



Research Working Papers

Capital Flows in Risky Times: Risk-On / Risk-Off and Emerging Market Tail Risk

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A sudden decrease in the risk appetite of global investors increases the probability of uncommonly large bond outflows from emerging markets.

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This paper characterizes the implications of risk-on/risk-off shocks for emerging market capital flows and returns. We document that these shocks have important implications not only for the median of emerging markets flows and returns but also for the left tail. Further, while there are some differences in the effects across bond vs. equity markets and flows vs. asset returns, the effects associated with the worst realizations are generally larger than on the median realization. We apply our methodology to the COVID-19 shock to examine the pattern of flow and return realizations: the sizable risk-off nature of this shock engenders reactions that reside deep in the left tail of most relevant emerging market quantities.

JEL Classification: F32, G15, G23

Article Citations

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Related Research

- Forbes, Kristin J, and Francis E. Warnock. 2012. "Capital Flow Waves: Surges, Stops, Flight, and Retrenchment." *Journal of International Economics*, vol. 88, no. 2, pp. 235–251. Available at <https://doi.org/10.1016/j.jinteco.2012.03.006>
 - Gelos, R. G., Lucyna Gornicka, Robin Koepke, Ratna Sahay, and Silvia Sgherri. 2019. "Capital Flows at Risk: Taming the Ebbs and Flows." IMF Working Paper no. 19/279. Available at <https://doi.org/10.5089/9781513522906.001>
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