

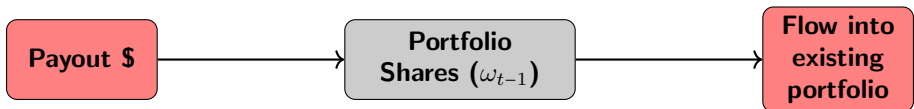
Spillover Effects of Payouts on Asset Prices and Real Investment

Schmickler and Tremacoldi-Rossi

Discussion – Western Finance Association Meetings – June 2024

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Corporate Payouts Spillovers



Mutual funds follow simple rules

- Persistence of portfolio shares
 - Inflow or outflow ...
- change of the demand for stocks in the whole portfolio

This Paper

The goal: a new source of variation of the demand for a stock

- 1 Payout-based flows are like (better?) than other types of mutual-fund based flows (index-indexing, fire sales).
 - ▶ They are announced in advance
 - ▶ They are widespread

- 2 Some q-theory regressions

Discussion Plan

1 The "instrument"

- ▶ The economics of payouts ... does it matter?
- ▶ How do funds reinvest?
- ▶ The double-edge sword of a mechanical rule

2 What is a natural application of this variation?

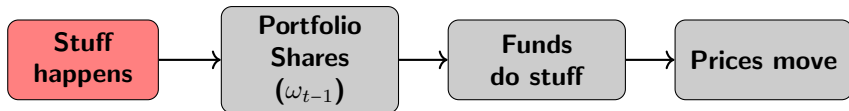
- ▶ Basic demand elasticity (first stage)
- ▶ q-theory (this paper)
- ▶ other

Plan

1 Instrument

2 Applications

Flow-based instruments for demand



- What drives the “Stuff happens”
 - ▶ Aggregate shocks (to funds)
 - ▶ Idiosyncratic shocks (to funds)
 - ▶ Mechanical rules on funds holdings (index rebalancing)
- Does “Stuff happens” only move prices through “funds do stuff” → *exclusion restriction*
- Does “Stuff happens” move prices in an homogeneous way: i.e. move all prices in the same way through “funds do stuff”

Why are payout-induced flows different?

- Separation of news and distribution
 - ▶ Announcement of payouts by firms happens before the actual distribution
 - ▶ Separation of the signalling/news and the actual change in demand from flows
- Positive shocks
 - ▶ As opposed to fire sales ...
 - ▶ Relevant to test for asymmetric responses of prices
 - ▶ How does this compare to buy/sell of index rebalancing?
 - ▶ Many theories of responses to prices have asymmetric features (irreversibility of investment)

What should we be careful about

What shapes the “funds do stuff”

- Funds might be more or less active: change in portfolio shares
 - intensive or extensive margin
- Trends in funds "active share"

What shapes the payout of corporations

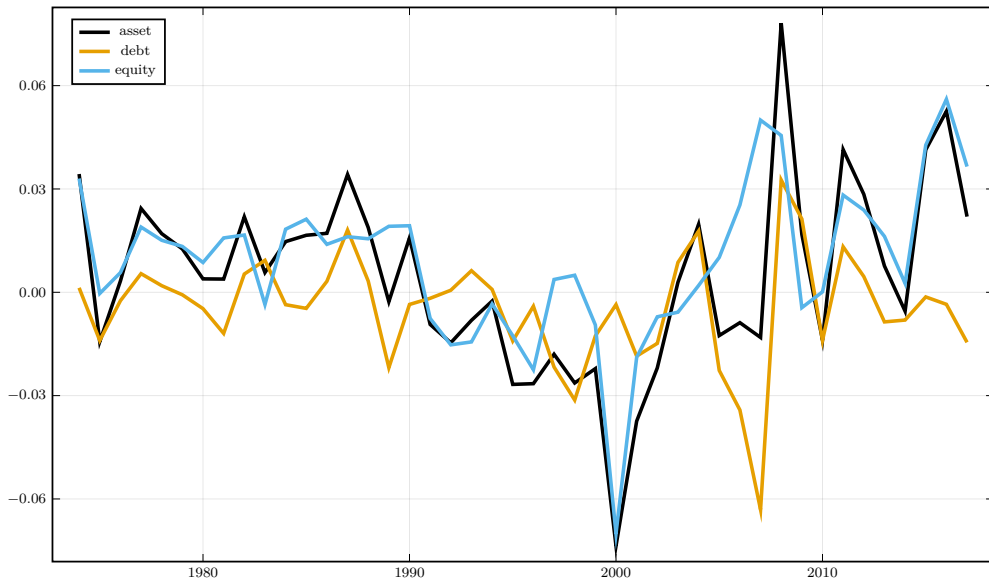
- Trends in corporate payouts in the form of cash vs. shares (repurchases)
- Overall Trends in payouts: increase in the last 20 years

What shapes the individual decision of corporations to do payouts

- Cyclicity of payouts, especially for small and risky firms
- Firms optimize their internal savings (with the market)

Aggregate Corporate Payouts

Total Corporate Payouts in the U.S. (Davidyuk, Richard, Shaliastovich and Yaron).

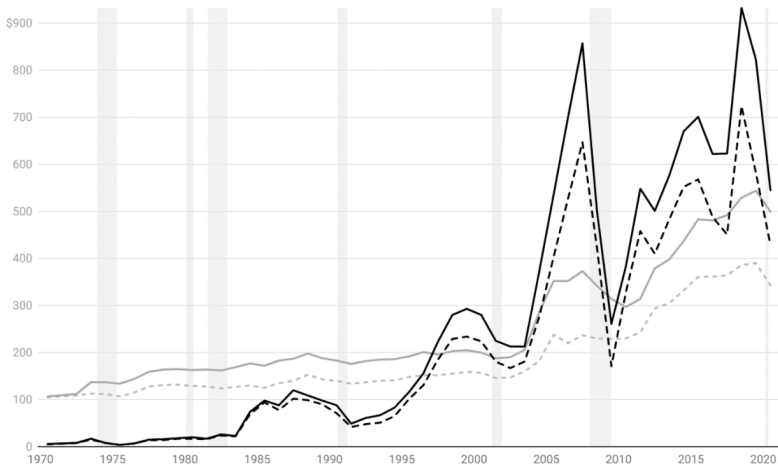


The Nature of Corporate Payouts (Bonaimé and Kahle)

Aggregate Payout

Billions of inflation-adjusted US dollars

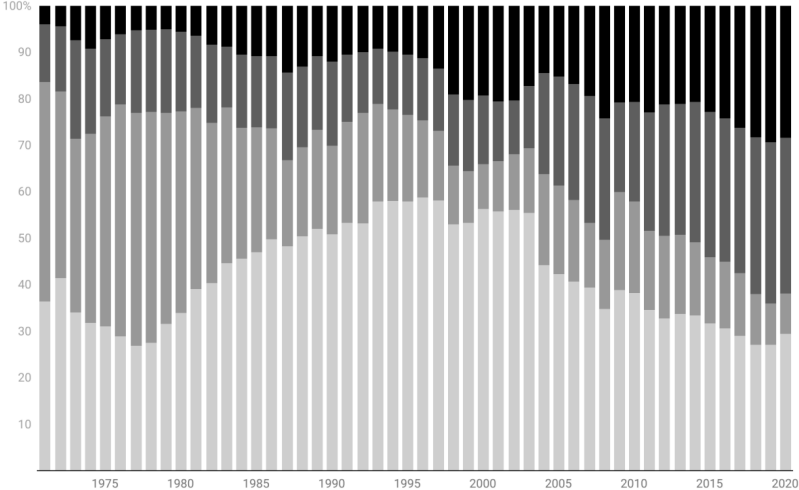
— Repurchase (All firms) - - Repurchases (Industrials) — Dividends (All firms) - - Dividends (Industrials)



The Nature of Corporate Payouts (Bonaimé and Kahle)

Payout Firms

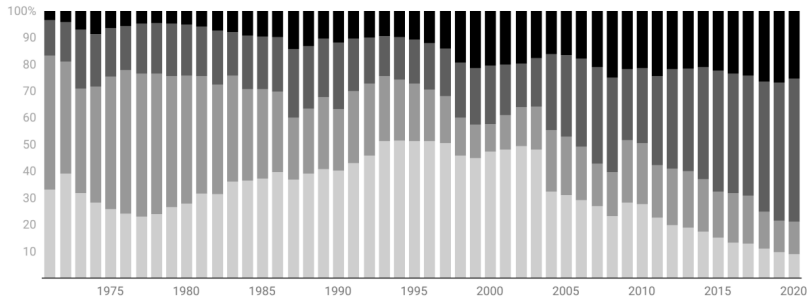
■ No Payout ■ Dividends only ■ Repurchases & Dividends ■ Repurchases only



The Nature of Corporate Payouts (Bonaimé and Kahle)

Panel A: Payout Firms (Positive Earners)

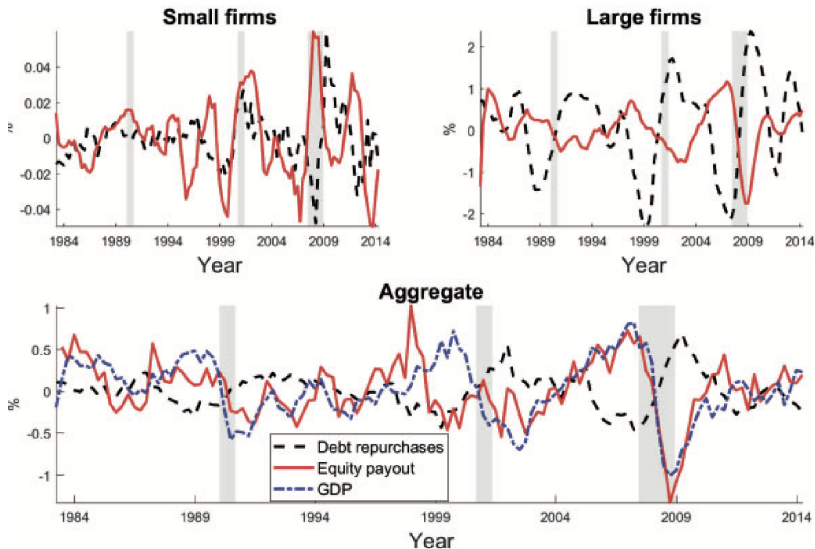
■ No Payout ■ Dividends only ■ Repurchases & Dividends ■ Repurchases only



(Optimal) Firm Financing ...

over the Business Cycle (Begenau and Salomao)

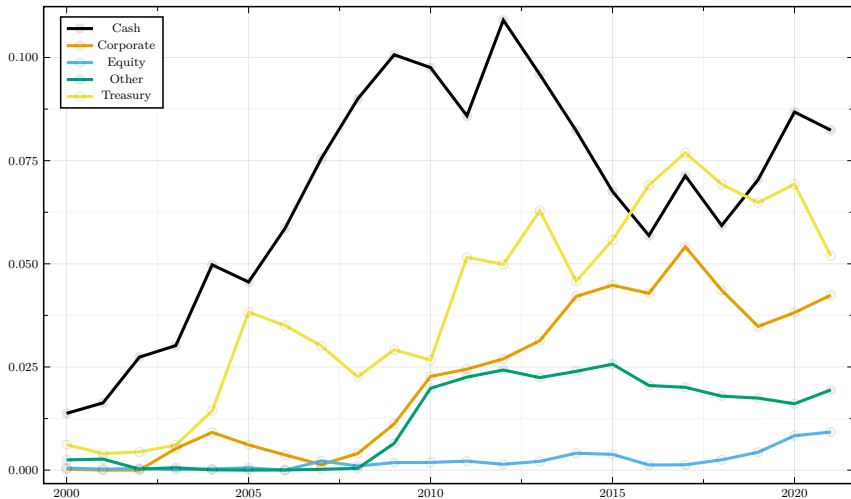
Difference between small and large firms in payout and financing policy.



Firms optimally manage their cash ... and thus payouts

Darmouni and Motta

“Bond portfolios have grown to be at least as large as cash-like instruments.”



The persistence question

- Mechanical rules for reinvestment
 - ▶ Exogeneity of the pass-through ...
 - ▶ ... predictable to market participants
- How persistent is the price pressure going to be?
 - ▶ Relevant for applications: how should investment increase?
 - ▶ Should the CFO arbitrage the price increase to repay debt?

Front running the rule

- Standard problem with flow induced price pressure

- ▶ What is the persistence of the effect?
- ▶ What are we estimating if some “hedge funds” trade against it

$$\text{Elasticity} = -\frac{d \log P}{d \log D} \quad \text{OR} \quad \text{Elasticity} = -\frac{d \log P}{d \log \hat{D}} = -\frac{d \log P}{d \log (D - D_{HF})}$$

- Relevant depending on applications (same issues as persistence)
- Heterogeneity in the effect: some stocks have more or less liquidity
 - ▶ Leads to heterogeneous treatment in the first stage

Plan

1 Instrument

2 Applications

Q-theory

- Investment rate responds the marginal price of capital
- Hayashi intra-temporal optimality
 - marginal benefit/cost of new unit of capital:

$$q = 1 + \text{Adjustment Costs on Existing Capital}$$

- under quadratic adjustment costs

$$\frac{I}{K} = a + bq + \dots$$

- Hayashi q is forward looking:

$$q_t = \int_t^{+\infty} e^{-(r+\delta)(s-t)} [\pi_K(K_s) - \Phi_K(I_s, K_s)] ds$$

Q-theory

- Hayashi gives us an equilibrium relation between investment and discount rates in the cross-section!
 - ▶ Not “firms with low discount rates (high q) will invest more”
 - ▶ More “firms with low discount rates also tend to invest more”

Other applications

New instrument: revisit all the old applications

- Persistence of flows
- Market liquidity
- Elasticity measures
- ...

Final Thoughts

Interesting Paper! Go read it.

Take away

- Promising new source of variation for prices ...
- ... promised to a bright future