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Investor Sentiment in Japanese and U.S. Daily Mutual Fund Flows

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We find evidence that is consistent with the hypothesis that daily mutual fund flows may be instruments for investor sentiment about the stock market. We use this finding to construct a new index of investor sentiment, and validate this index using data from both the United States and Japan. In both markets exposure to this factor is priced, and in the Japanese case, we document evidence of negative correlations between Bull' and Bear' domestic funds. The flows to bear foreign funds in Japan display some evidence of negative correlation to domestic and foreign equity funds, suggesting that there is a foreign vs. domestic sentiment factor in Japan that does not appear in the contemporaneous U.S. data. By contrast, U.S. mutual fund investors appear to regard domestic and foreign equity mutual funds as economic substitutes.

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SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs..."



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Paul Krugman, City University of New York and NBER
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July 8, 2025

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