The Gift that Keeps on Giving to Investors: Does the Corporate Bond Market Learn from Politicians' Stock Trades?

Ye Aung (Brandon) Moe
University of Nebraska-Lincoln, Department of Finance

Abstract

This paper examines whether U.S. politicians' stock trades convey information to the corporate bond market. Using a comprehensive dataset of Congressional stock transactions from 2012–2024, I find that bond investors incorporate these trades into pricing in both the primary and secondary markets. In the primary market, bonds issued by firms whose stocks were net purchased (sold) by legislators have significantly lower (higher) offering yield spreads, particularly when trades are bipartisan or involve many lawmakers. In the secondary market, disclosures of Congressional stock trades are followed by significant bond return reactions, especially for larger trades and transactions with shorter reporting delays. Moreover, rating downgrades are more likely for bonds of firms whose stocks were sold by politicians, while stock purchases do not predict upgrades. Overall, the findings provide the first systematic evidence that Congressional trading activity transmits information to the corporate bond market, revealing an important cross-market channel through which politician's stock trades influence the corporate bond market

Motivation and Research Question

- Prior research shows that stock trades by corporate insiders convey information relevant to bond market participants.
- Politicians are a special type of insiders with privileged access to market-moving information.
- The bond market, which is less informationally efficient than the stock market, may learn from and react to Congressional stock trades.

- Research Questions:
  1. Do politician stock trades influence corporate bond issuance outcomes, specifically offering yield spreads?
  2. Do these trades affect the pricing of outstanding bonds in the secondary market following disclosure?

- Importance: The cross-market effect of politicians' stock trades has been understudied and not well understood.
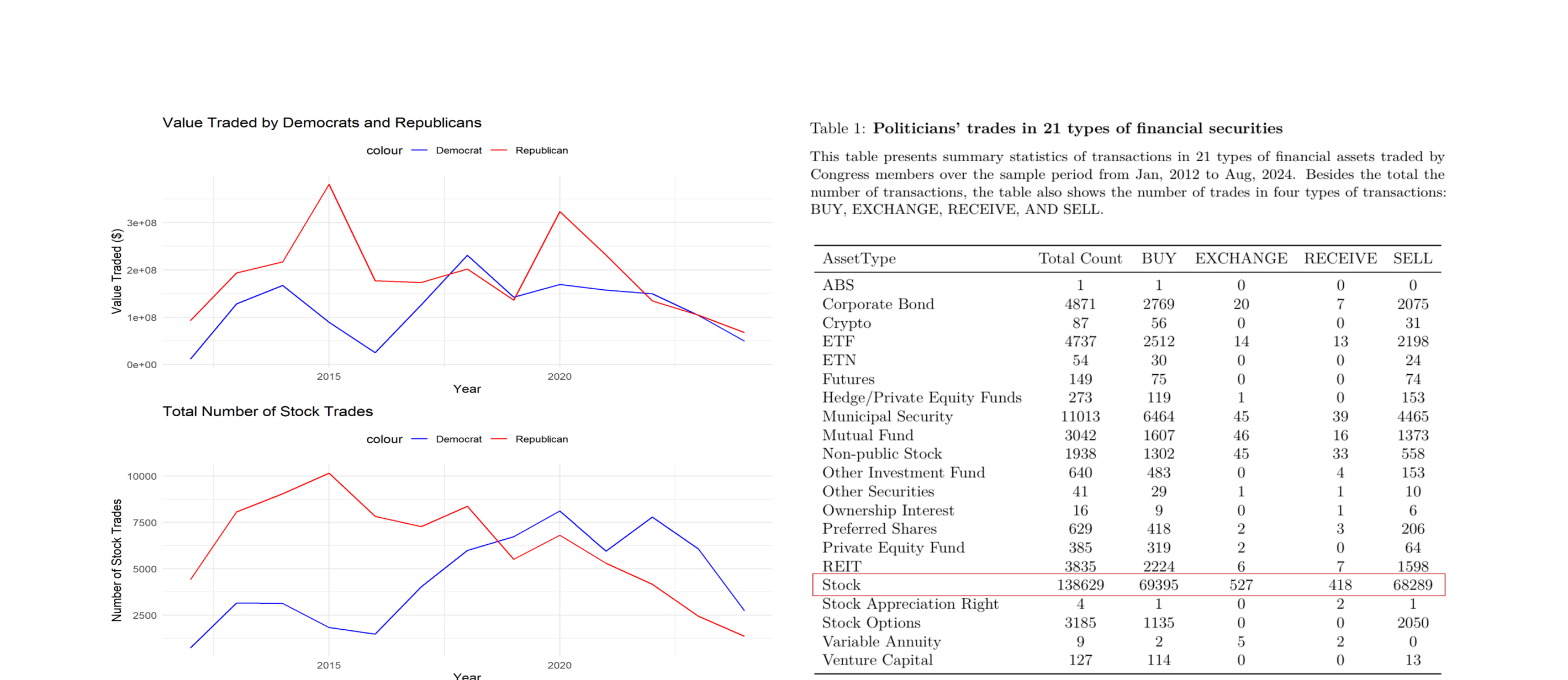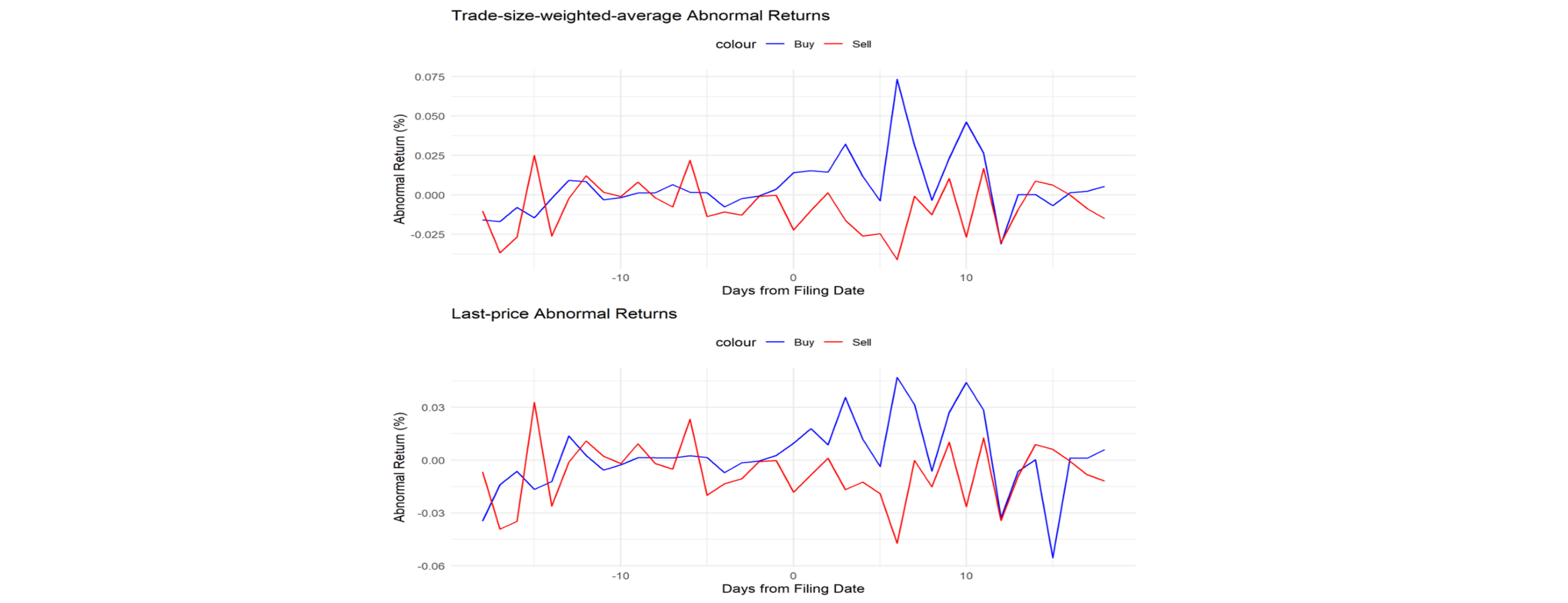
Contribution

- It extends research on the informativeness of insider trades by focusing on politicians, a group whose trades are both legal and systematically different from corporate insiders.
- It fills a gap in the literature on informativeness of lawmakers' investment activities in the stock market by studying the spillover effect onto other financial markets.
- It contributes to the growing body of work on bond market efficiency and the interaction between equity and debt markets.
- Its empirical findings inform reformers on the role of politicians' stock trades in information transmission and market efficiency.

Data

- 2iQ's Capitol Trades consisting of trades in financial securities made by legislators from 2012 to 2024

- LSEG Mergent FISD

- TRACE Enhanced

- CRSP

- WRDS Financial Ratios Suite

- Federal Reserve Economic Data (FRED)

Congressional Stock Trades

Value Traded by Democrats and Republicans

Total Number of Stock Trades

Table 1: Politicians' trades in 21 types of financial securities
This table presents summary statistics of transactions in 21 types of financial assets traded by Congress members over the sample period from Jan, 2012 to Aug, 2024. Besides the total the number of transactions, the table also shows the number of trades in four types of transactions: BUY, EXCHANGE, RECEIVE, and SELL.

AssetType	Total Count	BUY	EXCHANGE	RECEIVE	SELL
ABS	1	1	0	0	0
Corporate Bond	4871	2769	20	7	2075
Crypto	87	56	0	0	31
ETF	4737	2512	14	13	2198
ETN	54	30	0	0	24
Futures	149	75	0	0	74
Hedge/Private Equity Funds	273	119	1	0	153
Municipal Security	11013	6464	45	39	4465
Mutual Fund	3042	1607	46	16	1373
Non-public Stock	1938	1302	45	33	558
Other Investment Fund	640	483	0	4	153
Other Securities	41	29	1	1	10
Ownership Interest	16	9	0	1	6
Preferred Shares	629	418	2	3	206
Private Equity Fund	385	319	2	0	64
REIT	3835	2221	6	7	1598
Stock	138629	69395	527	418	68289
Stock Appreciation Right	4	1	0	2	1
Stock Options	3185	1135	0	0	2050
Variable Annuity	9	2	5	2	0
Venture Capital	127	114	0	0	13

Baseline Model

$$offspr_b = \alpha \; polstocktrd \; + \beta_b \; controls_b + \beta_{s/f} \; controls_{s/f} + FEs + \epsilon$$

$$CAR_b = k + \alpha_1 \, amount\_log \; (or) \; \alpha_1 \, holding\_chg + \alpha_2 \, avg\_rep\_del$$
$$+ \alpha_3 \, partyindi + \alpha_4 \, ratavg + \alpha_5 \, cumdlystockret$$
$$+ otherbondcontrols + FEs + \varepsilon_b$$

- *polstocktrd* is 1 if a bond issuance is preceded by net purchase or sale of the stock of the issuer in [-120, -30] days of issuance.
- *CAR* is the cumulative abnormal return of a bond calculated from the day of stock trade disclosure to the next 18 trading days.

Results for the Primary Market

	Purchase				Sale		
	All	Reporting Delay	No Bond Transaction		All	Reporting Delay	No Bond Transaction
	(1)	(2)	(3)		(1)	(2)	(3)
polstocktrd	-0.0160**	-0.0265***	-0.0161***	polstocktrd	0.0173**	0.0196**	0.0175**
	(0.0073)	(0.0049)	(0.0049)		(0.0083)	(0.0096)	(0.0085)

|	Purchase					
	Dem and Rep agree	Dem and Rep disagree	Pol above median	Pol below median	Amount traded above median	Amount traded below median
	(1)	(2)	(3)	(4)	(5)	(6)
polstocktrd	-0.0270***	0.0022*	-0.0191***	-0.0189***	-0.0230***	-0.0211***
	(0.0044)	(0.0013)	(0.0050)	(0.0048)	(0.0050)	(0.0047)

	Sale					
	Dem and Rep agree	Dem and Rep disagree	Pol above median	Pol below median	Amount traded above median	Amount traded below median
	(1)	(2)	(3)	(4)	(5)	(6)
polstocktrd	0.0214***	0.0123	0.0204***	0.0189	0.0223***	0.0202**
	(0.0049)	(0.0125)	(0.0048)	(0.0148)	(0.0047)	(0.0047)

- A bond issued after its issuer's stocks were purchased (sold) by politicians in prior months earns a lower (higher) yield spread of approximately 1.6 bps (1.7 bps).
- Especially for stock sales, the influence in primary market bond pricing varies with partisan agreement in investment and the number of politicians transacting a stock.

Abnormal Price Return in the Secondary Market

Trade-size-weighted-average Abnormal Returns

Last-price Abnormal Returns

- A bond experiences significant movements in abnormal returns on days following the disclosure of transactions in the stock of the bond's issuer.

Results for the Secondary Market

	Purchase				Sale			
	trade-size-weighted-price		lastprice		trade-size-weighted-price		lastprice	
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
intercept	-0.1408**	-0.0203	-0.1159**	-0.0084	-0.2810***	-0.0078**	-0.2774***	-0.0078**
	(0.0587)	(0.0254)	(0.0547)	(0.0205)	(0.0426)	(0.0037)	(0.0554)	(0.0029)
amount_log	0.0132***		0.0112***		-0.0224***		0.0171***	
	(0.0039)		(0.0041)		(0.0028)		(0.0040)	
holding_chg		0.0031		0.0031		-0.0003		-0.0062
		(0.0024)		(0.0217)		(0.0030)		(0.0059)
avg_rep_del.log	-0.0125***	-0.0007***	-0.0089***	-0.0007***	0.0028***	0.0020***	0.0008***	0.0017***
	(0.0003)	(0.0001)	(0.0000)	(0.0000)	(0.0003)	(0.0000)	(0.0004)	(0.0000)
partyindi	-0.0350	-0.0961	-0.0416	-0.1093	0.0262	-0.0133	0.0165*	-0.0241*
	(0.0156)	(0.0405)	(0.0356)	(0.0100)	(0.0085)	(0.0093)	(0.0094)	(0.0140)
ratavg	0.0120*	0.0067	0.0120*	0.0074	-0.0017	0.0011	-0.0025	0.0010
	(0.0068)	(0.0084)	(0.0071)	(0.0087)	(0.0070)	(0.0083)	(0.0073)	(0.0086)
cumdlystockret	0.0081***	0.0082***	0.0168**	0.0172**	0.0081***	0.0082***	0.0134***	0.0135***
	(0.0016)	(0.0016)	(0.0068)	(0.0068)	(0.0016)	(0.0016)	(0.0022)	(0.0023)
otherbondcontrols	Yes	Yes	Yes	Yes	otherbondcontrols	Yes	Yes	Yes	Yes
Year-Month FE	Yes	Yes	Yes	Yes	Year-Month FE	Yes	Yes	Yes	Yes
Issuer FE	Yes	Yes	Yes	Yes	Issuer FE	Yes	Yes	Yes	Yes
N	108242	51608	108242	51608	N	88569	41070	88569	41070
R²	0.23	0.17	0.23	0.17	R²	0.16	0.08	0.17	0.09

- Bond investors appear to observe signals such as trade size disclosed and reporting delays and react accordingly in the secondary market.