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Institutional Investors Flows and the Geography of Contagion

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Highlights

- I explore the dynamics and geography of international mutual funds flows.
- Financial conditions in advanced markets affect strongly emerging markets' funding.
- I use contagion maps to identify where contagion spreads and with what intensity.
- Remoteness and political instability both increase the sensitivity to contagion.
- Push factors drive mutual fund flows to Emerging Markets.

Abstract

This paper studies the dynamics and geography of investments made by international mutual funds located in advanced markets. I identify precise global and regional dynamics in equity and bond flows. Very few countries receive (or lose) funding in isolation. I also find strong evidence of global contagion: when financial conditions in developed markets change, emerging markets' funding is heavily affected. I illustrate this finding by deriving contagion maps showing where contagion spreads and with what intensity. In general, the results suggest that push effects from advanced market investors affect massively developing countries and expose them to sudden stops and surges.

Keywords: Mutual Funds, Contagion, Emerging Markets, Push-and-Pull factors.

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