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Stock returns and foreign investment in Brazil

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Abstract

We examine the relationship between stock returns and foreign investment in Brazil, and find that the inflows of foreign investment boosted the returns from 1995 to 2005. There was a strong contemporaneous correlation, although not Granger causality. Foreign investment along with the exchange rate, the influence of the world stock markets and country risk can explain 73% of the changes that occurred in the stock returns over the period. We also find that positive feedback trading played a role, and that the market promptly assimilated new information.

Acknowledgements

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