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## How Etf's Amplify the Global Financial Cycle in Emerging Markets

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### Abstract

This paper examines how the growth of exchange-traded funds (ETFs) has affected the sensitivity of international capital flows to global financial conditions. Using data on individual emerging market funds worldwide, we employ a novel identification strategy that controls for unobservable time-varying economic conditions at the investment destination. We find that the sensitivity of flows to global financial conditions for equity (bond) ETFs is 2.5 (2.25) times higher than for equity (bond) mutual funds. We then show that our findings have macroeconomic implications. In countries where ETFs hold a larger share of the equity market, total cross-border equity flows and returns are significantly more sensitive to global financial conditions. Our results imply that the increasing role of ETFs as a channel for international capital flows has amplified the global financial cycle in emerging markets.

**Keywords:** exchange-traded funds, Mutual funds, Global financial cycle, global risks, Push and pull factors, Capital flows, Emerging markets**JEL Classification:** F32, G11, G15, G23[Suggested Citation](#) >[Show Contact Information](#) >

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