Global Fund Flows and Emerging Market Tail Risk

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Global risk and risk aversion shocks have distinct distributional impacts on emerging market capital flows and returns. In particular, we find salient consequences of these different global shocks for tail risk in emerging markets. Open-end mutual fund trading provides a key mechanism linking shocks facing global investors to extreme capital flow and return realizations. The effects are heterogeneous across asset classes and fund types. The limited discretion and higher conformity of passive fund investments linked to benchmarking amplify pass-through effects that engender abnormal co-movements in emerging market flows and returns.

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