Francesco Nicolai

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RESEARCH INTERESTS

Asset Pricing, Macro-Finance, Financial Intermediation, Fixed Income, Leveraged Finance, Public Finance

EDUCATION

London School of Economics and Political Science **Sep 2017 - expected 2021**
PhD Candidate in Finance

London School of Economics and Political Science **Sep 2015 – Sep 2017**
MRes in Finance

Università Commerciale L. Bocconi **Sep 2012 – Apr 2015**
MSc in Economic and Social Sciences – 110/110 Cum Laude

Brandeis University **Aug 2013 – Dec 2013**
Exchange student

Università di Pisa **Sep 2009 – Jul 2012**
Bachelor's Degree in Banking and Finance – 110/110 Cum Laude

JOB MARKET PAPER

- *"Contagion in the Market for Leveraged Loans "*
  Collateralized Loan Obligations (CLOs) spread shocks in the market for leveraged loans. I document that, in order to satisfy constraints based on the par value of their assets, CLOs become forced sellers of high quality securities when hit by negative shocks to otherwise unrelated securities. Loans sold for non fundamental reasons trade at depressed prices for up to nine months after the shock. The effect cannot be explained by selection on ex-ante or ex-post loan characteristics. A large fraction of the dislocation in secondary markets is transmitted to the market of issuance: shocked companies due to refinance their loans substitute away from institutional tranches towards other types of securities. The substitution is imperfect, causing an increase in the cost of borrowing.

WORKING PAPERS

- *"Revealed Expectations and Learning Biases: Evidence from the Mutual Fund Industry" (with S. Risteska)*
  By inverting the optimal portfolios of mutual fund managers in a fairly general setting, which allows us to partial out the effect of risk aversion and hedging demands, we provide an estimate of perceived expected excess returns and show that they are significantly affected by experienced returns. The effect of past returns is non-monotone: we provide reduced-form and structural evidence of managers displaying recency and primacy bias. Finally, we estimate an average coefficient of relative risk aversion close to unity.

WORK IN PROGRESS

- *"Living on the Edge: the Salience of Property Taxes in the UK Housing Market" (with M. Pelosi and S. Risteska)*
  Taxes that happen concurrently with the purchase are more salient than deferred taxes. Using a sharp geographical discontinuity between London Boroughs, we show that the incidence of property taxes deferred to the future is too small compared to the incidence of stamp duty taxes happening at the moment of buying the property. The difference in incidence implies very large discount rates that cannot be easily rationalized even after accounting for liquidity constraints. The lack of salience at the moment of purchase implies that the burden of the tax will be borne in the future to meet the budget constraint. This implies that there is an optimal tax mix, even though one of the two taxes is more distortionary than the other.

- *"Do Uninsurable Idiosyncratic Shocks to Financial Intermediaries Matter?"*
  Yes, they do. With incomplete markets, financial intermediaries cannot perfectly share the risk associated with idiosyncratic shocks to inflows. We show that the cross-sectional average of flows shocks is procyclical, while its cross-sectional variance is countercyclical. This implies that the SDF can be represented as a function of the cross-sectional average and the cross-sectional variance of total net assets (TNA) growth. We provide evidence of the importance of this representation, by showing that the

abnormal returns of twenty-five portfolios sorted based on their exposition to the cross-sectional average TNA growth and its cross-sectional variance are monotone in their loadings. We also show that these two factors are priced in the cross-section of size, value, momentum and industry sorted portfolios. This is evidence of the fact that financial intermediaries have an impact on the pricing of equities, and that market incompleteness is a driving force in determining their expected returns.

- *"Asset Pricing Over the Business Cycle: Risk vs. Risk Aversion"* (with L. Bretscher, A. Hsu and A. Tamoni)
  Degree of risk aversion (RA) determines the impact of second moment shocks in DSGE models featuring stochastic volatility. Ceteris paribus, higher risk aversion leads to stronger responses of macroeconomic variables to volatility shocks, in contrast to the Tallarini (2000) irrelevance result, which still holds with respect to level shocks. The output, consumption, and investment responses roughly double in our model following volatility shocks of the same magnitude as RA increases from 5 to 15, making volatility shocks as economically significant as level shocks in the model. Our result adds another dimension of complication in extending macro-finance models that employ stochastic volatility, such as Bansal and Yaron (2005), from endowment economies to full general equilibrium as macroeconomic and asset pricing moments need to be calibrated simultaneously.

- *"Shock Elasticities and Uncertainty"* (with A. Malkhozov and A. Tamoni)

SEMINAR AND CONFERENCE PRESENTATIONS

- 2018: PhD Seminar, LSE
- 2019: PhD Seminar, LSE – Yale Whitebox Conference – Belgrade Young Economists Conference[*]
- 2020: PhD Seminar, LSE (x2)

REFEREEING

- Econometrica
- Management Science

TEACHING EXPERIENCE

London School of Economics

- EE953 - Effective Asset Management, Executive School — 2019
- EE952 - Finance for Executives, Executive School — 2020
- FM414 - Corporate Investment and Financial Policy, MSc in Finance — 2018-2020
- FM414E - Private Equity, MSc in Finance (Part Time) — 2018-2020
- MA100 - Mathematical Methods, Undergraduate — 2017-2018
- FM212 - Principles of Finance, Undergraduate — 2016-2020
- FM230 - Alternative Investments, Undergraduate — 2016-2019
- FM300 - Corporate Finance, Investments and Financial Markets, Undergraduate — 2020

Others

- Asset Management, HEC Executive Master in Finance — 2018

OTHER EXPERIENCE

Marlowe Capital Ltd.

- External Consultant — 2020

AWARDS

- LSESU Teaching Award for Sharing Subject Knowledge x 2 — 2020
- Funding Awardee by the Paul Woolley Centre — 2018-2020
- Funding Awardee by the Department of Finance — 2015-2018

[*] Presentation given by co-author.

ADDITIONAL INFORMATION

Languages: Italian (native); English (fluent)
IT Skills: R, Matlab, Stata, Latex, HTML, Python, SQL
Interests: Triathlon, Swimming, Running, Cycling, Snooker

REFERENCES

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