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The effect of Sovereign Wealth Funds' involvement on stock markets

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This study assesses the reaction of stock markets, when Sovereign Wealth Funds (SWFs) announce that they have taken a stake in a listed company. It adds useful empirical results to the debate on the effect of SWFs on financial markets, which remains so far largely reliant on guess work.

We perform an event study using a sample of 50 SWF acquisitions of equity stakes in listed companies around the world, from May 2005 to April 2008. According to our results, the announcement of an acquisition by a SWF has a transitory positive impact on the share price of the target company, but there is no lasting effect. This stands in contrast to the results obtained in the academic literature for the investments of private equity funds, and to a lesser extent pension funds.

The tests conducted on a sub-sample of announcements targeting banks only made during the subprime crisis (between July 2007 and April 2008) do not exhibit more lasting effects. This may suggest that markets are not convinced that SWFs alone are capable of restoring the position of the banks concerned.

These results are however subject to some caveats, and notably, the relatively small size of the sample as well as a selection bias in favour of transparent SWFs, due to the lack of information on other funds.

Keywords: Sovereign Wealth Funds, Event Study.

Codes JEL: G14, G34.

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