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Political Ties and Capital Raising in Global Markets: Evidence from Yankee Bonds

58 Pages Posted: 27 Mar 2019

Last revised: 3 Sep 2019

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Date Written: September 1, 2019

Abstract

This paper examines whether state-to-state political ties help to obtain better terms when raising capital in global capital markets. Focusing on publicly issued Yankee bonds, we observe that firms from countries with close political ties to the US have been successful in reducing borrowing costs. Specifically, a one-standard-deviation improvement in such ties can lead to a 5 to 14 percent reduction in at-issue yield spreads. Such an association is more pronounced for firms located in countries that are highly indebted, in government-related industries, and during home-country recessions. Our study sheds lights on the importance of country-level political relationships in international fund-

Keywords: Yankee bonds; Political ties; Bond yield spread

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