Financial Markets and Mass Political Attitudes: Evidence from the 2022 Brazilian Election

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Overview


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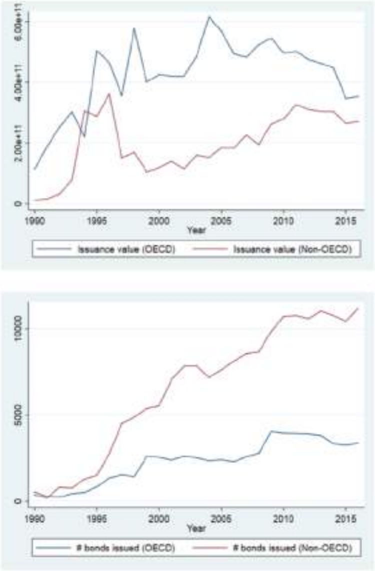
...ople Is Shaken

Overview

- Financial markets often react to political events and outcomes; for instance, they deem certain candidates and parties preferable to others.
- These market assessments can matter directly to governments; they affect the cost of capital and the likelihood of currency and debt crises.
- Market assessments also may matter indirectly, via their effects on
  - voters' expectations over future economic performance (material concerns).
  - voters' assessments of candidates' competence (elite cues).

Introduction: Contemporary Sovereign Finance



Background: Sovereign Finance and Political Events

- Financial openness allows governments, firms & individuals to access a broader pool of capital.
- Openness also can subject governments to
  - Market pressures and punishment in reaction to political events or economic outcomes ("bond market vigilantes"; Kaplan & Thomsson 2016; but Rommerskirchen 2020)
  - Global capital flow cycle (Ballard-Rosa et al 2021, Campello 2015, Rey 2016, Wibbels 2006)
- Concerns about races to the bottom, government autonomy, welfare state policies (Mosley 2003, Przeworski & Wallerstein 1988, Rodrik 1997)

Background: Market Reactions to Politics

- In some instances, financial markets react severely to politics:
  - Mitterand's "U-turn" 1981/1983
  - Brazil 2002 election
  - Chile 2021 election
  - UK Liz Truss 2022

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- In some instances, financial markets react severely to politics:
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  - Brazil 2002 election
  - Chile 2021 election
  - UK Liz Truss 2022
- Market reactions to elections may be driven outcome uncertainty, as well as about uncertainty over future policy (Bernhard & Leblang 2006, Jensen & Schmith 2005)
- It is less clear whether
  - market participants have clear expectations of how policies matter to economic outcomes (Mosley, Paniagua & Wibbels 2020)
  - markets react systematically to government partisanship (Ballard-Rosa et al 2021, Barta & Johnston 2018, Breen & McMenamin 2013, Brooks, Cunha & Mosley 2022, Sattler 2009)

Theory & Expectations

- Most existing claims about financial markets and government policy focus on the elite level.
- Market responses affect government behavior by
  - increasing borrowing and debt servicing costs
    - this effect also depends on the amount, maturity structure, currency composition & investor base of outstanding debt.

Theory & Expectations

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- Market responses affect government behavior by
  - increasing borrowing and debt servicing costs
    - this effect also depends on the amount, maturity structure, currency composition & investor base of outstanding debt.
  - making currency depreciation and crisis more likely (e.g. Leblang and Satyanath 2008)
  - raising interest rates for other borrowers in the domestic economy

Theory & Expectations

- We shift focus to the mass level.
    - Note existing studies on the domestic politics of default, austerity and bailouts (Ballard-Rosa 2020; Curtis, Jupille&Leblang 2014; Jurado, Walter,Konstantinidis & Dinas 2020; Nelson & Steinberg 2018)

Theory & Expectations

- We shift focus to the mass level.
- Do (actual or anticipated) financial market reactions to candidates & election campaigns affect
  - voters' assessments of candidates?
  - vote choices?

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- We shift focus to the mass level.
- Do (actual or anticipated) financial market reactions to candidates & election campaigns affect
  - voters' assessments of candidates?
  - vote choices?
- We expect the impact of financial markets to be be greater
  - in economies that are dependent on capital inflows.
  - in countries with histories of crisis, austerity & capital flight.
  - when global markets are characterized by risk aversion.

Theory & Expectations

- Information about financial market reactions to politics could affect mass behavior through two channels.
  - material: implications of market reactions for income, assets and government transfers
    - could be pocketbook or sociotropic
    - may depend on expected use of social safety nets
    - as well as on exposure to exchange rate depreciation (Curtis, Jupille & Leblang 2014; Steinberg & Nelson 2019)
    - and experiences of crisis and austerity
    - also: asset ownership may affect political views (Ansell 2014, Margalit & Shayo 2021)

Theory & Expectations

- Information about financial market reactions to politics could affect mass behavior through two channels.
  - material: implications of market reactions for income, assets and government transfers
- learning: elite cues (from "international investors") provide information, especially to voters without strong partisan attachments.
  - role of elite framing & partisan cues (Bansak et al 2021, Barnes & Hicks 2018, Nelson & Steinberg 2018)
  - market approval or positive market reaction viewed as indicative of candidate competence.
  - more likely among voters who view markets in a positive light.

Hypotheses

- H1: information about positive (negative) market reactions to a candidate are associated with more (less) favorable assessments of the candidate.
- H2: Individuals with investment holdings, as well as those with greater concerns about the economy, are more likely to shift their views.
- H3: Individuals with strong partisan or candidate attachments are less likely to respond to treatments.
- H4: Individuals who place greater trust in markets, or who pay more attention to the state of the economy, are more likely to shift their views.

Empirical Analysis

- We address these questions in the context of Brazil's 2022 presidential election.
  - First round: October 2. Lula 48.43% Bolsonaro 43.2%
  - Second round: October 30. Lula 50.9% Bolsonaro 49.1%
- Survey: fielded October 17-October 28, via Lucid-CINT
- Balanced (with census quotas), on gender, age, region, income category

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  - Balanced (with census quotas), on gender, age, region, income category
  - We also have Brazil survey data carried out as part of Comparative National Elections Project (CNEP) not yet analyzed

Empirical Analysis

- Survey items include
  - Demographics and pre-treatment political attitudes
  - Awareness of politics and economics (2018 election outcome, economics minister, exchange rate, interest rate
  - News consumption (frequency and sources)
  - Debt, borrowing, investments, concerns about exchange rate and inflation (exposure to financial markets)
  - Perceptions of international investors (how competent, which candidate do markets favor)
  - Also included two general attention checks; all in our reported sample passed both.
- Sample size = 2693
- 90% passed manipulation check.

Survey Experiment

- Respondents then receive one of four treatments; one-fifth are randomly assigned to control group (no vignette)
- Treatments
  - Investors worried about Lula
  - Investors worried about Bolsonaro
  - Market reaction
  - Market reaction + interpretation

Treatment: Lula Worries

Treatment 1 (media reports, Lula, negative)

Some international investors have recently expressed *worries* about a possible new Lula presidency.

According to a major financial newspaper, Lula's proposals lack "a commitment to promoting a stable macroeconomic environment, rooted in low inflation, sustainable fiscal policy and predictability." Foreign investors also worry about the fact that "Lula has been open about his desire to abandon the federal spending ceiling altogether."

Manipulation check (doubles as treatment reinforcement):

According to the text above, which of the following is true about international investors' opinion about Lula? (You may select more than one.)

- *International investors worry about a possible new Lula presidency.*
- *International investors worry that Lula may want to abandon the spending ceiling.*
- *None of the above.*

Treatment: Bolsonaro Worries

Some international investors have recently expressed *worries* about a possible new Bolsonaro presidency. According to a major financial newspaper, Bolsonaro's proposals lack "a commitment to promoting a stable macroeconomic environment, rooted in low inflation, sustainable fiscal policy and predictability." Foreign investors also worry about the fact that "Bolsonaro has circumvented the federal spending ceiling."

Manipulation check:

According to the text above, which of the following is true about international investors' opinion about Bolsonaro? (You may select more than one.)

- *International investors worry about a possible new Bolsonaro presidency.*
- *International investors worry about the fact that Bolsonaro has circumvented the spending ceiling.*
- *None of the above.*

Treatment: Market Reaction

Treatment 3 (actual market reaction)

On October 3, the day after the first-round presidential election results were announced, a stronger-than-expected showing for President Jair Bolsonaro led to positive shifts in Brazilian financial markets:

- The Ibovespa stock index had its largest one-day gain since April 2020
- The real rose 5% against the US dollar
- Interest rates on Brazilian government bonds dropped, indicating an improvement in "country risk" assessments by investors

Manipulation check (doubles as treatment reinforcement):

According to the text above, which of the following is true about how financial markets reacted to the first-round results? (You may select more than one.)

- *The stock market had its largest one-day gain since April 2020.*
- *The real rose 5% against the dollar.*
- *Interest rates on Brazilian government bonds dropped.*
- *None of the above.*

Treatment: Market Reaction plus Interpretation

On October 3, the day after the first-round presidential election results were announced, a stronger-than-expected showing for President Jair Bolsonaro led to positive shifts in Brazilian financial markets. The Ibovespa stock index had its largest one-day gain since April 2020, the real rose 5% against the US dollar, and interest rates on Brazilian government bonds dropped, indicating an improvement in "country risk" assessments by investors.

According to analysts, "investors are betting Lula's narrow lead may pressure him to pivot toward the center before the second-round vote and prioritize market-friendly policies."

Manipulation check:

According to the text above, which of the following is true about how financial markets reacted to the first-round results? (You may select more than one.)

- *The stock market had its largest one-day gain since April 2020.*
- *The real rose 5% against the dollar.*
- *Analysts think Lula will pivot to the center and favor market-friendly policies.*
- *None of the above.*

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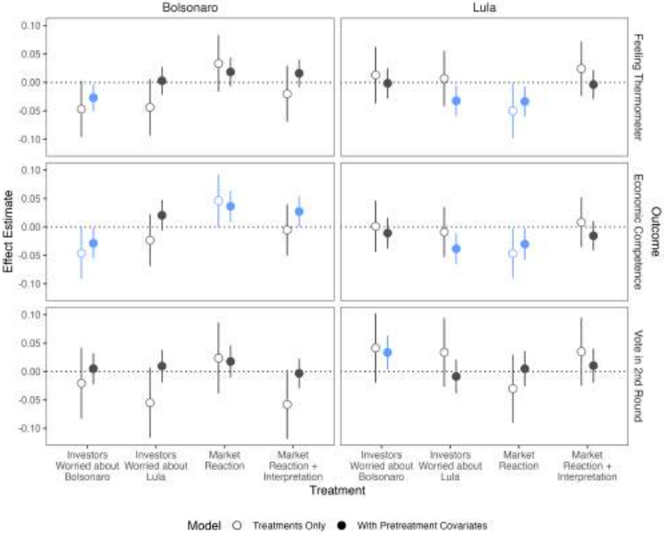
- Treatments
  - Investors worried about Lula
  - Investors worried about Bolsonaro
  - Market reaction
  - Market reaction + interpretation
- Outcome measures
  - Feeling thermometer
  - Economic policy competence
  - Intended second round vote

Survey Experiment: Main Effects

- "How competent do you think each of the presidential candidates will be at managing Brazil's economy?" [Not at all competent, somewhat competent, mostly competent, completely competent]
- "How would you rate each candidate on a scale from 0 to 100? Ratings between 50-100 mean that you feel favorable and warm toward the candidate, and ratings between 0-50 mean that you don't feel favorable toward the candidate and that you don't care too much for that candidate."
- For which candidate do you intend to vote in the second round?

Survey Experiment: Main Effects

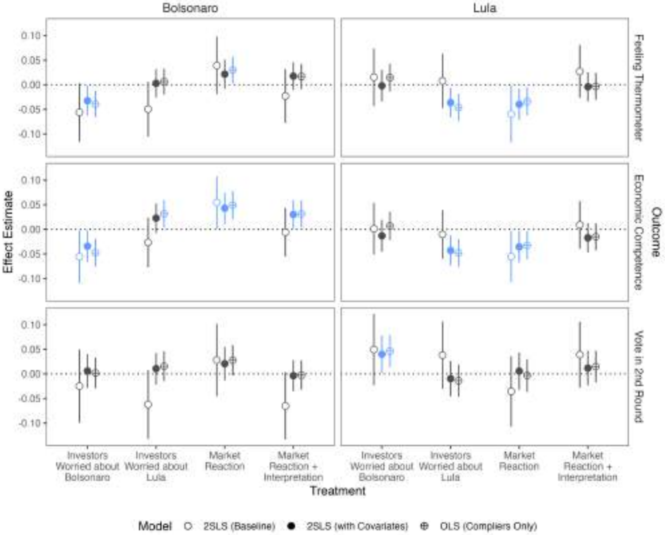


Pre-treatment covariates: region, gender, race, age, education, income, party ID, ideology, financial asset ownership, personal debt, political & economic knowledge.

Survey Experiment: Main Effects

- Information about positive market reaction to Bolsonaro negatively affects feelings toward Lula.
- Also negatively affects perceptions of Lula's competence.
- And improves perceptions of Bolsonaro's competence.
- When investor worries about Bolsonaro's future policies are reported, weaker feelings toward Bolsonaro.
- Some support for H1: positive investor reactions boost evaluations of candidates.
- Less evidence for an effect on vote intentions. Perhaps driven by high level of polarization?

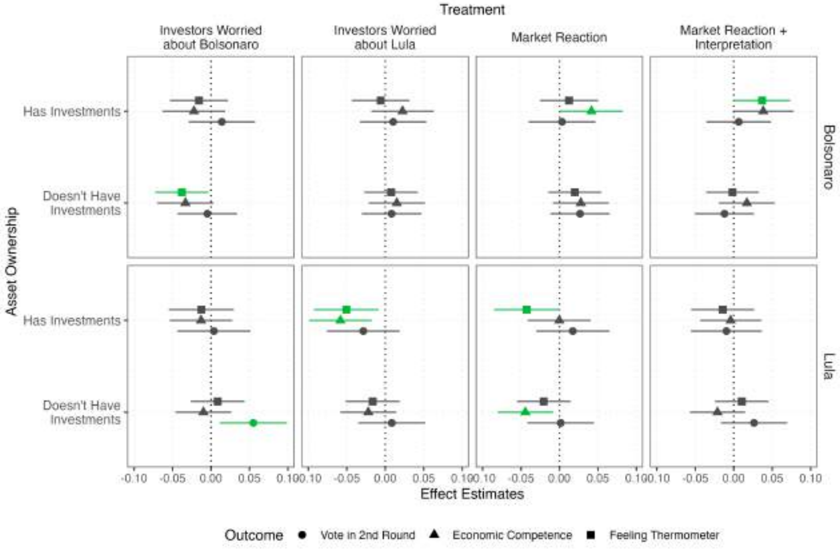
Main Effects, Compliers Only



Survey: Additional Results

- Effects are concentrated among voters with greater exposure to financial market shocks; who pay greater attention to and place greater trust in markets; and who have weaker political attachments.
- Those with investment holdings abroad and in Brazil are more sensitive to information about market reactions.

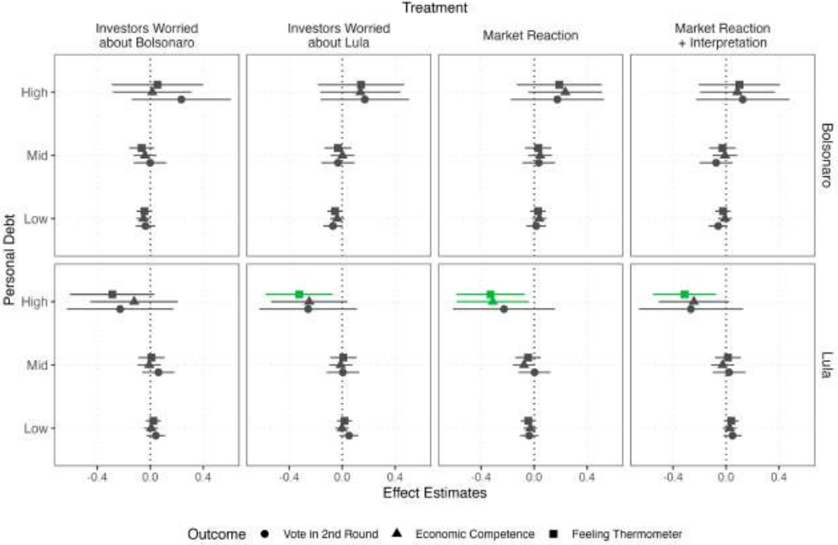
Results: Investment Holdings



Survey: Additional Results

- Effects are concentrated among voters with greater exposure to financial market shocks; who pay greater attention to and place greater trust in markets; and who have weaker political attachments.
- Those with investment holdings abroad and in Brazil are more sensitive to information about market reactions.
- Evaluations of Lula shift more among respondents with greater personal indebtedness.

Results: Personal Indebtedness

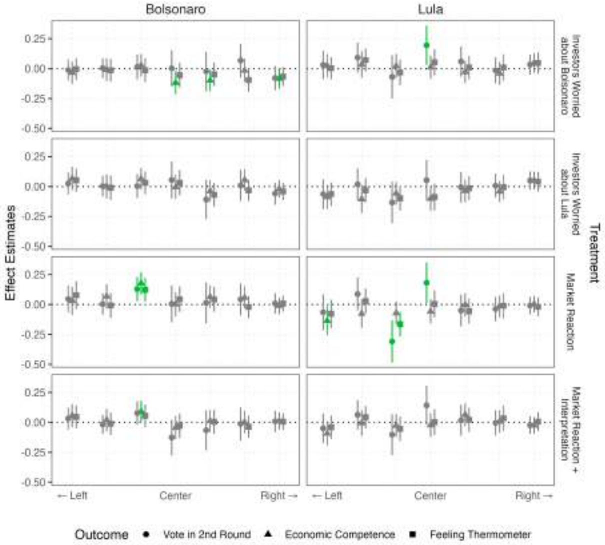


Additive index based on reported credit card debt, mortgage loans, bank loans and auto loans.

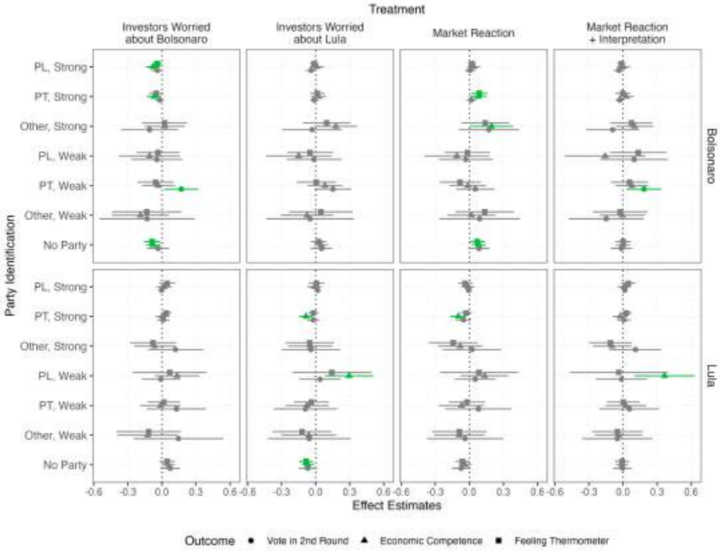
Survey: Additional Results

- Effects are concentrated among voters with greater exposure to financial market shocks; who pay greater attention to and place greater trust in markets; and who have weaker political attachments.
- Those with investment holdings abroad and in Brazil are more sensitive to information about market reactions.
- Evaluations of Lula shift more among respondents with greater personal indebtedness.
- Effects also are larger for those with more centrist political orientations, and with weaker partisan attachments.

Results: Elite Cues & Ideology



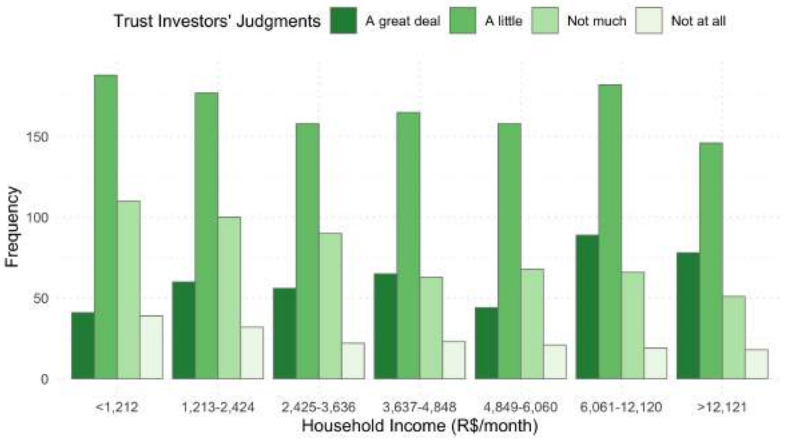
Results: Elite Cues & Partisan Attachments



Survey: Additional Results

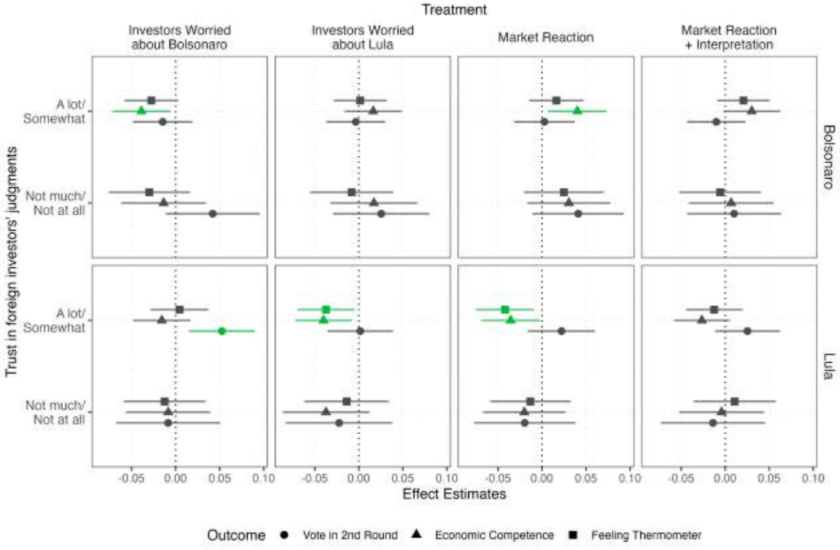
- Effects are concentrated among voters with greater exposure to financial market shocks; who pay greater attention to and place greater trust in markets; and who have weaker political attachments.
- Those with investment holdings abroad and in Brazil are more sensitive to information about market reactions.
- Evaluations of Lula shift more among respondents with greater personal indebtedness.
- Effects also are larger for those with more centrist political orientations, and with weaker partisan attachments.
- Finally, effects are more pronounced among those who trust international investors and who have greater economic knowledge.

Are International Investors' Assessments Accurate?

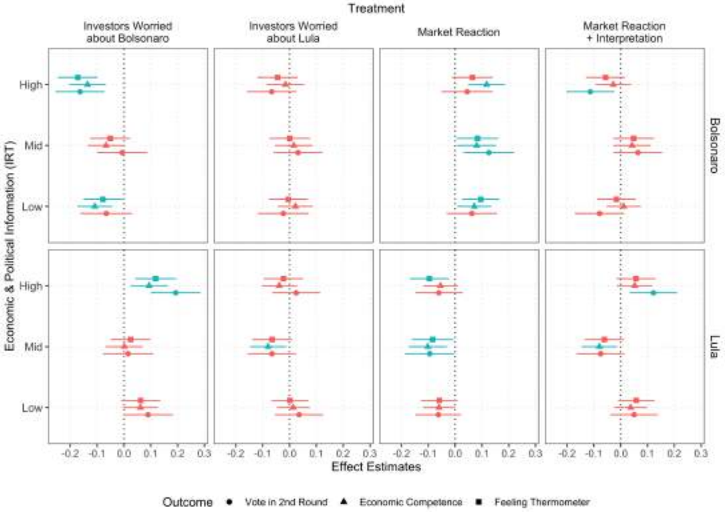


"During election campaigns, international investors often make judgements about which presidential candidate is best for investments in the Brazilian economy. How accurate do you think international investors' judgements about the candidates are?"

Results: Level of Trust in Foreign Investors



Results: Elite Cues & Economic Knowledge



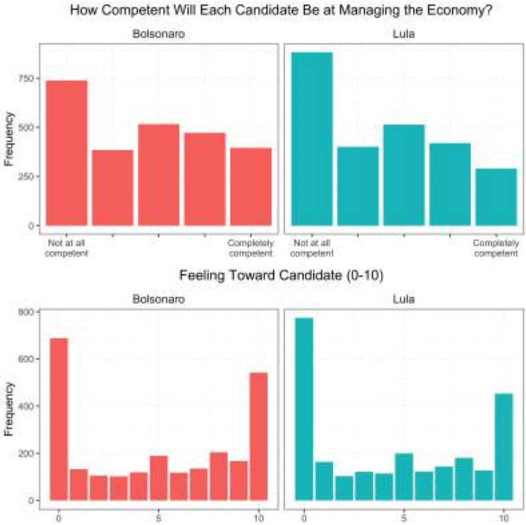
IRT index based on four items: benchmark interest rate, exchange rate, current minister of finance, election runner-up 2018. For economic items, respondents were offered six options plus "don't know." One option is coded as correct; others are incorrect.

Conclusions & Future Research

- Market sentiment may matter not only to borrowing governments, but also to voters making choices among candidates and parties.
- Our survey results suggest that providing information about investors' reactions to political campaigns can shift voters' assessments of candidates.
- If (some) voters are moved by markets, candidates and parties may have incentives to highlight their market-friendliness.
- Mass attention to markets could facilitate a "democratic advantage" in sovereign borrowing audience costs)
- We should expect over time and cross-national variation in voters' sensitivity to information about financial market reactions.

Additional Information

Survey: Descriptive Data



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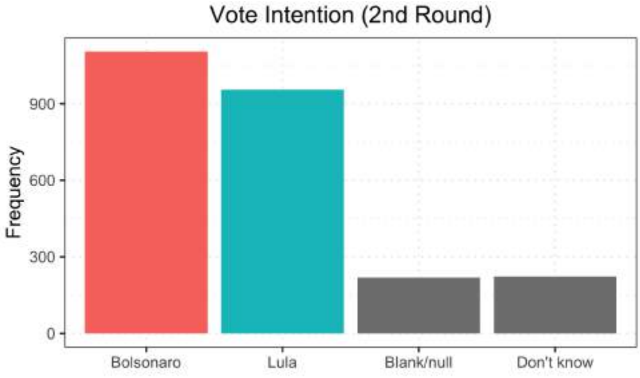
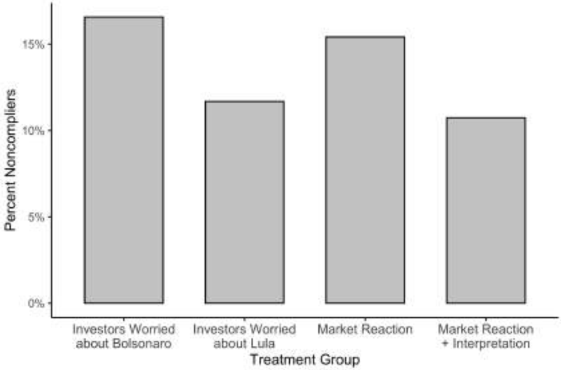
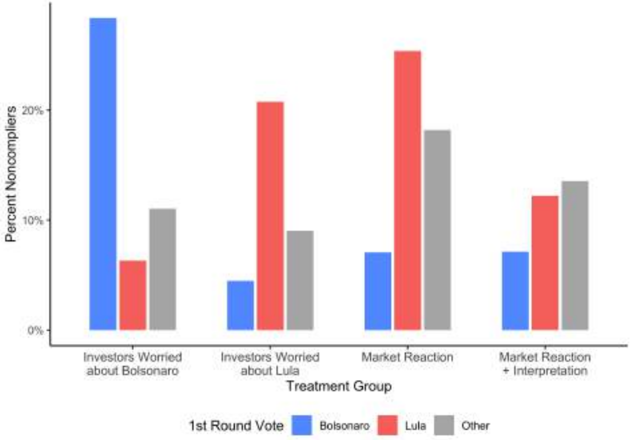


Survey: Non-Compliers by Treatment Group

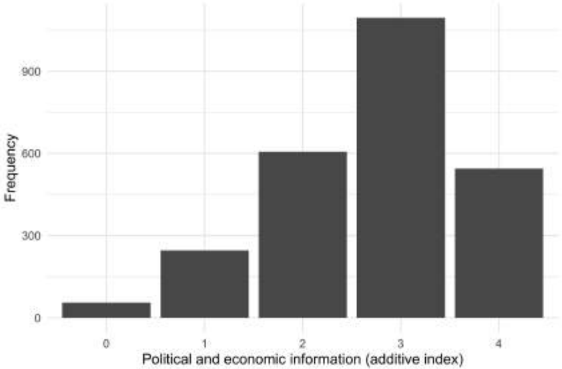


Non-compliance rate by treatment condition. Those coded as non-compliers responded "none of the above" to the factual manipulation check.

Survey: Non-Compliers by First Round Vote

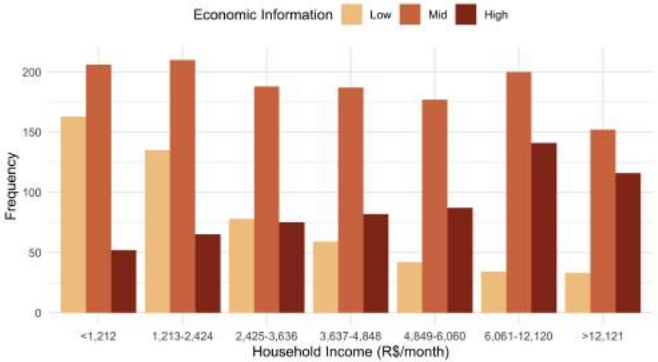


Survey: Political & Economic Information

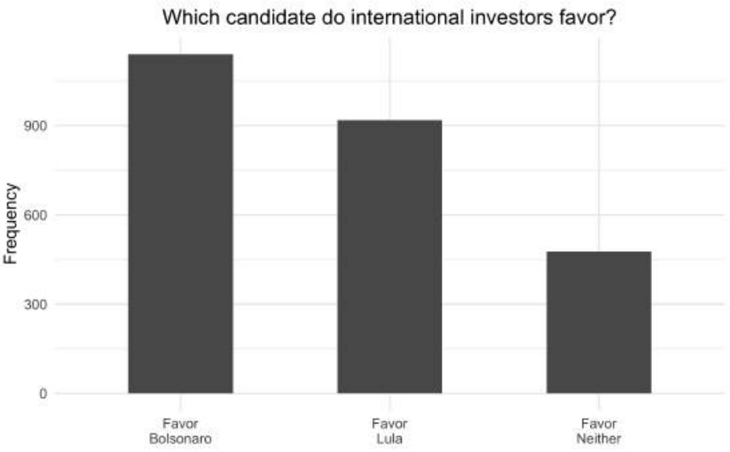


An additive index of political and economic information, based on four items: identity of minister of the economy; runner-up in 2018 presidential election; current exchange rate; current benchmark interest rate.

Survey: Information by Income

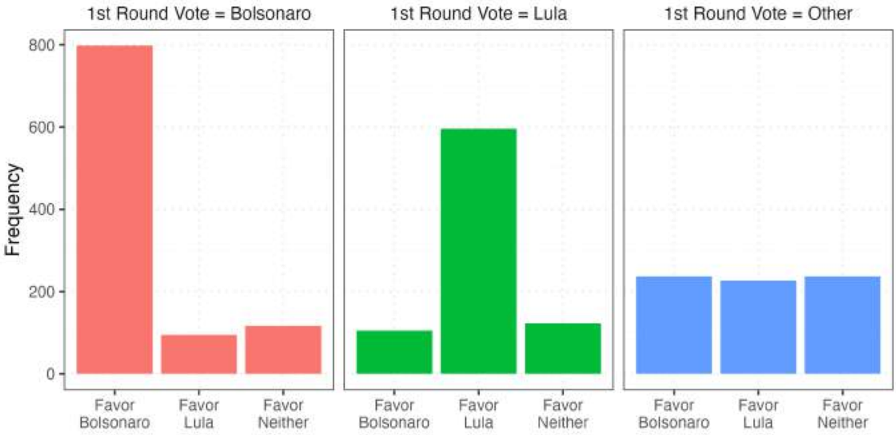


Survey: Perceptions of Who Investors Favor

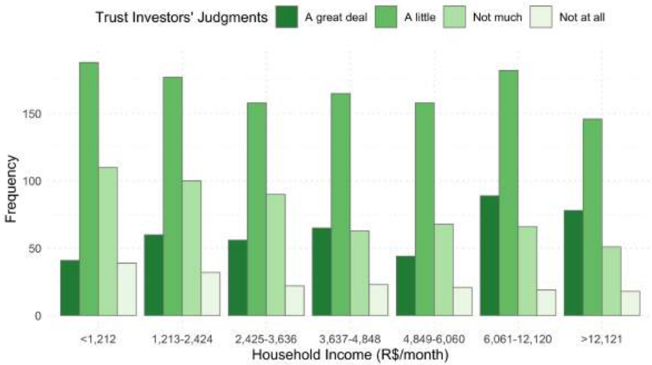


"Because Brazil is one of the largest economies in the world and has a large financial market, international investors often pay close attention to its elections. Which presidential candidate would you consider to be favored by international investors in this election?"

Survey: Perceptions of Who Investors Favor, by First Round Vote



Survey: Confidence in Investors' Judgements by Income



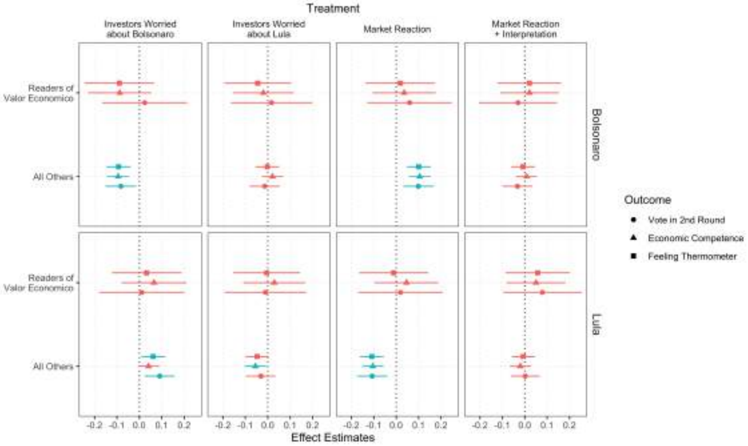
Who Trusts International Investors' Judgements

Table 1. Correlates of Trust in International Investors

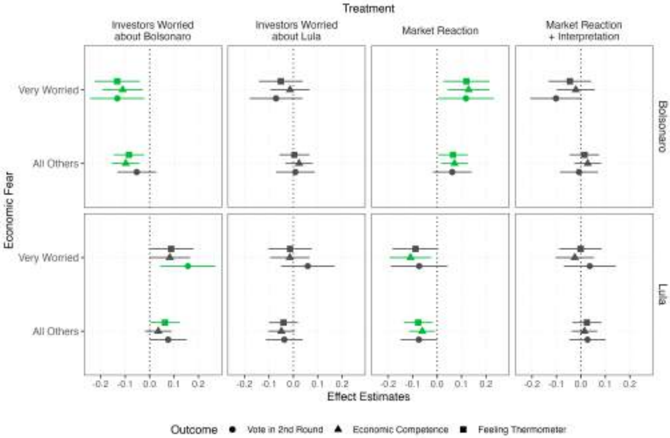
	Dependent variable: Trust in Investors' Judgments	
	Ordinal (1-4)	Binary
Income	0.028***	0.014**
	(0.011)	(0.006)
Has Investments	0.104***	0.059***
	(0.038)	(0.022)
Personal Debt Index	0.086	0.007
	(0.091)	(0.052)
Economic Fear Index	0.400***	0.287***
	(0.103)	(0.057)
Newspaper Frequency	0.051***	0.022***
	(0.008)	(0.005)
Knowledge Index	0.032*	0.033***
	(0.019)	(0.011)

Trust increases with income, assets, economic fear, and information; also tends to be slightly greater for right-wing individuals. It also is higher for partisans of both Lula and Bolsonaro. Education and debt do not correlate with trust.

Treatment Effects: Valor Economico Readers vs. Others



Treatment Effects by Economic Worries



"Very worried" are those who describe themselves as "very worried" on all three economic anxiety items.