (ETFs) in response to the 2016 US presidential election. The dependent variable is the abnormal return on the country ETF on the day after the election (November 9, 2016).

	Dependent variable			
	Abnormal Return on Country ETF (Nov. 9, 2016)			
	(1)	(2)	(3)	(4)
US Bank Assets/GDP	0.127***		0.115**	
	(0.034)		(0.050)	
Foreign Bank Assets (Ex-US)/GDP		0.014	−0.0005	
		(0.010)	(0.009)	
Offshore Financial Center				0.027***
				(0.005)
Trade with US/GDP	0.002	0.030	−0.005	0.050**
	(0.017)	(0.027)	(0.028)	(0.022)
US FDI Stock/GDP	−0.007	−0.012	−0.005	−0.027***
	(0.005)	(0.009)	(0.009)	(0.007)
GDP/Capita	0.0005***	0.0001	0.0003*	0.0004**
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
GDP	0.002*	0.002**	0.002	0.002**
	(0.001)	(0.001)	(0.001)	(0.001)
International Reserves/GDP	−0.012	−0.001	−0.009	−0.021**
	(0.009)	(0.008)	(0.008)	(0.009)
Capital Account Openness	0.006***	0.003	0.004	0.006**
	(0.002)	(0.003)	(0.003)	(0.002)
Macroprudential Policy Index	0.0002	0.0002	0.001	−0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Military Ally	−0.017***	−0.009	−0.015***	−0.012**
	(0.005)	(0.006)	(0.006)	(0.006)
Liberal Democracy	0.001	0.026	0.015	−0.005
	(0.018)	(0.023)	(0.023)	(0.019)
Property Rights	−0.016***	−0.007	−0.011*	−0.014***
	(0.005)	(0.006)	(0.006)	(0.005)
Constant	0.044**	−0.010	0.013	0.042**
	(0.020)	(0.029)	(0.027)	(0.021)
Observations	130	126	126	130
R^2	0.273	0.192	0.246	0.256
Adjusted R^2	0.205	0.114	0.166	0.187
F Statistic	4.019***	2.460***	3.068***	3.692***

Weighted least squares estimates with standard errors clustered at the country level in parentheses.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

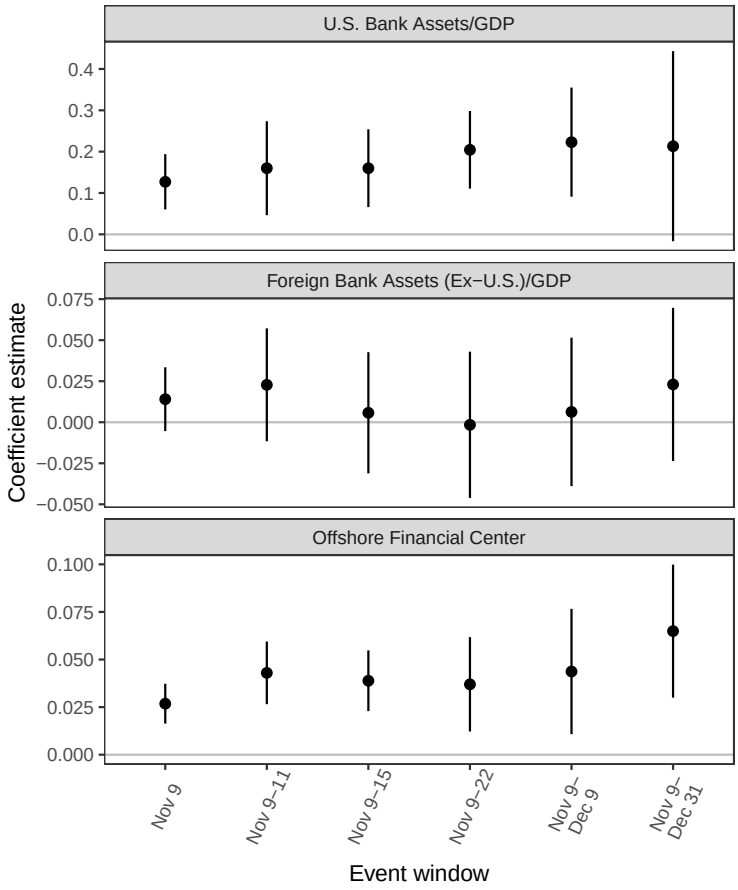

Figure 3. Effect of financial ties on market reactions to the 2016 presidential election. The graph shows coefficient estimates for the financial tie variables as the window over which abnormal returns are estimated widens. From left to right, abnormal returns on country ETFs are first estimated for the day following the election (Nov. 9), then cumulative abnormal returns are estimated for the three (Nov. 9–11), seven (Nov. 9–15), fourteen (Nov. 9–22), and thirty-one (Nov. 9–Dec. 9) days following the election, and lastly from the election until the end of the year (Nov. 9–Dec. 31). Full model results are presented in Tables A5 and A6 of the Data Appendix.

stronger as the event window widens, and the same is true for offshore financial centers. We also find that the placebo effect of foreign bank assets (excluding the US) remains statistically insignificant for any length of the event window. The confidence intervals for all three variables widen as the event window increases in length, a pattern that is expected, given that the statistical power of event study designs decreases with the length of the event window (Campbell, Lo and MacKinlay, 1997). Overall, these results confirm that countries with closer ties to the US banking system fared better in response to the 2016 election shock.

5 Robustness Checks

We submit the results to a series of robustness checks. First, we test alternative measures of trade and security ties. The results for trade remain the same if we use a country's trade surplus with the United States instead of its total trade: the estimates are negative and significant if Mexico is included and insignificant otherwise. We also asses whether members of the Trans-Pacific Partnership (TPP), countries that have signed a free trade agreement with the United States, and NATO members were affected by the election, but we find no significant results. The results for the financial variables remain the same.

Second, we also consider an alternative way to capture the financial market response. Political economists have often resorted to broad-based local stock market indices to capture market expectations on the performance of a country's economy (e.g. Bernhard and Leblang, 2006; Sattler, 2013; Mosley and Singer, 2008; Jensen and Schmith, 2005; Pantzalis, Stangeland and Turtle, 2000). One of the advantages of using local stock market indices is the wider cross-national coverage compared to country ETFs, since not every foreign stock market has an ETF dedicated to it trading in a US stock exchange. Using local indices also helps guard against confounding exchange rate effects. Since ETFs trading in the United States are denominated in US dollars, the election's effect on a country's exchange rate against the dollar can translate into changes in the ETF's value even if there is no effect on the country's stock valuations. Examining local stock markets thus allows us to assess whether the observed effects in ETF markets are driven by exchange rate movements. One major downside analyzing national stock markets is that these are typically less liquid than global ETF markets—especially in developing or emerging markets—and impose higher transaction costs for international investors. Local stock markets, therefore, should be less efficient than international ETF markets in pricing new information. Moreover, local stock markets reflect more closely local risks and the sentiment of local investors, while ETF markets better reflect global risks—such as shocks emanating from the center of the international financial system—and the market sentiment of global investors (Pennathur, Delcoure and Anderson, 2002; Levy and Lieberman, 2013; Cunha, 2015). We thus estimate the impact of the 2016 US presidential election on the main local stock market indices of foreign countries as a complementary approach.

Figure A1 shows abnormal returns on national stock market indices on the day after Donald Trump's election. Among the most negatively affected countries were Japan, New Zealand, Mexico, Iran, and Taiwan,

with abnormal returns of −1% to −3%, while some of the most positively affected were Luxembourg, Russia, Ireland, Bermuda, and Switzerland, with abnormal returns of 2-5%.[19] In Table A8 we replicate the regression analysis of ETFs using the abnormal return on national stock indices as the dependent variable. The results are overall the same as the ETF results. US bank assets/GDP and offshore financial centers are positively and significantly associated with market responses at the 5% and 10%, respectively, while the placebo test using foreign bank assets (excluding the US) is insignificant.

6 Assessing the Mechanism: Global Banks and Expectations of Financial Deregulation

We attempt to isolate the role of expectations of financial deregulation in propagating the election shock across the globe. If a shock to expectations of financial deregulation is indeed one of the major factors behind global market responses to the 2016 election, then we should be able to observe a positive effect of the election on the stock valuations of financial institutions. Moreover, given the central position of American financial institutions in global financial networks, expectations of more lenient funding conditions coupled with looser regulatory standards and a diminished propensity for international regulatory cooperation under a Republican administration should especially favor US banks with a global reach.

To capture this mechanism, we analyze the effect of the 2016 election on the stock market valuations of US banks. We collect daily data on the stock price of 403 publicly-traded financial institutions listed on the New York Stock Exchange and Nasdaq. Figure 4 reveals that bank stock prices were overall positively correlated with Donald Trump's poll numbers and negatively correlated with Hillary Clinton's, a pattern that suggests markets anticipated a Republican victory to be a positive development for the financial industry.[20]

To assess the effect of Donald Trump's election more systematically, we use the event study design described above and estimate the abnormal return on bank stocks on the day after the election. If investors

[19] Venezuela appears as an outlier with an abnormal return of 13%. The large positive variation in the country's main stock index can be attributed to the unusually high volatility in the Venezuelan stock market during the period, as well as to flight-to-safety dynamics, as Venezuelans hedged against a possible collapse of the bolivar in a rapidly deteriorating political and economic environment. See *Bloomberg*. "Emerging-Market Rout Extends to Gulf Stocks on Trump Policy Risk." November 13, 2016. Available at http://www.bloomberg.com/news/articles/2016-11-13/emerging-market-rout-extends-to-gulf-stocks-on-trump-risk. See also *The Market Mogul*. "The Curious Case Of The Venezuelan Stock Market." November 14, 2006. Available at http://themarketmogul.com/curious-case-venezuelan-stock-market/.

[20] This descriptive pattern is consistent with existing analyses of the stock market performance of different industries throughout the 2016 presidential campaign (Wagner, Zeckhauser and Ziegler, 2017; BlackRock Investment Institute, 2016).

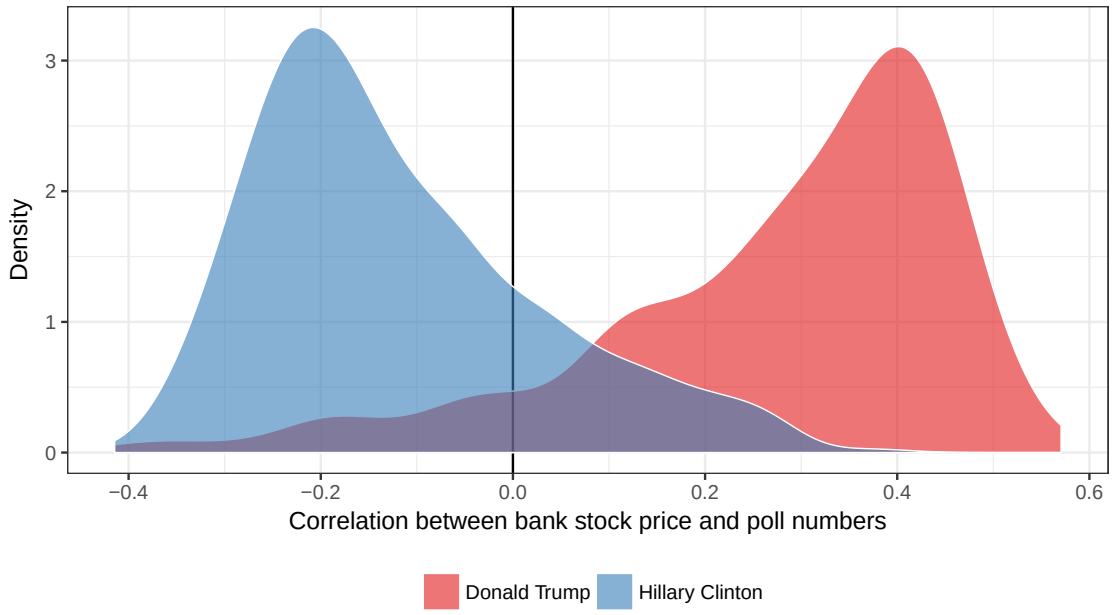

Figure 4. Presidential polls and the performance of US bank stocks. The graph shows the distribution of correlations between each bank's daily stock price and poll numbers for Hillary Clinton and Donald Trump throughout the 2016 presidential campaign. Polling data is from *FiveThirtyEight*.[a] We use the median poll when multiple polls are available for the same day.

[a]http://projects.fivethirtyeight.com/general-model/president_general_polls_2016.csv.

expected enhanced financial deregulation during a Republican presidency, then the 2016 election surprise should have had a positive effect on bank stock valuations—particularly those of global banks. To assess the effect of the election on US global banks, we then regress the estimated abnormal return on measures of financial institutions' international exposure.

We rely on two complementary measures to capture the global exposure of US financial institutions. First, we use a dichotomous classification based on the Financial Stability Board's list of global systemically important banks (Basel Committee on Banking Supervision, 2013). Banks are classified as systemically important on the basis of size, interconnectedness, global activity, and complexity. For our purposes, this classification captures relevant dimensions such as global banks' central position in international financial networks and their ability to engage in international regulatory arbitrage. Second, we use a continuous measure of the size of banks' international operations. We use a bank's foreign assets as a proportion of its total assets as an indicator of its global reach. Data on foreign exposure are reported by financial institutions in their Country Exposure Information Report (Form 009a) to the Federal Financial Institutions Examination

Council (FFIEC). We use data on banks' foreign exposure for the third quarter of 2016.[21] We adjust our estimates for bank size (total assets and the market value of equity), profitability (pre-tax income as a share of assets), revenue growth, risk as captured by leverage (short-term and long-term debt as a share of total assets), and the amount of taxes paid.

The event study estimates show that the 2016 election surprise had a positive average effect on financial institutions. The average abnormal return across all financial institutions was 2% on the day after the election (t-statistic = 5.78). The accumulated election impact further increased on the following days, with a cumulative average abnormal return of 6% after three days (t = 10.94), 9% after two weeks (t = 8.53), and 16% by the end of 2016 (t = 8.10). Bank stocks thus experienced a large positive boost from Donald Trump's election.

In addition, we find strong evidence that the expected regulatory reforms in a Republican administration were perceived by markets as especially advantageous to US global banks. Table 2 shows the results of the regression analysis of abnormal returns measured on the day after election. Global banks as defined by the FSB's classification experienced abnormal returns 4.1 percentage-points higher than domestically-oriented banks on average—an economically significant difference. Our continuous measure of the extent of US banks' international operations also yields statistically significant results. Global banks have on average 11% of their total assets in the form of foreign assets, while domestically-oriented banks have less than 1% in foreign assets. Our regression estimates suggest that such a difference in asset exposure to foreign countries is associated with a 1 percentage-point increase in abnormal returns as a result of the election. Moreover, the difference between global and non-global banks persists over longer horizons. Figure 5 shows that the difference remains largely stable over an increasing event window, with effects lasting at least through the end of 2016. As was the case in the analysis of ETFs, the confidence intervals widen over longer horizons, since the power of event study designs decreases with the length of the event window. However, such persistence in the magnitude of the estimates suggests that the election shock produced a lasting change in the stock valuations of US global banks.

[21] Financial institutions are only required to publicly report information on exposure to any country that exceeds 1 percent of the institution's total assets or 20 percent of its total capital, whichever is less. Therefore, institutions with foreign exposures that do not meet this threshold appear in the data as having no foreign assets, even when they do engage in cross-border lending. In our regression analysis, this type of censoring may induce bias in either direction (Rigobon and Stoker, 2009). However, the consistency of the results across our different measures increases our confidence in the estimates. In particular, the fact that the results for foreign exposure are similar to the results for global systemically important banks is reassuring, as the latter classification is based on complete confidential information held by regulators and thus not subject to a similar censoring mechanism.

Table 2. Global banks and the 2016 election.
Regression analysis of the stock market performance of US banks in response to the 2016 US presidential election.

	Dependent variable	
	Abnormal Return on Bank Stocks (Nov. 9, 2016)	
	(1)	(2)
Global Bank	0.041***	
	(0.009)	
International Operations (Foreign Assets/Total Assets)		0.086***
		(0.028)
Total Assets	−0.041***	−0.019***
	(0.008)	(0.006)
Market Value of Equity	0.196***	0.101
	(0.069)	(0.072)
Profitability	0.680***	0.622***
	(0.191)	(0.193)
Revenue Growth	−0.006	−0.007
	(0.009)	(0.009)
Leverage	−0.059***	−0.060***
	(0.017)	(0.017)
Taxes Paid (% Pre-tax Income)	−0.003	−0.003
	(0.003)	(0.003)
Constant	0.023***	0.024***
	(0.003)	(0.003)
Observations	403	403
R^2	0.136	0.114
Adjusted R^2	0.121	0.099
F Statistic	8.899***	7.283***

Weighted least squares estimates with standard errors in parentheses.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

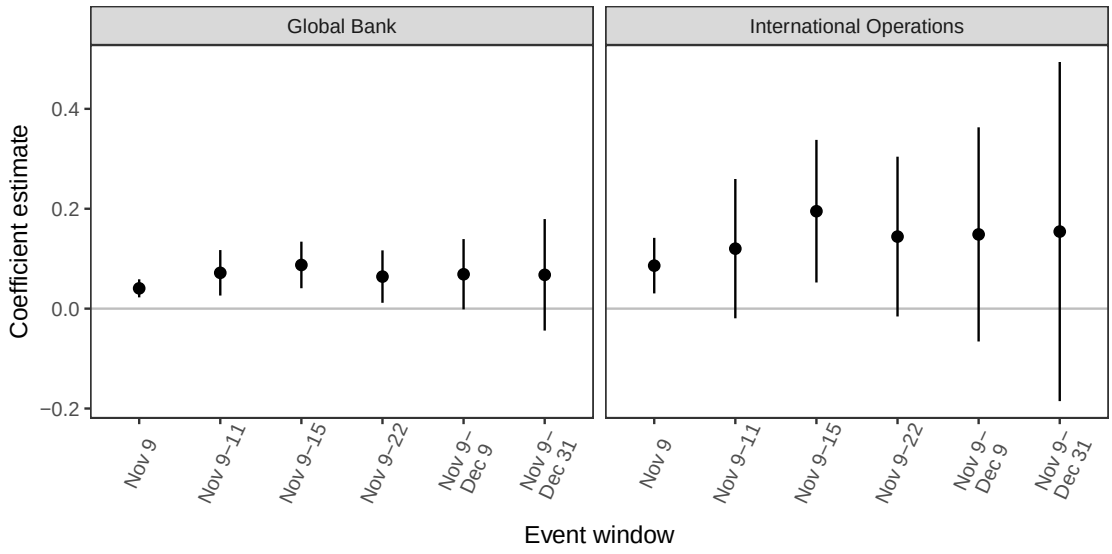

Figure 5. Global banks and stock market reactions to the 2016 presidential election. The graph shows coefficient estimates for the variables *global bank* and *international operations* as the window over which abnormal returns are estimated widens. From left to right, abnormal returns on bank stocks are first estimated for the day following the election (Nov. 9), then cumulative abnormal returns are estimated for the three (Nov. 9–11), seven (Nov. 9–15), fourteen (Nov. 9–22), and thirty-one (Nov. 9–Dec. 9) days following the election, and lastly from the election until the end of the year (Nov. 9–Dec. 31).

These findings corroborate our expectations that the global financial spillovers from the 2016 election were channeled through cross-border financial linkages in which US global banks play a central role. Overall, the results are consistent with our hypothesis that the election affected equity valuations in third countries through its effect on expectations of increased international credit and liquidity funded by American financial institutions.

7 Conclusion

We provide a systematic analysis of international financial markets in response to the 2016 US presidential election. A distinct advantage of analyzing the recent US election is that it provides a unique setting to analyze financial investors' responses to the election in a quasi-natural experimental setting. Given the fact that the election outcome was not expected by most market participants and thus could not have been priced into international equity markets in advance in combination with the candidates' different campaign platforms across many policy dimensions, we can identify the effect of the US election on third countries. Studying

the evolution and performance of country-dedicated exchange-traded funds (ETFs), we can detect those countries that are most and least vulnerable to sudden shifts in US politics and foreign policy.

Our findings suggest that the 2016 US presidential election had an overall negative effect on third countries. This finding is consistent with conventional accounts according to which investors expected a adverse effects from changes in US trade and investment policies (Wagner, Zeckhauser and Ziegler, 2017; McCormack, Seville and Brown, 2017). However, our results also show that there was considerable variation in market assessments of the impact of the 2016 election on other nations. Whereas the average country was expected by markets to be worse off in a Trump presidency relative to a Clinton presidency—as captured by the price movements of country-dedicated exchange-traded funds in the aftermath of the election—countries with close financial ties to the United States were seemingly immune to the election shock. In particular, we find that investors in ETF markets judged countries that serve as large financial intermediaries routing capital to tax havens to be better off under a Trump presidency relative to other countries. These findings are consistent with the hypothesis that investors acted upon the expectation of financial deregulation in US financial markets.

Our findings underscore the importance of financial ties to the US in transmitting political shocks from the US to the rest of the world. While international trade ties with the US allow for negative, short-run spillover effects from a protectionist turn, close financial ties provide a countervailing effect, benefiting countries that were important destinations for US bank loans. In particular, our results indicate how expectations concerning financial deregulation, lower corporate taxation, and a reduced willingness to address issues of tax and regulatory arbitrage in a Trump administration benefit offshore financial centers. According to our findings, these seem to be shielded from the election shock. The results thus provide evidence for the importance of financial interconnectedness in transmitting political shocks from the United States into global financial markets.

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Data Appendix

Table A1. List of single-country exchange-traded funds (ETFs) included in the analysis.

Country	*Fund Symbol*	*Fund Name*
Argentina	ARGT	Global X MSCI Argentina ETF
Australia	AUSE	WisdomTree Australia Dividend Fund ETF
Australia	EWA	iShares MSCI Australia Index Fund ETF
Australia	FAUS	First Trust Australia AlphaDEX ETF
Australia	KROO	IndexIQ Australia Small Cap ETF
Australia	QAUS	SPDR MSCI Australia Quality Mix ETF
Austria	EWO	iShares MSCI Austria Index Fund ETF
Belgium	EWK	iShares MSCI Belgium Capped ETF
Brazil	BRAQ	Global X Brazil Consumer ETF
Brazil	BRAZ	Global X Brazil Mid Cap ETF
Brazil	BRF	Market Vectors Brazil Small-Cap ETF
Brazil	DBBR	Deutsche X-Trackers MSCI Brazil Currency-Hedged Equity Fund ETF
Brazil	EWZ	iShares MSCI Brazil Index Fund ETF
Brazil	EWZS	iShares MSCI Brazil Small Cap Index Fund (EWZS) ETF
Brazil	FBZ	First Trust Brazil AlphaDEX ETF
Brazil	UBR	ProShares Ultra MSCI Brazil ETF
Canada	CNDA	IndexIQ Canada Small Cap ETF
Canada	EWC	iShares MSCI Canada Index Fund ETF
Canada	FCAN	First Trust Canada AlphaDEX ETF
Canada	QCAN	SPDR MSCI Canada Quality Mix ETF
Chile	ECH	iShares MSCI Chile Index Fund ETF
China	AFTY	CSOP FTSE China A50 ETF
China	ASHR	Deutsche X-Trackers Harvest China ETF
China	ASHS	Deutsche X-Trackers Hrvst CSI 500China A Sm Cp ETF
China	CHII	Global X China Industrials ETF
China	CHIQ	Global X China Consumer ETF
China	CHIX	Global X China Financials ETF
China	CN	Deutsche X-Trackers Hvst MSCI All China Eq ETF
China	CNXT	Market Vectors ChinaAMC SME-ChiNext ETF
China	CNYA	iShares MSCI China A ETF
China	CXSE	WisdomTree China ex-State-Owd Entpr ETF
China	DSUM	PowerShares Chinese Yuan Dim Sum Bond Portfolio ETF
China	ECNS	iShares MSCI China Small Cap Index Fund (ECNS) ETF
China	FCA	First Trust China AlphaDEX ETF
China	FXI	iShares FTSE/Xinhua China 25 Index Fund ETF
China	FXP	ProShares Ultra FTSE China 50
China	GXC	SPDR S&P China ETF
China	HAO	Guggenheim China Small Cap ETF
China	KBA	KraneShares Bosera MSCI China A Shr ETF
China	KCNY	KraneShares E Fund China Comrcl Papr ETF
China	KFYP	KraneShares CSI China Five Year Plan ETF
China	KWEB	KraneShares CSI China Internet ETF
China	MCHI	iShares MSCI China ETF
China	PEK	Market Vectors China ETF

China	PGJ	PowerShares Golden Dragon China Portfolio
China	XPP	ProShares Ultra FTSE/Xinhua China 25 ETF
China	YAO	Guggenheim China All-Cap ETF
Colombia	GXG	Global X MSCI Colombia ETF
Colombia	ICOL	iShares MSCI Colombia Capped ETF
Denmark	EDEN	iShares MSCI Denmark Cppd Investable Mkt
Egypt	EGPT	Market Vectors Egypt Index ETF
Finland	EFNL	iShares MSCI Finland Capped Inv Mkt
France	EWQ_	iShares MSCI France Index Fund ETF
Germany	DAX	Recon Capital DAX Germany ETF
Germany	DBGR	Deutsche X-Trackers MSCI Germany Hedged Eq ETF
Germany	DXGE	WisdomTree Germany Hedged Equity Fund ETF
Germany	EWG	iShares MSCI Germany Index Fund ETF
Germany	EWGS	iShares MSCI Germany Small Cap
Germany	FGM	First Trust Germany AlphaDEX ETF
Germany	HEWG	iShares Currency Hedged MSCI Germany ETF
Germany	QDEU	SPDR MSCI Germany Quality Mix ETF
Greece	GREK	Global X MSCI Greece ETF
Hong Kong	EWH	iShares MSCI Hong Kong Index Fund ETF
Hong Kong	FHK	First Trust Hong Kong AlphaDEX ETF
India	EPI	WisdomTree India Earnings Fund ETF
India	INCO	EGShares India Consumer ETF
India	INDA	iShares MSCI India Index ETF
India	INDY	iShares S&P India Nifty 50 Index Fund ETF
India	INP	iPath MSCI India IndexSM ETN
India	INXX	EGShares India Infrastructure ETF
India	PIN	PowerShares India Portfolio ETF
India	SCIF	Market Vector India Small-Cap Index ETF
India	SCIN	EGShares India Small Cap ETF
India	SMIN	iShares MSCI India Small Cap ETF
Indonesia	EIDO	iShares MSCI Indonesia Investable Market Index Fund ETF
Indonesia	IDX	Market Vectors Indonesia Index ETF
Ireland	EIRL	iShares MSCI Ireland Capped Investable Market Index Fund ETF
Israel	EIS	iShares MSCI Israel Capped Investable Market Index Fund ETF
Israel	ISRA	Market Vectors Israel ETF
Italy	EWI	iShares MSCI Italy Index Fund ETF
Japan	DBJP	Deutsche X-Trackers MSCI Japan Currency-Hedged Equity Fund ETF
Japan	DFJ	WisdomTree Japan SmallCap Fund ETF
Japan	DXJ	WisdomTree Japan Total Dividend Fund ETF
Japan	DXJC	WisdomTree Japan Hedged Capital Goods ETF
Japan	DXJF	WisdomTree Japan Hedged Financials ETF
Japan	DXJH	WisdomTree Japan Hedged Health Care ETF
Japan	DXJR	WisdomTree Japan Hedged Real Estate ETF
Japan	DXJS	WisdomTree Japan Hedged SmallCap Equity ETF
Japan	EWJ	iShares MSCI Japan Index Fund ETF
Japan	EZJ	ProShares Ultra MSCI Japan ETF
Japan	FJP	First Trust Japan AlphaDEX ETF
Japan	HEWJ	iShares Currency Hedged MSCI Japan ETF
Japan	JDG	WisdomTree Japan Dividend Growth ETF
Japan	JHDG	WisdomTree Japan Hedged Dividend Gr ETF
Japan	JPMV	iShares MSCI Japan Minimum Volatility ETF

Japan	JPXN	iShares JPX-Nikkei 400 ETF
Japan	NKY	Precidian MAXIS Nikkei 225 Index ETF
Japan	QJPN	SPDR MSCI Japan Quality Mix ETF
Japan	SCJ	iShares MSCI Japan Sm Cap ETF
Malaysia	EWM	iShares MSCI Malaysia Index Fund ETF
Mexico	DBMX	Deutsche X-Trackers MSCI Mexico Hedged Eq ETF
Mexico	EWW	iShares MSCI Mexico Index Fund ETF
Mexico	QMEX	SPDR MSCI Mexico Quality Mix ETF
Mexico	UMX	ProShares Ultra MSCI Mexico Investable Market ETF
Netherlands	EWN	iShares MSCI Netherlands Index Fund ETF
New Zealand	ENZL	iShares MSCI New Zealand Investable Market Index Fund ETF
Nigeria	NGE	Global X MSCI Nigeria ETF
Norway	ENOR	iShares MSCI Norway Cppd Investable Mkt
Norway	NORW	Global X MSCI Norway ETF
Pakistan	PAK	Global X MSCI Pakistan ETF
Peru	EPU	iShares MSCI All Peru Capped Index Fund ETF
Philippines	EPHE	iShares A79MSCI Philippines Investable Market Index Fund ETF
Poland	EPOL	iShares MSCI Poland Investable Market Index Fund ETF
Poland	PLND	Market Vectors Poland ETF
Portugal	PGAL	Global X MSCI Portugal ETF
Qatar	QAT	iShares MSCI Qatar Capped ETF
Russia	ERUS	iShares MSCI Russia Capped Index Fund ETF
Russia	RBL	SPDR S&P Russia ETF
Russia	RSX	Market Vectors TR Russia ETF
Russia	RSXJ	Market Vectors Russia Small-Cap ETF
Saudi Arabia	KSA	iShares MSCI Saudi Arabia Capped ETF
Singapore	EWS	iShares MSCI Singapore Index Fund ETF
South Africa	EZA	iShares MSCI South Africa Index Fund ETF
South Korea	DBKO	Deutsche X-Trackers MSCI South Kor Hdgd Eq ETF
South Korea	EWY	iShares MSCI South Korea Index Fund ETF
South Korea	FKO	First Trust South Korea AlphaDEX ETF
South Korea	HKOR	Horizons Korea KOSPI 200 ETF
South Korea	QKOR	SPDR MSCI South Korea Quality Mix ETF
Spain	EWP	iShares MSCI Spain Index Fund ETF
Spain	QESP	SPDR MSCI Spain Quality Mix ETF
Sweden	EWD	iShares MSCI Sweden Capped ETF
Switzerland	EWL	iShares MSCI Switzerland Index Fund ETF
Switzerland	FSZ	First Trust Switzerland AlphaDEX ETF
Taiwan	EWT	iShares MSCI Taiwan Index Fund ETF
Taiwan	FTW	First Trust Taiwan AlphaDEX ETF
Taiwan	QTWN	SPDR MSCI Taiwan Quality Mix ETF
Thailand	THD	iShares MSCI Thailand Investable Market Index Fund ETF
Turkey	TUR	iShares MSCI Turkey Investable Market Index Fund ETF
United Arab Emirates	UAE	iShares MSCI UAE Capped ETF
United Kingdom	DBUK	Deutsche X-Trackers MSCI UK Hdgd Eq ETF
United Kingdom	DXPS	WisdomTree United Kingdom Hedged Equity ETF
United Kingdom	EWU	iShares MSCI United Kingdom Index Fund ETF
United Kingdom	EWUS	iShares MSCI United Kingdom Small Cap
United Kingdom	FKU	First Trust United Kingdom AlphaDEX ETF
United Kingdom	QGBR	SPDR MSCI United Kingdom Quality Mix ETF
Vietnam	VNM	Market Vectors Vietnam ETF

Table A2. Exchange-traded fund (ETF) return reactions to the 2016 US presidential election (1). The table shows the abnormal return on individual country ETFs on the day after the election (Nov. 9), as well as the cumulative abnormal return (CAR) for the 3 days following the election (Nov. 9–11) and through the end of the year (Nov. 9–Dec. 31).

		Nov. 9		*Nov. 9–11*		*Nov. 9–Dec. 31*	
Country	*Fund Symbol*	*AR*	*t*	*CAR*	*t*	*CAR*	*t*
Argentina	ARGT	-0.01	-0.57	**-0.06**	**-2.68**	-0.05	-0.63
Australia	AUSE	**-0.03**	**-2.58**	-0.03	-1.53	-0.05	-0.92
Australia	EWA	**-0.02**	**-2.29**	-0.03	-1.63	-0.04	-0.74
Australia	FAUS	-0.01	-0.76	-0.04	-1.57	-0.06	-0.74
Australia	KROO	-0.01	-0.48	-0.02	-1.14	-0.07	-0.95
Australia	QAUS	-0.01	-0.89	-0.03	-1.37	-0.02	-0.26
Austria	EWO	-0.01	-1.36	-0.02	-1.15	-0.03	-0.54
Belgium	EWK	-0.02	-1.90	**-0.03**	**-2.41**	-0.05	-1.06
Brazil	BRAQ	-0.01	-0.45	**-0.15**	**-5.72**	-0.12	-1.33
Brazil	BRAZ	**-0.04**	**-2.43**	**-0.11**	**-4.09**	-0.09	-1.04
Brazil	BRF	-0.04	-1.07	**-0.16**	**-2.37**	**-0.57**	**-2.36**
Brazil	DBBR	-0.02	-1.09	**-0.07**	**-2.91**	-0.11	-1.27
Brazil	EWZ	**-0.05**	**-3.19**	**-0.15**	**-6.06**	-0.13	-1.49
Brazil	EWZS	**-0.04**	**-2.55**	**-0.15**	**-5.89**	-0.12	-1.40
Brazil	FBZ	**-0.04**	**-2.11**	**-0.15**	**-4.90**	-0.11	-1.04
Brazil	UBR	**-0.08**	**-2.79**	**-0.30**	**-5.85**	-0.26	-1.44
Canada	CNDA	0.00	-0.26	**-0.06**	**-2.71**	0.02	0.20
Canada	EWC	-0.01	-1.34	**-0.03**	**-2.78**	0.01	0.13
Canada	FCAN	-0.01	-1.05	-0.01	-0.58	-0.02	-0.29
Canada	QCAN	-0.02	-1.75	-0.03	-1.63	0.01	0.22
Chile	ECH	-0.01	-1.35	**-0.08**	**-4.61**	-0.09	-1.57
China	AFTY	-0.02	-0.69	-0.02	-0.44	-0.09	-0.67
China	ASHR	-0.02	-0.71	-0.01	-0.22	-0.11	-0.88
China	ASHS	-0.02	-0.76	-0.01	-0.27	-0.16	-0.95
China	CHII	-0.01	-0.60	-0.01	-0.35	-0.09	-0.83
China	CHIQ	**-0.03**	**-2.58**	**-0.05**	**-2.79**	-0.10	-1.49
China	CHIX	**-0.03**	**-2.26**	-0.04	-1.90	-0.11	-1.34
China	CN	-0.03	-1.59	-0.05	-1.49	-0.12	-1.16
China	CNXT	-0.03	-0.79	-0.03	-0.48	-0.20	-1.02
China	CNYA	-0.01	-0.93	0.00	-0.19	-0.10	-1.67
China	CXSE	-0.01	-0.55	-0.03	-1.13	-0.10	-1.23
China	DSUM	0.00	-0.21	-0.01	-1.53	**-0.05**	**-2.28**
China	ECNS	-0.02	-1.68	-0.01	-0.34	-0.07	-0.83
China	FCA	-0.02	-1.41	-0.03	-0.89	-0.08	-0.77
China	FXI	**-0.04**	**-3.26**	**-0.06**	**-2.96**	-0.10	-1.50
China	FXP	**0.07**	**3.33**	**0.12**	**3.05**	0.20	1.56
China	GXC	**-0.03**	**-3.19**	**-0.06**	**-3.39**	-0.11	-1.84

China	HAO	**-0.02**	**-1.99**	**-0.04**	**-1.99**	-0.09	-1.28
China	KBA	-0.02	-1.11	-0.02	-0.48	-0.13	-0.98
China	KCNY	**-0.01**	**-3.86**	0.00	0.35	-0.03	-1.47
China	KFYP	0.00	-0.15	-0.01	-0.24	-0.05	-0.40
China	KWEB	-0.02	-1.56	**-0.06**	**-2.40**	-0.17	-1.94
China	MCHI	**-0.04**	**-3.14**	**-0.06**	**-3.04**	-0.11	-1.62
China	PEK	-0.02	-0.77	-0.01	-0.22	-0.08	-0.68
China	PGJ	**-0.02**	**-2.01**	**-0.06**	**-2.92**	**-0.14**	**-2.10**
China	XPP	**-0.08**	**-3.76**	**-0.13**	**-3.31**	-0.21	-1.59
China	YAO	**-0.03**	**-2.59**	**-0.05**	**-3.03**	-0.10	-1.67
Colombia	GXG	**-0.04**	**-3.03**	**-0.11**	**-5.29**	-0.02	-0.32
Colombia	ICOL	0.01	0.40	**-0.09**	**-3.25**	0.02	0.25
Denmark	EDEN	**-0.02**	**-2.14**	**-0.04**	**-2.93**	-0.04	-0.79
Egypt	EGPT	**-0.04**	**-2.08**	0.04	1.35	0.03	0.31
Finland	EFNL	0.00	-0.07	-0.01	-0.79	-0.01	-0.21
France	EWQ	-0.01	-1.34	**-0.03**	**-2.01**	-0.02	-0.31
Germany	DAX	-0.01	-0.84	-0.02	-0.84	0.00	-0.06
Germany	DBGR	0.01	1.08	0.01	0.61	0.06	1.02
Germany	DXGE	0.00	-0.37	0.00	-0.06	0.03	0.71
Germany	EWG	-0.01	-1.64	-0.02	-1.39	-0.02	-0.33
Germany	EWGS	-0.02	-1.69	**-0.04**	**-2.27**	-0.05	-0.93
Germany	FGM	-0.02	-1.70	**-0.04**	**-2.66**	-0.03	-0.54
Germany	HEWG	0.00	-0.28	0.00	-0.22	0.03	0.63
Germany	QDEU	-0.01	-0.64	-0.02	-1.25	0.00	0.02
Greece	GREK	-0.03	-0.98	-0.04	-0.96	0.03	0.18
Hong Kong	EWH	**-0.02**	**-2.88**	**-0.03**	**-2.35**	**-0.12**	**-2.34**
Hong Kong	FHK	-0.02	-1.75	-0.03	-1.70	-0.08	-1.22
India	EPI	-0.01	-0.62	**-0.06**	**-2.93**	-0.07	-1.05
India	INCO	-0.01	-0.91	**-0.09**	**-4.08**	-0.12	-1.52
India	INDA	-0.01	-0.87	**-0.07**	**-3.62**	-0.09	-1.24
India	INDY	0.00	-0.30	**-0.05**	**-2.70**	-0.10	-1.38
India	INP	0.00	-0.36	**-0.07**	**-3.30**	-0.09	-1.31
India	INXX	-0.02	-1.33	**-0.07**	**-2.83**	-0.11	-1.32
India	PIN	-0.01	-0.44	**-0.06**	**-2.83**	-0.07	-0.98
India	SCIF	-0.03	-1.86	**-0.09**	**-3.22**	-0.13	-1.42
India	SCIN	**-0.04**	**-2.22**	**-0.09**	**-3.08**	-0.14	-1.50
India	SMIN	-0.01	-0.82	**-0.08**	**-3.29**	-0.13	-1.43
Indonesia	EIDO	**-0.05**	**-3.61**	**-0.14**	**-5.68**	-0.14	-1.61
Indonesia	IDX	**-0.05**	**-3.41**	**-0.14**	**-5.91**	-0.14	-1.79
Ireland	EIRL	0.01	0.48	-0.01	-0.38	-0.03	-0.45
Israel	EIS	0.00	-0.22	0.00	-0.30	-0.02	-0.33
Israel	ISRA	0.00	-0.21	0.01	0.57	-0.01	-0.25
Italy	EWI	**-0.02**	**-2.04**	-0.03	-1.26	0.05	0.64
Japan	DBJP	-0.01	-0.91	0.00	-0.02	0.05	0.73
Japan	DFJ	**-0.02**	**-2.35**	-0.02	-1.71	-0.04	-0.80
Japan	DXJ	-0.01	-1.21	0.01	0.38	0.07	1.18
Japan	DXJC	0.01	0.61	0.02	0.65	0.08	0.72
Japan	DXJF	-0.02	-1.59	0.04	1.65	0.12	1.35
Japan	DXJH	0.00	0.19	0.01	0.22	0.00	0.02
Japan	DXJR	0.00	0.00	-0.01	-0.35	0.02	0.32
Japan	DXJS	-0.01	-1.22	-0.01	-0.78	0.04	0.72

Japan	EWJ	**-0.02**	**-2.12**	-0.02	-1.09	-0.04	-0.83
Japan	EZJ	-0.03	-1.55	-0.03	-0.89	-0.08	-0.80
Japan	FJP	-0.01	-1.09	**-0.04**	**-2.10**	-0.05	-0.85
Japan	HEWJ	-0.01	-1.36	0.00	-0.17	0.04	0.66
Japan	JDG	0.00	-0.11	-0.02	-0.64	-0.02	-0.15
Japan	JHDG	-0.02	-1.56	-0.02	-1.18	0.04	0.61
Japan	JPMV	-0.01	-1.12	**-0.03**	**-2.11**	-0.06	-1.29
Japan	JPXN	-0.01	-1.28	-0.01	-0.95	-0.04	-0.68
Japan	NKY	-0.01	-1.09	-0.01	-0.65	-0.03	-0.69
Japan	QJPN	-0.01	-0.76	-0.01	-0.76	-0.05	-0.85
Japan	SCJ	-0.02	-1.87	**-0.03**	**-2.26**	-0.06	-1.21
Malaysia	EWM	**-0.05**	**-4.89**	**-0.12**	**-7.25**	-0.11	-1.91
Mexico	DBMX	**-0.02**	**-2.74**	**-0.04**	**-2.97**	-0.09	-1.69
Mexico	EWW	**-0.10**	**-11.29**	**-0.20**	**-13.49**	**-0.21**	**-4.04**
Mexico	QMEX	**-0.08**	**-5.41**	**-0.18**	**-7.24**	**-0.16**	**-5.68**
Mexico	UMX	**-0.19**	**-7.17**	**-0.38**	**-8.11**	**-0.39**	**-2.43**
Netherlands	EWN	**-0.02**	**-2.22**	**-0.04**	**-2.91**	-0.04	-0.94
New Zealand	ENZL	**-0.04**	**-4.59**	**-0.08**	**-5.33**	**-0.11**	**-2.12**
Nigeria	NGE	-0.02	-1.20	-0.05	-1.81	-0.01	-0.08
Norway	ENOR	-0.01	-1.28	-0.03	-1.72	-0.01	-0.09
Norway	NORW	-0.02	-1.71	**-0.04**	**-1.97**	-0.02	-0.28
Pakistan	PAK	-0.01	-0.10	0.01	0.13	0.19	0.59
Peru	EPU	0.00	-0.37	-0.02	-1.17	-0.05	-0.67
Philippines	EPHE	**-0.05**	**-4.51**	**-0.10**	**-5.40**	**-0.13**	**-1.96**
Poland	EPOL	**-0.04**	**-2.98**	**-0.06**	**-2.76**	-0.03	-0.40
Poland	PLND	**-0.03**	**-2.37**	**-0.06**	**-2.94**	-0.02	-0.33
Portugal	PGAL	**-0.03**	**-2.29**	**-0.06**	**-2.95**	-0.02	-0.33
Qatar	QAT	-0.01	-0.44	-0.03	-1.33	0.02	0.25
Russia	ERUS	0.00	0.23	-0.02	-0.54	0.14	1.37
Russia	RBL	0.01	0.98	0.00	-0.18	0.12	1.36
Russia	RSX	0.01	0.54	-0.01	-0.55	0.12	1.30
Russia	RSXJ	0.02	1.42	0.00	0.19	0.06	0.68
Saudi Arabia	KSA	0.01	0.77	-0.01	-0.45	0.09	1.07
Singapore	EWS	**-0.03**	**-3.30**	**-0.04**	**-3.30**	-0.05	-1.20
South Africa	EZA	**-0.06**	**-4.93**	**-0.16**	**-7.27**	-0.12	-1.55
South Korea	DBKO	**-0.02**	**-3.18**	**-0.03**	**-2.61**	0.00	-0.04
South Korea	EWY	**-0.06**	**-6.11**	**-0.08**	**-4.51**	-0.09	-1.49
South Korea	FKO	-0.03	-1.93	**-0.06**	**-2.13**	-0.09	-0.90
South Korea	HKOR	0.00	-0.35	0.00	-0.20	-0.01	-0.17
South Korea	QKOR	-0.01	-0.43	-0.01	-0.26	-0.05	-1.26
Spain	EWP	**-0.03**	**-2.22**	**-0.06**	**-2.88**	-0.04	-0.56
Spain	QESP	-0.03	-1.13	-0.03	-0.64	0.00	-0.02
Sweden	EWD	-0.01	-0.74	-0.01	-0.82	-0.01	-0.17
Switzerland	EWL	0.00	0.19	-0.01	-0.74	-0.03	-0.61
Switzerland	FSZ	-0.01	-0.62	-0.02	-1.30	-0.02	-0.33
Taiwan	EWT	**-0.04**	**-5.07**	**-0.07**	**-4.86**	-0.09	-1.71
Taiwan	FTW	-0.01	-0.48	-0.01	-0.29	-0.07	-1.00
Taiwan	QTWN	0.02	1.79	0.02	1.02	-0.05	-1.71
Thailand	THD	**-0.03**	**-2.97**	**-0.06**	**-3.39**	-0.05	-0.83
Turkey	TUR	**-0.05**	**-3.29**	**-0.07**	**-2.69**	-0.14	-1.48
United Arab Emirates	UAE	-0.02	-1.00	**-0.06**	**-2.22**	0.02	0.16

United Kingdom	DBUK	0.00	-0.46	-0.02	-1.00	0.02	0.33
United Kingdom	DXPS	0.00	0.20	**-0.03**	**-2.10**	0.00	0.02
United Kingdom	EWU	0.00	0.05	-0.01	-0.79	0.00	-0.09
United Kingdom	EWUS	0.01	0.65	0.01	0.39	-0.01	-0.14
United Kingdom	FKU	0.00	0.03	-0.02	-1.14	-0.02	-0.27
United Kingdom	QGBR	0.01	0.12	0.00	0.03	-0.05	-0.11
Vietnam	VNM	-0.02	-1.50	-0.05	-1.83	-0.08	-0.92

Bold entries are statistically significant at the 5% level.

Table A3. Exchange-traded fund (ETF) return reactions to the 2016 US presidential election (2). The table shows the abnormal return on country ETF portfolios on the day after the election (Nov. 9), as well as the cumulative abnormal return (CAR) for the 3 days following the election (Nov. 9–11) and through the end of the year (Nov. 9–Dec. 31).

	Nov. 9		*Nov. 9–11*		*Nov. 9–Dec. 31*	
Country	*AR*	*t*	*CAR*	*t*	*CAR*	*t*
Argentina	−0.01	−0.57	**−0.06**	**−2.68**	−0.05	−0.63
Australia	−0.02	−1.89	**−0.03**	**−1.97**	−0.06	−1.05
Austria	−0.01	−1.36	−0.02	−1.15	−0.03	−0.54
Belgium	−0.02	−1.90	**−0.03**	**−2.41**	−0.05	−1.06
Brazil	**−0.04**	**−2.62**	**−0.16**	**−6.08**	**−0.19**	**−2.16**
Canada	−0.01	−1.36	**−0.03**	**−2.39**	0.00	−0.03
Chile	−0.01	−1.35	**−0.08**	**−4.61**	−0.09	−1.57
China	**−0.02**	**−2.11**	−0.03	−1.73	−0.09	−1.63
Colombia	−0.02	−1.28	**−0.10**	**−4.88**	−0.01	−0.10
Denmark	**−0.02**	**−2.14**	**−0.04**	**−2.93**	−0.04	−0.79
Egypt	**−0.04**	**−2.08**	0.04	1.35	0.03	0.31
Finland	0.00	−0.07	−0.01	−0.79	−0.01	−0.21
France	−0.01	−1.34	**−0.03**	**−2.01**	−0.02	−0.31
Germany	−0.01	−1.03	−0.02	−1.34	0.00	0.01
Greece	−0.03	−0.98	−0.04	−0.96	0.03	0.18
Hong Kong	**−0.02**	**−2.70**	**−0.03**	**−2.35**	**−0.10**	**−2.04**
India	−0.01	−1.20	**−0.07**	**−3.65**	−0.11	−1.52
Indonesia	**−0.05**	**−3.58**	**−0.14**	**−5.90**	−0.14	−1.73
Ireland	0.01	0.48	−0.01	−0.38	−0.03	−0.45
Israel	0.00	−0.30	0.00	0.04	−0.01	−0.26
Italy	**−0.02**	**−2.04**	−0.03	−1.26	0.05	0.64
Japan	−0.01	−1.19	−0.01	−0.62	0.01	0.12
Malaysia	**−0.05**	**−4.89**	**−0.12**	**−7.25**	−0.11	−1.91
Mexico	**−0.10**	**−7.25**	**−0.20**	**−8.47**	**−0.23**	**−2.74**
Netherlands	**−0.02**	**−2.22**	**−0.04**	**−2.91**	−0.04	−0.94
New Zealand	**−0.04**	**−4.59**	**−0.08**	**−5.33**	**−0.11**	**−2.12**
Nigeria	−0.02	−1.20	−0.05	−1.81	−0.01	−0.08
Norway	−0.02	−1.63	−0.04	−1.94	−0.02	−0.24
Pakistan	−0.01	−0.77	0.00	0.27	0.10	1.67
Peru	0.00	−0.37	−0.02	−1.17	−0.05	−0.67
Philippines	**−0.05**	**−4.51**	**−0.10**	**−5.40**	**−0.13**	**−1.96**
Poland	**−0.03**	**−2.73**	**−0.06**	**−2.89**	−0.03	−0.37
Portugal	**−0.03**	**−2.29**	**−0.06**	**−2.95**	−0.02	−0.33
Qatar	−0.01	−0.44	−0.03	−1.33	0.02	0.25
Russia	0.01	0.78	−0.01	−0.28	0.12	1.37
Saudi Arabia	0.01	0.77	−0.01	−0.45	0.09	1.07
Singapore	**−0.03**	**−3.30**	**−0.04**	**−3.30**	−0.05	−1.20
South Africa	**−0.06**	**−4.93**	**−0.16**	**−7.27**	−0.12	−1.55
South Korea	**−0.03**	**−2.85**	**−0.04**	**−2.28**	−0.06	−1.00
Spain	**−0.03**	**−2.29**	**−0.05**	**−2.04**	−0.04	−0.49
Sweden	−0.01	−0.74	−0.01	−0.82	−0.01	−0.17
Switzerland	0.00	−0.35	−0.01	−1.13	−0.02	−0.52
Taiwan	−0.01	−1.33	−0.02	−1.43	−0.07	−1.38
Thailand	**−0.03**	**−2.97**	**−0.06**	**−3.39**	−0.05	−0.83
Turkey	**−0.05**	**−3.29**	**−0.07**	**−2.69**	−0.14	−1.48
United Arab Emirates	−0.02	−1.00	**−0.06**	**−2.22**	0.02	0.16
United Kingdom	0.00	−0.02	−0.01	−0.73	−0.01	−0.19
Vietnam	−0.02	−1.50	−0.05	−1.83	−0.08	−0.92

Bold entries are statistically significant at the 5% level.

Table A4. Regression analysis of the performance of single-country exchange-traded funds (ETFs) in response to the 2016 US presidential election. Results including Mexico (outlier). The dependent variable is the abnormal return on the country ETF on the day after the election (November 9, 2016).

	Dependent variable			
	Abnormal Return on Country ETF (Nov. 9, 2016)			
	(1)	(2)	(3)	(4)
US Bank Assets/GDP	0.138***		0.147**	
	(0.040)		(0.058)	
Foreign Bank Assets (Ex-US)/GDP		0.003	−0.013	
		(0.011)	(0.011)	
Offshore Financial Center				0.016*
				(0.008)
Trade with US/GDP	−0.094**	−0.078**	−0.100***	−0.079
	(0.041)	(0.037)	(0.030)	(0.051)
US FDI Stock/GDP	−0.004	0.006	0.012	−0.009
	(0.007)	(0.015)	(0.012)	(0.012)
GDP/Capita	0.0004*	−0.00001	0.0003	0.0003
	(0.0002)	(0.0002)	(0.0002)	(0.0003)
GDP	0.001	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
International Reserves/GDP	−0.018	−0.003	−0.013	−0.020*
	(0.011)	(0.009)	(0.008)	(0.012)
Capital Account Openness	0.006**	0.002	0.004	0.006*
	(0.003)	(0.004)	(0.003)	(0.003)
Macroprudential Policy Index	0.002	0.003*	0.003***	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Military Ally	−0.018***	−0.008	−0.015**	−0.012*
	(0.006)	(0.007)	(0.006)	(0.006)
Liberal Democracy	0.001	0.034	0.019	−0.001
	(0.022)	(0.027)	(0.027)	(0.025)
Property Rights	−0.011*	0.003	−0.004	−0.005
	(0.006)	(0.007)	(0.006)	(0.007)
Constant	0.023	−0.058*	−0.018	0.004
	(0.026)	(0.034)	(0.030)	(0.033)
Observations	134	130	130	134
R^2	0.332	0.291	0.346	0.283
Adjusted R^2	0.272	0.225	0.278	0.218
F Statistic	5.522***	4.401***	5.148***	4.377***

Weighted least squares estimates with standard errors clustered at the country level in parentheses.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

Table A5. Regression analysis of the performance of single-country exchange-traded funds (ETFs) in response to the 2016 US presidential election. Estimates for *US bank assets* for different lengths of the event window. The dependent variable is the abnormal return on the country ETF on Nov. 9, 2016 and the cumulative abnormal return for the remaining event windows (Nov. 9–11; Nov. 9–15; Nov. 9–22; Nov. 9–Dec. 9; and Nov. 9–Dec. 31).

	Event window					
	Nov. 9	Nov. 9–11	Nov. 9–15	Nov. 9–22	Nov. 9–Dec. 9	Nov .9–Dec. 31
	(1)	(2)	(3)	(4)	(5)	(6)
US Bank Assets/GDP	0.115**	0.154*	0.194**	0.262***	0.231**	0.122
	(0.050)	(0.080)	(0.080)	(0.071)	(0.096)	(0.147)
Foreign Bank Assets (Ex-US)/GDP	−0.0005	0.003	−0.019	−0.035**	−0.023	0.008
	(0.009)	(0.015)	(0.014)	(0.014)	(0.021)	(0.031)
Trade with US/GDP	−0.005	−0.044	−0.019	0.014	0.071	0.027
	(0.028)	(0.064)	(0.056)	(0.060)	(0.098)	(0.125)
US FDI Stock/GDP	−0.005	−0.024	−0.011	−0.003	−0.036*	−0.061*
	(0.009)	(0.019)	(0.016)	(0.015)	(0.021)	(0.033)
GDP/Capita	0.0003*	0.001***	0.001***	0.001***	0.001***	0.001
	(0.0002)	(0.0005)	(0.0004)	(0.0004)	(0.0003)	(0.001)
GDP	0.002	0.005*	0.003	0.003	0.001	−0.001
	(0.001)	(0.003)	(0.002)	(0.002)	(0.004)	(0.005)
International Reserves/GDP	−0.009	−0.044*	−0.038*	−0.033*	−0.029	−0.031
	(0.008)	(0.025)	(0.020)	(0.020)	(0.037)	(0.037)
Capital Account Openness	0.004	0.022***	0.018***	0.021***	0.022***	0.024***
	(0.003)	(0.006)	(0.005)	(0.006)	(0.007)	(0.008)
Macroprudential Policy Index	0.001	0.003	0.003	0.004*	0.003	0.003
	(0.001)	(0.003)	(0.002)	(0.002)	(0.004)	(0.005)
Military Ally	−0.015***	−0.025*	−0.015	−0.006	−0.008	0.012
	(0.006)	(0.014)	(0.011)	(0.010)	(0.019)	(0.020)
Liberal Democracy	0.015	−0.060	−0.087**	−0.109***	−0.094	−0.082
	(0.023)	(0.041)	(0.035)	(0.041)	(0.075)	(0.082)
Property Rights	−0.011*	−0.023**	−0.012	−0.008	−0.009	−0.013
	(0.006)	(0.011)	(0.010)	(0.013)	(0.015)	(0.017)
Constant	0.013	0.043	0.006	−0.021	−0.014	−0.003
	(0.027)	(0.048)	(0.042)	(0.055)	(0.060)	(0.076)
Observations	126	126	126	126	126	126
R^2	0.246	0.480	0.485	0.557	0.362	0.323
Adjusted R^2	0.166	0.425	0.431	0.510	0.294	0.251
F Statistic	3.068***	8.699***	8.883***	11.840***	5.342***	4.487***

Weighted least squares estimates with standard errors clustered at the country level in parentheses.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

Table A6. Regression analysis of the performance of single-country exchange-traded funds (ETFs) in response to the 2016 US presidential election. Estimates for *offshore financial centers* across different lengths of the event window. The dependent variable is the abnormal return on the country ETF on Nov. 9, 2016 and the cumulative abnormal return for the remaining event windows (Nov. 9–11; Nov. 9–15; Nov. 9–22; Nov. 9–Dec. 9; and Nov. 9–Dec. 31).

	Event window					
	Nov. 9	Nov. 9–11	Nov. 9–15	Nov. 9–22	Nov. 9–Dec. 9	Nov .9–Dec. 31
	(1)	(2)	(3)	(4)	(5)	(6)
Offshore Financial Center	0.027***	0.043***	0.039***	0.037***	0.044**	0.065***
	(0.005)	(0.008)	(0.008)	(0.013)	(0.017)	(0.018)
Trade with US/GDP	0.050**	0.020	0.093**	0.167***	0.219***	0.150*
	(0.022)	(0.045)	(0.039)	(0.045)	(0.075)	(0.090)
US FDI Stock/GDP	−0.027***	−0.056***	−0.063***	−0.068***	−0.098***	−0.120***
	(0.007)	(0.017)	(0.018)	(0.020)	(0.026)	(0.034)
GDP/Capita	0.0004**	0.001***	0.001***	0.001***	0.002***	0.002***
	(0.0002)	(0.0005)	(0.0004)	(0.0004)	(0.0005)	(0.001)
GDP	0.002**	0.005**	0.004**	0.005**	0.003	−0.001
	(0.001)	(0.002)	(0.002)	(0.002)	(0.004)	(0.004)
International Reserves/GDP	−0.021**	−0.059**	−0.051**	−0.044**	−0.051	−0.078*
	(0.009)	(0.027)	(0.023)	(0.022)	(0.042)	(0.043)
Capital Account Openness	0.006**	0.022***	0.019***	0.024***	0.028***	0.035***
	(0.002)	(0.006)	(0.005)	(0.006)	(0.008)	(0.009)
Macroprudential Policy Index	−0.001	0.002	0.0001	−0.001	−0.003	−0.003
	(0.001)	(0.002)	(0.002)	(0.002)	(0.004)	(0.004)
Military Ally	−0.012**	−0.019	−0.009	0.001	−0.006	0.006
	(0.006)	(0.015)	(0.012)	(0.012)	(0.022)	(0.023)
Liberal Democracy	−0.005	−0.069*	−0.103***	−0.136***	−0.148**	−0.179**
	(0.019)	(0.040)	(0.032)	(0.037)	(0.069)	(0.073)
Property Rights	−0.014***	−0.022**	−0.018**	−0.018	−0.025*	−0.039**
	(0.005)	(0.008)	(0.007)	(0.012)	(0.015)	(0.017)
Constant	0.042**	0.045*	0.040	0.039	0.093	0.179**
	(0.021)	(0.027)	(0.026)	(0.046)	(0.061)	(0.075)
Observations	130	130	130	130	130	130
R^2	0.256	0.494	0.495	0.543	0.380	0.375
Adjusted R^2	0.187	0.447	0.448	0.500	0.322	0.317
F Statistic	3.692***	10.461***	10.519***	12.750***	6.575***	6.443***

Weighted least squares estimates with standard errors clustered at the country level in parentheses.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

Table A7. Regression analysis of the performance of country ETF portfolios in response to the 2016 US presidential election. The dependent variable is the abnormal return on the equally-weighted portfolio of ETFs for a given country on the day after the election (November 9, 2016).

	Dependent variable			
	Abnormal Return on Country ETF Portfolio (Nov. 9, 2016)			
	(1)	(2)	(3)	(4)
US Bank Assets/GDP	0.112***		0.164***	
	(0.038)		(0.049)	
Foreign Bank Assets (Ex-US)/GDP		−0.004	−0.019	
		(0.013)	(0.013)	
Offshore Financial Center				0.011
				(0.015)
Trade with US/GDP	−0.055*	−0.031	−0.080*	−0.021
	(0.031)	(0.032)	(0.040)	(0.030)
US FDI Stock/GDP	−0.004	0.006	0.012	−0.010
	(0.009)	(0.015)	(0.015)	(0.017)
GDP/Capita	0.0002	0.0002	0.0003	0.0002
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
GDP	0.0003	0.001	−0.0003	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
International Reserves/GDP	−0.012	−0.003	−0.012	−0.012
	(0.015)	(0.014)	(0.014)	(0.021)
Capital Account Openness	0.005	0.005	0.006	0.005
	(0.004)	(0.004)	(0.004)	(0.004)
Macroprudential Policy Index	0.003*	0.002	0.003*	0.002
	(0.001)	(0.002)	(0.001)	(0.001)
Military Ally	−0.005	−0.003	−0.007	−0.003
	(0.006)	(0.007)	(0.007)	(0.007)
Liberal Democracy	−0.015	−0.008	−0.021	−0.012
	(0.030)	(0.029)	(0.029)	(0.031)
Constant	−0.025	−0.028*	−0.019	−0.025
	(0.016)	(0.016)	(0.016)	(0.017)
Observations	38	38	38	38
R^2	0.326	0.259	0.375	0.267
Adjusted R^2	0.077	−0.015	0.110	−0.005
F Statistic	1.309	0.945	1.416	0.982

Weighted least squares estimates with heteroskedasticity-robust standard errors in parentheses.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

Table A8. Regression analysis of the response of foreign stock markets to the 2016 US presidential election. The dependent variable is the abnormal return on the country's main stock market index on the day after the election (November 9, 2016).

	Dependent variable			
	Abnormal Return on National Stock Market Index			
	(1)	(2)	(3)	(4)
US Bank Assets/GDP	0.048**		0.043*	
	(0.022)		(0.022)	
Foreign Bank Assets (Ex-US)/GDP		0.003	0.002	
		(0.003)	(0.003)	
Offshore Financial Center				0.010*
				(0.005)
Trade with US/GDP	−0.040**	−0.032*	−0.038**	−0.033*
	(0.016)	(0.019)	(0.018)	(0.019)
US FDI Stock/GDP	0.003	0.002	0.001	−0.001
	(0.005)	(0.006)	(0.005)	(0.005)
GDP/Capita	0.0003**	0.0003**	0.0002**	0.0002**
	(0.0001)	(0.0001)	(0.0001)	(0.0001)
GDP	−0.001	−0.0003	−0.001	−0.0004
	(0.002)	(0.001)	(0.001)	(0.001)
International Reserves/GDP	−0.009	−0.009	−0.009	−0.010
	(0.007)	(0.007)	(0.007)	(0.007)
Capital Account Openness	0.00004	0.0001	0.00003	0.0002
	(0.002)	(0.002)	(0.002)	(0.002)
Macroprudential Policy Index	0.001	0.0005	0.001	0.0005
	(0.001)	(0.001)	(0.001)	(0.001)
Military Ally	−0.003	−0.002	−0.003	−0.002
	(0.004)	(0.004)	(0.004)	(0.004)
Liberal Democracy	−0.023*	−0.021*	−0.022*	−0.021*
	(0.011)	(0.011)	(0.012)	(0.011)
Constant	0.013*	0.012*	0.013*	0.013**
	(0.007)	(0.007)	(0.007)	(0.007)
Observations	64	64	64	64
R^2	0.214	0.202	0.216	0.214
Adjusted R^2	0.066	0.051	0.050	0.066
F Statistic	1.446	1.341	1.302	1.446

Weighted least squares estimates with heteroskedasticity-robust standard errors in parentheses.
$^{*}p < 0.1$; $^{**}p < 0.05$; $^{***}p < 0.01$.

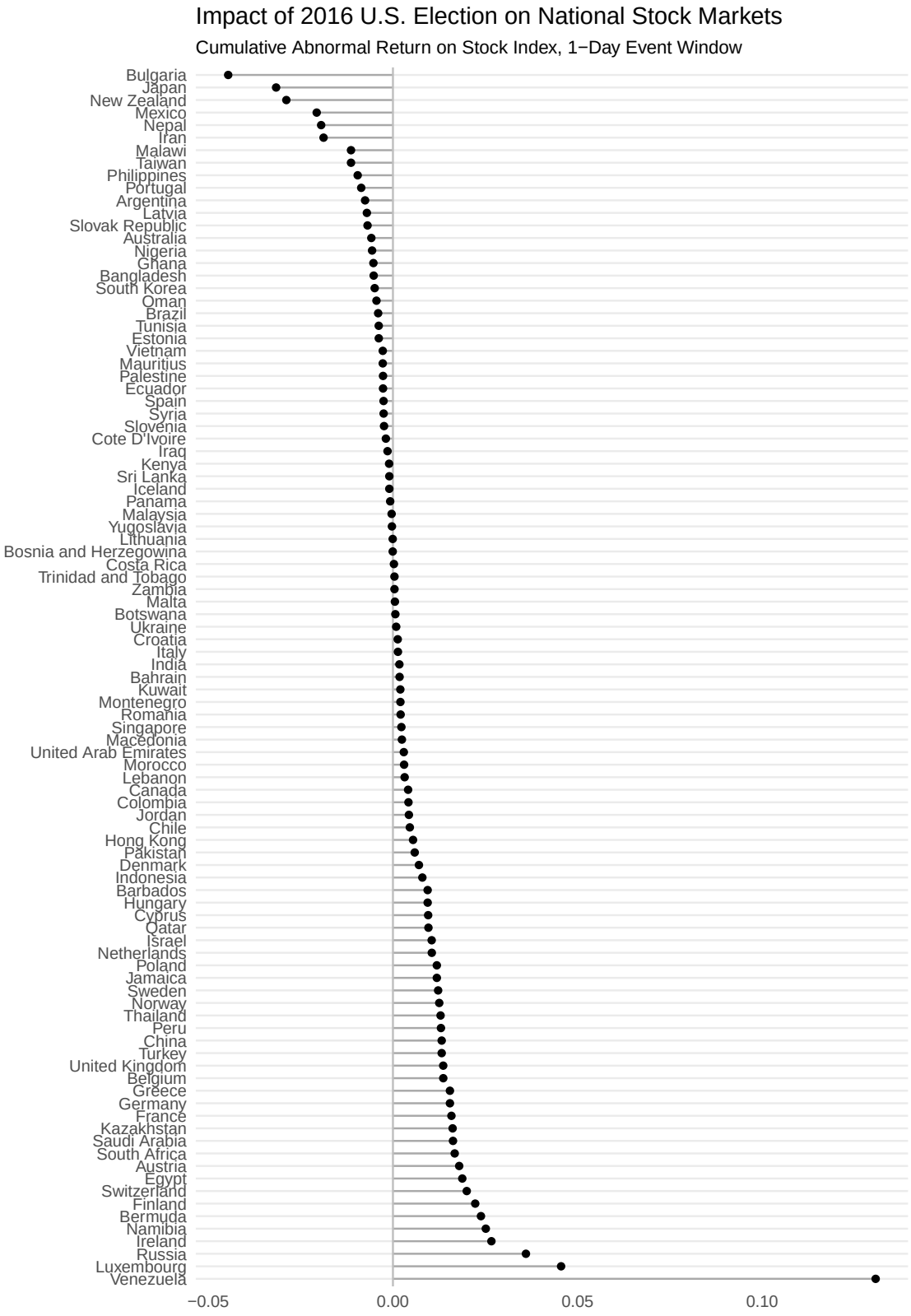

Figure A1. Foreign stock market responses to the 2016 US presidential election. The graph shows the abnormal return on the country's main stock market index on the day after the election (November 9, 2016).