Explaining bank stock performance with crisis sentiment

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Abstract
Using search volume data on crisis-related queries from Google Trends, we estimate three different measures of market-level and individual crisis sentiment. We find that the stock performance of international banks during the period Q1 2004 to Q4 2012 was significantly driven by investors' irrational market-wide crisis sentiment. Our empirical analysis shows that irrational market-wide crisis sentiment leads investors to devalue bank stocks irrespective of idiosyncratic or macroeconomic fundamentals. Comparing this finding with results for a sample of non-financial companies, we find evidence in support of the notion that the effect of crisis sentiment on stock returns is strongest in the absence of implicit bailout guarantees.

JEL classification
G21; G01; G02

Keywords
Financial crisis; Bank performance; Investor sentiment

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