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

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## Abstract

Using a comprehensive dataset of politicians' stock transactions during 2012-2024, I provide evidence that their stock trading activities are incorporated by bond market investors, and the influence is observed in both the primary and secondary markets. Bonds issued by firms whose stocks were net purchased (sold) by members of Congress show lower (higher) offering yield spreads. The association is stronger when Democrats and Republicans trade in the same direction, and when more politicians are trading, but not when the dollar amount transacted is larger. In the secondary market, disclosed stock trades by politicians are followed by cumulative abnormal returns in the firm's outstanding bonds. Cross-sectional tests reveal that these reactions are more pronounced for larger trades and smaller reporting delays, but they are not significantly correlated with changes in politicians' holdings, party affiliation, or bond ratings.

## 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)

# Results for the Primary Market

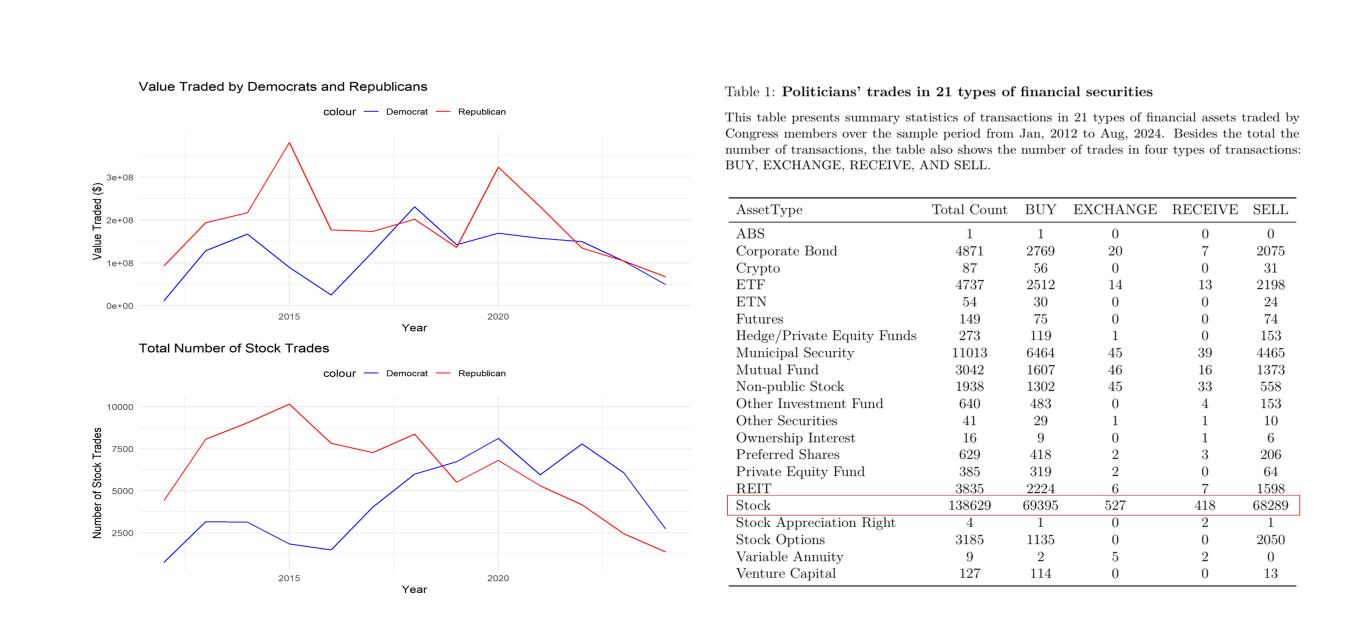
		Purchase			Sale								
	All Report Dela		0	Bond action		All	eporting Delay	No Bond Transaction					
	(1)	(2)	;) (	3)	_	(1)	(2)	(3)					
polstocktr	d -0.0160** -0.0268 (0.0073) (0.006			-0.0161*** (0.0049)			0.0196** (0.0096)	0.0175** (0.0085)					
		Purchase											
_	Dem and Rep agree		Dem and Rep disagree	Pol above median	Pol below median	Amount traded n above median							
		(1)	(2)	(3)	(4)	(5)	(6)						
_	polstocktrd	-0.0270*** (0.0044)	0.0022* (0.0013)	-0.0191*** (0.0050)	-0.0189*** (0.0048)	-0.0230*** (0.0050)	-0.0211*** (0.0047)	_					
	Sale												
		Dem and Rep agree	Dem and Rep disagree	Pol above median	Pol below median	Amount traded above median	Amount trade below median						
		(1)	(2)	(3)	(4)	(5)	(6)						
-	polstocktrd	0.0214***	0.0123	0.0204***	0.0189	0.0223***	0.0202**	_					

- 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.

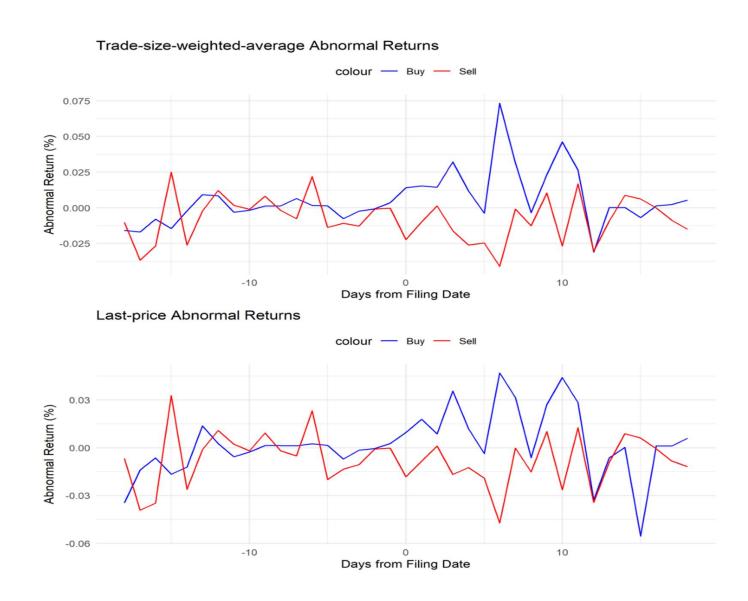
## Motivation and Research Question

- 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.

# Congressional Stock Trades



## Abnormal Price Return in the Secondary Market



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

## 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.

## Baseline Model

 $offspr_b = \alpha \ polstocktrd + \beta_b \ controls_b + \beta_{s/f} \ controls_{s/f} + FEs + \epsilon$   $CAR_i = k + \alpha_1 \ amount\_log \ (or) \ \alpha_1 \ holding\_chg + \alpha_2 \ avg\_rep\_del$   $+ \alpha_3 \ party + \alpha_4 \ ratavg + FEs + \epsilon$ 

- 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 Secondary Market

	Purchase					Sale					
	trade-size-weighted-price		lastprice			trade-size-weighted-price		lastprice			
	(1)	(2)	(3)	(4)		(1)	(2)	(3)	(4)		
intercept	-0.1560**	-0.0271	-0.1355**	-0.0135	intercept	-0.3412***	-0.0108**	-0.2774***	-0.0948**		
	(0.0743)	(0.0383)	(0.0640)	(0.0387)		(0.0532)	(0.0051)	(0.0554)	(0.0458)		
amount_log	0.0123***	,	0.0112***		$\operatorname{amount} \operatorname{Llog}$	-0.0224***		-0.0171***			
	(0.0039)		(0.0041)			(0.0038)		(0.0040)			
holding_chg	,	0.0031	,	0.0031	$\operatorname{holding\_chg}$		-0.0003		-0.0062		
0 0		(0.0024)		(0.0217)			(0.0030)		(0.0059)		
avg_rep_del_log	0.0125***	0.0007***	0.0089***	0.0015***	avg_rep_del_log	-0.0028***	-0.0020***	-0.0008***	-0.0017***		
	(0.0003)	(0.0001)	(0.0000)	(0.0000)		(0.0000)	(0.0000)	(0.0000)	(0.0000)		
partyindi	-0.0350	-0.0961	-0.0416	-0.1093	partyindi	0.0262	-0.0133	0.0165*	-0.0241*		
	(0.0156)	(0.0405)	(0.0356)	(0.1010)		(0.0885)	(0.0093)	(0.0094)	(0.0140)		
ratavg	0.0120*	0.0067	0.0120*	0.0074	ratavg	-0.0017	0.0011	-0.0025	0.0010		
	(0.0068)	(0.0084)	(0.0071)	(0.0087)		(0.0070)	(0.0083)	(0.0073)	(0.0086)		
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	51602	108242	51602	N	98569	41207	98569	41207		
$R^2$	0.21	0.15	0.21	0.15	$\mathbb{R}^2$	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.

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#### Abstract:

Using a comprehensive dataset of politicians' stock transactions during 2012-2024, I provide evidence that their stock trading activities are incorporated by bond market investors, and the influence is observed in both the primary and secondary markets. Bonds issued by firms whose stocks were net purchased (sold) by members of Congress show lower (higher) offering yield spreads. The association is stronger when Democrats and Republicans trade in the same direction, and when more politicians are trading, but not when the dollar amount transacted is larger. In the secondary market, disclosed stock trades by politicians are followed by cumulative abnormal returns in the firm's outstanding bonds. Cross-sectional tests reveal that these reactions are more pronounced for larger trades and smaller reporting delays, but they are not significantly correlated with changes in politicians' holdings, party affiliation, or bond ratings.

**Keywords:** Congress Members, Congressional Stock Trades, Corporate bonds, Corporate bond market, offering yield spread, primary market, secondary market

JEL Classifications: E44, G11, G14, G23

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#### 1 Introduction

Members of the United States Congress are legally permitted to own and trade financial assets, including publicly traded stocks and bonds, provided they adhere to the disclosure requirements under the STOCK Act of 2012. The trading activities of politicians in financial markets garner interest from the general public, the press, investors, and academia for a variety of reasons. The public and the press generally view Congressional trading as a sign of ascending amorality and creeping corruption in governmental institutions. As such, the public, amid waning trust in the government and appalled by occasional high-profile episodes of Congressional trading scandals, largely supports banning or imposing stricter trading rules for politicians. In fact, the public disdain for Congressional trading is so uniform that calls for greater regulation of politicians in financial markets are one issue on which both Democrat and Republican voters see "eye-to-eye." On the other hand, investors, supposedly a more pragmatic group, have instead embraced the "If you can't stop them, join them" mindset. Accordingly, the attention paid to politicians' trading activities—particularly stock trading—has been on an upward trend. A number of websites tracking and closely monitoring the stock picks of politicians have sprung up.

Such attention to politicians' trades is both remarkable and inevitable for a number of reasons. First, members of Congress are often privy to non-public information about regulatory developments, government contracts, economic conditions, and impending legislation. These informational advantages may enable them to make more informed trading decisions than an average investor. Second, most investors have to contend with investment constraints in one way or another. Examples abound. Individual retail investors are often saddled with monetary constraints. Meanwhile, institutional investors, such as some mutual and pension funds, are required by investment rules and fiduciary principles to invest sensibly and responsibly. Corporate insiders, too, face a number of regulations and rules. On the other hand, Congressional lawmakers have relatively fewer strings tying their hands. To list

<sup>&</sup>lt;sup>1</sup>Congressional Stock Trading Severely Undermines Public Trust and Compliance with the Law

<sup>&</sup>lt;sup>2</sup>Banning stock trading in Congress is a crucial step toward restoring public trust

<sup>&</sup>lt;sup>3</sup>In a 2024 Gallup poll, only 8% of respondents rated Congress members as being high or very high in honesty and ethics. This makes Congress politicians as the third least trusted profession.

<sup>&</sup>lt;sup>4</sup>Some of these websites are Capitol Trades, Quiver Quantitative, Barchart Politician Insider Trading, and Unusual Whales Track Congressional & Senate Stock Trades

a few examples, first, legislators do not owe fiduciary duties to investors, which may increase their willingness to act on sensitive information. Second, their trades are governed by the less stringent STOCK Act and its weaker enforcement. As such, late disclosures by politicians are not uncommon and are rarely followed by penalties, whereas corporate insiders are often punished for violations of insider trading rules. Third, the notion that trades by lawmakers generally yield impressive returns acts as a feedback loop reinforcing the attention to their trades in financial securities.

Against this backdrop, a growing number of academic studies have investigated the nature, performance, and implications of politicians' stock trades. The political science, law, and ethics literature is generally more focused on the issue of integrity that is called into question by the existence of what seems to be an abuse of power in Congressional trades.<sup>5</sup> In other words, these works mainly address the public's concern. On the other hand, financial research predominantly investigates trading patterns and behaviors, the information content, and the profit&loss of politicians' transactions. Put differently, their studies have a greater intersection with investors' interests.

Financial research on politicians' trades is also expansive and growing. Just to name a few: regarding politicians' trading patterns and behaviors, ? (?) posit that politicians known for personal misconduct have a higher tendency to make use of insider information—and they find supporting evidence. On the topic of the information content embedded in trades of legislators, Hanousek Jr. et al. (2023) find that Senators' equity trades collectively have substantial predictive power for firms' risk and return. As for performance, Ziobrowski et al. (2004) find that portfolios of Senators between 1993 and 1998 outperform the market by almost 97 basis points (bps) per month. In investigating politicians' trades, most prior and ongoing academic research—as well as industry reports—primarily studies stock transactions and the stock market, chiefly due to the fact that stock transactions account for a large portion of the financial securities traded by legislators (See Section 4.1). Because of the far fewer number of transactions in other financial markets, there are indeed limitations to conducting studies on lawmakers' activities in those markets.

I might not be able to cite it now, not on SSRN as of 27Jul.

<sup>&</sup>lt;sup>5</sup>Alam and Rai (2025) show that the public still loses trust in Congress even when legislators' trades result in a loss because the very act of politicians' trading signals misuse of power, regardless of the monetary outcomes.

Notwithstanding these limitations, given the persistence of politicians' stock trading and the apparent information-rich nature of these transactions, it is surprising that relatively little is known about how financial markets, particularly the bond market, respond to the stock trading behavior of legislators. Understanding the cross-market effects of politicians' stock trades is salient because there are reasons to believe that their trades could transmit information to the bond market. Bondholders, like shareholders, are affected by a firm's future cash flows and risk exposures. If politicians' trades signal changes in firm-specific prospects—be it favorable government treatment, regulatory leniency, or adverse policy implications—then bond investors may incorporate this information into their bond investment decisions. In fact, if bond investors view politicians' stock ownership either positively or negatively, they will react accordingly, even when they expect no substantial changes in the firm fundamentals. This study thus aims to fill this gap in our understanding by examining whether and how Congressional stock trades influence the pricing and returns of corporate bonds in both the primary and secondary markets.

The equity market and the bond market are not only connected and similar in some ways but also share noticeable differences. For example, the investor composition between the two markets is distinct from that of one another. The trading structure of the stock market is largely centralized, whereas the bond market is fragmented due to its over-the-counter trading. Yet, similarities can also be found in some measures such as underpricing, a phenomenon observed for both equity IPOs and bond offerings (Chambers and Dimson, 2009; Cai et al., 2007; Nagler and Ottonello, 2017). Besides, although the type of information valued by equity and bond investors is not always the same, they nonetheless rely on information and analysis to make informed investment decisions, as is the case for any investors in almost all financial markets.

Furthermore, there are reasons to believe that politicians' stock trades could impact the bond market. First, the act of a politician buying or selling a firm's stock may be interpreted by investors as a signal of private or superior information. For example, a legislator purchasing stock in a defense contractor shortly before the announcement of a large military budget increase could suggest knowledge of forthcoming policy decisions. Conversely, a divestment may presage negative developments. Second, the disclosure of politicians' trades draws media and public attention, which may induce institutional and retail bond investors to seek out and interpret these signals. This heightened attention can reduce the level of asymmetric information between issuers and investors, which in turn affects bond pricing, since information asymmetry plays a large role in pricing due to the greater illiquidity in the bond market. Therefore, taking into account that (1). investors value information, (2). the equity market is more informationally efficient than the bond market, (3). politicians' stock trades are likely to be motivated by material insider information, and (4). bond investors may value and react to signals of politicians' stock trades, a study on the impact of Congressional stock trades on the corporate bond market has its own merits.

I thus propose to study this issue by examining patterns in the primary and secondary corporate bond markets. More specifically, I ask two questions: (1). Do politicians' stock trades influence corporate bond issuance outcomes, specifically offering yield spreads?, and (2). Do these trades affect the pricing of outstanding bonds in the secondary market following disclosure? The focus on the primary market helps us understand whether the spillover effect of politicians' stock trades could be more than short-lived. Similarly, attention to the secondary market sheds light on any immediate or short-term reaction of bond investors. To answer these questions, I use politicians' stock trades data from CapitolTrades and supplement it with data from the LSEG Mergent Fixed Income Securities Database (LSEG Mergent FISD), and the Trade Reporting and Compliance Engine Enhanced (TRACE Enhanced), among other sources (See Table A2).

My findings indicate that firms whose stocks are net purchased by politicians prior to issuance tend to enjoy lower offering spreads, while those experiencing net stock sales face higher spreads. These associations are statistically significant and robust to alternative specifications. For example, in one of the robustness tests, I show that the association between Congressional stock trades and bond pricing is stronger when trades are disclosed with shorter reporting delays, addressing concerns that bond market participants could not have reacted to undisclosed trades. I also conduct several cross-sectional tests to probe the mechanisms at play, and report the following findings: the effect is magnified when Democrats and Republicans trade in the same direction, and the effect is also larger when

<sup>&</sup>lt;sup>6</sup>This is because bond offerings do not happen with high frequency, unlike secondary market trades.

more politicians are transacting a stock. Interestingly, the magnitude of the effect on the offering yield spread is less sensitive to the net trade size (total purchase amount - total sale amount).

Turning to the secondary bond market, I estimate cross-sectional regressions of cumulative abnormal returns (CARs) starting from the disclosure dates of Congressional stock trades to the following 18 trading days. These analyses reveal that bonds experience positive CARs following disclosed net purchases and negative CARs following net sales. These reactions are more pronounced for trades with shorter reporting delays, suggesting that bond investors respond highly to timelier disclosures. I also find that the dollar value of a trade is positively associated with CARs for purchases and negatively associated with CARs for sales. In contrast, the change in holdings, political party affiliation, and bond credit rating do not significantly predict CARs, suggesting that market participants focus more on observable metrics like trading volume and timeliness than on characteristics that require more interpretation or analysis.

My paper contributes to the literature by studying the nexus of four important subsets of finance research: insider trading, the relation between the stock and the bond market, the trading activities in various financial assets of politicians, and the characteristics of the bond market. Each of these branches of financial research is expansive on its own and has been growing. Nonetheless, this study expands our financial research knowledge with new directions and findings. First, 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. In this sense, this study is complementary to Datta and Iskandar-Datta (1996) who show that corporate insider trading contains information content relevant to the bond market.

Second, much attention and a great deal of effort have been directed toward studying the performance of politicians' stock trades and portfolios in various settings; and many discussions have been made regarding informativeness of their investment activities in the stock market. Yet, surprisingly, very little research exists that systematicallys examine the impact of the politicians' equity transactions on other markets. I show that there is indeed more to politicians' stock trades than previously understood by documenting their spillover

effects. Third, the findings contribute to the growing body of work on bond market efficiency and on the interaction between equity and debt markets. Although the bond market is typically characterized as being less liquid and less responsive than the equity market, this study shows that it can incorporate equity-originated signals such as politicians' stock trades. By linking bond yield spreads and secondary market returns to politician stock trading activities, this research demonstrates that the informational effects of Congressional trades are not confined to equities alone. Furthermore, the evidence that bond market responses depend on features such as bipartisan trading, reporting delays, and transaction size illustrates that the bond market does not merely respond, but its reactions are nuanced and varied.

Lastly, although not the focal point of the paper, the results also have the potential to inform ongoing debates in public policy and financial regulation. While much of the political discourse around Congressional stock trading centers on questions of fairness, equity, and/or ethics, this study provides empirical evidence that such trades have market-wide implications extending beyond equity markets. The fact that personal stock trading by lawmakers can even impact other financial markets may raise concerns about the consequences of their actions on the economy, and it also raises questions regarding the role of information transmission played by politicians. In this way, the findings are not only interesting to firms and investors, but also offer another angle for the public, regulators, and policymakers who are considering reforming Congressional trading.

#### 2 Literature Review and Hypotheses

Members of the U.S. Congress trade more frequently in public equities than in other types of financial assets, and accordingly, a growing body of academic literature has focused on their ownership and divestment of public stocks. The categorization of this expanding literature can be daunting. However, I mention roughly three (sometimes overlapping) strands that are well established in the politician trading literature.

The first—and perhaps most extensively researched—subcategory seeks to understand the investment behavior and performance of politicians' stock trades and their overall portfolios (See C. Eggers and Hainmueller, 2013; Karadas, 2018; Moe and Ma, 2024; Karadas and

Schlosky, 2024). The second subgroup mainly explores how firms' corporate behavior and outcomes relate to politicians' equity investments. For example, Tahoun (2014) finds evidence of a quid pro quo relationship between firms and politicians, with members of Congress biasing their investment towards firms that contribute to their election campaigns. He shows that the greater the equity stake held by a politician, the more likely the firm is to secure government contracts. Ridge et al. (2018) address the effect of politicians' stock holdings on lobbying intensity. They find that a firm's need for lobbying decreases with the amount of Congress members' stock ownership. This relationship also grows stronger with the political influence and power of the politician. These findings suggest that the political connection gained through politicians' holdings works in the firm's favor. The third strand of the literature is typically concerned with the ethical and moral aspects of politicians' financial activities. For instance, a study by Lenz and Lim (2009)—although it does not emphasize stock trades—present that the growth rate in wealth among House members of Congress is faster than would typically be expected. Hanousek Jr et al. (2023) explore the ethical aspect surrounding politicians' use of insider or non-public information in their investment through the lens of social contract theory. Drawing on the issue of the public's perception of governmental institutions, Alam and Rai (2025) report that public trust in Congress and its legitimacy decrease after reports of Congress members profiting from stock trades. As a result, the public's willingness to obey and respect for laws passed by Congress declines.

Parallel to these strands of literature is a large body of research on the interaction between equity and the bond markets (and also the loan market). Owing to differences in investors composition, trading mechanisms, transparency, regulatory constraints, and analyst coverage, the stock market is generally more informationally efficient than the bond market.<sup>8</sup> Several studies document how information flows from equity to debt markets. For example, Kwan

<sup>&</sup>lt;sup>7</sup>Congressional disclosure rules require members to report transactions made by their immediate family as well. In this study, all such disclosures are treated as politicians' trades. The distinction may hardly be necessary, as prior research shows that Congressional lawmakers seem to share price-changing information with their family members (See Karadas, 2018). Moreover, over 30% of transactions in the CapitolTrades dataset do not specify whether the individual trader is the member or a family member.

<sup>&</sup>lt;sup>8</sup>The counterargument that the dominance of institutional investors in the bond market may generate higher efficiency is valid. However, the prevailing view is that the bond market has lower information efficiency due to stricter regulations on major bond investors like pension funds and insurers, the reactive nature of rating agencies, and over-the-counter trading.

(1996) reports that stocks lead bonds in integrating firm-specific information about the mean of assets value, suggesting that equity markets transmit valuable signals to fixed income markets. A more recent study by Tolikas (2018) similarly documents that leading stock returns can explain the returns of bonds, except in the most highly rated and lowest rated bond portfolios, further supporting the idea that the stock market is more information dense. Campbell and Taksler (2003) also demonstrate that during the 1990s, equity volatility had predictive power for corporate bond yields comparable to that of credit ratings.

Taken together, these studies suggest that bond investors often look to the stock market for relevant information. In the U.S., despite the implementation of the TRACE system which sought to increase transparency and thus possibly improve bond market efficiency—the stock market continues to be more informationally efficient. This suggests that bondholders, particularly informed investors, could be in search of additional informational signals relevant to the bond market from the stock market. Politicians' stock trades, in particular, are regarded as highly informative. This is because market participants recognize that legislators are privileged by their nature of work; and regularly obtain and/or create information that can considerably affect a single firm, a particular industry, or the broader economy. As such, their stock transactions convey valuable information that goes beyond firm specifics like earnings, and bond investors may react to these transactions. Politicians' stock trades can also signal expectations about a firm's future performance. For instance, the purchase of a firm's stock by legislators may indicate favorable developments—such as anticipated regulatory relief, new government subsidies, or the awarding of federal contracts—that are expected to improve the firm's cash flow. This, in turn, may reduce the perceived credit risk and result in lower offering yield spreads for newly issued bonds. Conversely, stock sales by politicians could a signal negative outlook and lead investors to demand higher spreads on subsequent bond offerings.

An additional channel through which politicians' stock trading may affect bond issuance costs is through information asymmetry and secondary market trading. Given the growing attention to politicians' stock transactions by investors and the public, politicians' activities in the stock market may propel bond investors to seek out the information driving them. This knowledge acquired by investors is likely useful during the bookbuilding process. The

literature shows that reduced information asymmetry lowers the cost of debt for issuers (Brugler et al., 2022; Davis et al., 2017). To the extent that potential investors' knowledge of factors relevant to bonds' expected performance reduces information asymmetry between investors and underwriters during the bookbuilding, lower information asymmetry is likely to reduce the cost of issuance for firms. According to this reasoning, bonds offered after stock trades of politicians should experience lower yield spreads. However, this logic is not as straightforward in the case of stock sales. This is because two opposing factors exist: the effect of possible lower demand or higher compensation required from investors (higher yield spread) versus the effect of lower information asymmetry (lower yield spread).

Secondary market trades may also affect issuing costs. As Davis et al. (2017) show, active trading in the secondary bond market enhances price discovery, which translates into changes in the primary market in the form of lower costs of new debt. Similarly, Brugler et al. (2022) establish that reduced information asymmetry in the secondary market after the TRACE implementation impacts the primary market by reducing issuing costs. If politicians' stock trades prompt secondary market activity in related bonds, both underwriters and investors may be better able to assess the expected liquidity of new issues. As demonstrated by Qi and Wang (2024), expected market liquidity affects offering yield spreads. Therefore, when bond investors react to politicians' stock trades in the secondary market by trading outstanding bonds of the same firm, information asymmetry is likely to be less severe for subsequent bond issuance, resulting in lower cost of debt. In the case of stock purchases, both effects—reduced asymmetry and stronger demand—are likely to work in the same direction, lowering issuance costs. However, for stock sales, the effect of lower demand and higher risk premium demanded by investors may act in the opposite direction to the effect of information asymmetry. Thus, the net effect of politician stock sales on bond pricing is ambiguous. Building on the review and discussion above, I construct my first hypothesis (H1) as follows:

H1: Bonds issued by corporations and their subsidiaries after their public stocks are net purchased by politicians have lower offering spreads than bonds issued during periods when politicians are not trading those stocks. Bonds issued by corporations and their subsidiaries after their public stocks are net sold by politicians could have either higher or lower offering spreads than bonds issued during periods of non-trading by politicians.

One could put forth a fairly rational argument that whatever movement in the offering spreads among bonds when Congress members trade stocks is merely the natural and expected outcome of firm-level or industry-level changes which some politicians can anticipate correctly due to their positions. For example, if a politician loads up on the stock of a company that he or she knows will be awarded additional government contracts or receive government subsidies, bond investors could be responding to such news, which may get revealed to or leaked to investors gradually over a few weeks or months. It thus follows that increases or decreases in bond offering price are more likely to be a reflection of the firm's prospects. Put another way, the observed effect of politicians' stock trades on bond issuing costs is simply capturing firm-level or industry-level news and events. I address this plausible concern by including a host of firm-level measures as controls and fixed effects in regression analyses (See Section 4).

Furthermore, to the extent that secondary market bond trades are a good indicator of market participants' response to legislators' stock trades, I look at the abnormal secondary market trading measures in times when politicians are actively buying or selling public stocks. Conditional on the assumption that stock transactions of legislators precede actual changes in firm-level specifics in the coming months (i.e., the longer-term), when bond investors interpret these stock transactions as meaningful signals, they are likely to execute trades in the existing bonds of the firms. If reality actually concurs with this hypothesis, abnormal trading metrics should be observed in the immediate days following the activities of visible politicians' trading. Ex ante, hypothesizing which stock trade direction—buy or sell—will be associated with greater abnormal trading measures is difficult. Buy trades are traditionally stronger signals than sales, and accordingly bond investors' responses will be more visible with larger abnormal trading measures for stock purchases. On the other hand, stock sales may indicate negative news, and bond investors are more concerned with and sensitive to negative reports and news (Bartov et al., 2023; De Franco et al., 2009). Correspondingly, their reaction will be more apparent with larger abnormal trading measures for stock sales. Regardless, if bond investors immediately learn from politicians' stock trades, abnormal trading metrics will be observed in the secondary market. I thus summarize the second hypothesis as follows:

**H2:** Bond investors react to politicians' stock trades in the secondary market as well, leading

to abnormal price returns of outstanding bonds.

#### 3 Variable, Methodology, and Data

#### 3.1 Variable Definitions

This section describes some of the main variables used in the empirical tests, with an emphasis on the dependent variables and how they are measured/constructed. Two main dependent variables are offering spread and cumulative abnormal returns.

#### 3.1.1 Offering Spread

The first variable of interest is the offering spread, offspr, expressed in percentage points. It is defined as the difference between a bond's yield-to-maturity at issuance and the yield on a maturity-matched U.S. Treasury security. I focus on the yield spread rather than the raw offering yield, as the spread more accurately reflects the risk-adjusted cost of debt. This approach is consistent with standard practice in the fixed income literature, which typically adjusts corporate bond yields using comparable Treasury benchmarks (see Meng, 2020; Bartov et al., 2023; Meng et al., 2025). The Mergent FISD provides a pre-calculated Treasury-adjusted spread through the variable treasury-spread. However, a substantial number of bonds have missing values for treasury-spread. To address this, I supplement it with offering-yield from the Mergent FISD and obtain corresponding Treasury yields from the FRED database. The offering spread, offspr, is then computed as the difference between the bond's offering-yield and the benchmark Treasury yield—both expressed in percentage terms.

$$offspr_{i} = \begin{cases} treasury\_spread_{i} & \text{if treasury\_spread from Mergent} \\ & \text{FISD is not missing} \\ offyield_{i} - treasury\_yield & \text{if treasury\_spread from Mergent} \\ & \text{FISD is missing} \end{cases}$$

$$(1)$$

where i indexes a bond. Bonds for which both offering\_yield and treasury\_spread are excluded from the sample, as offspr cannot be constructed.

#### 3.1.2 Cumulative Abnormal Returns

The cumulative abnormal returns of a bond, denoted as  $CAR_{i,t0,t1}$ , is calculated as:

$$CAR_{i,t0,t1} = \sum_{t=t0}^{t1=t0+18} AR_{i,t}$$
 (2)

where i indexes a bond, and t0 and t1 respectively denote the disclosure day on which a politician reported his or her trade(s) in the corresponding stock and the 18 trading days after the disclosure date. The abnormal return,  $AR_{i,t}$  is defined as follows:

$$AR_{i,t} = R_{i,t} - R_t^{index} (3)$$

Here, t represents the day, and  $\mathbf{i}$  represents a bond as in the previous definition. The return of a bond i on day t calculated as the percentage change in the flat price on day t relative to the previous trading day. Because bonds trade infrequently, I retain only those bonds that were traded on at least 9 of the 18 trading days in the event window. I also exclude bonds that were just issued within one month prior to the disclosure date because recently issued bonds are heavily traded in their first days or weeks of offerings.

To account for the fact that the trade size of bond transactions shows considerable variation, I construct two versions of bond returns  $R_{i,t}$ : one using a trade-size-weighted price, and another based on the last reported price of the day. This form of measuring abnormal return is most similar to Dhillon and Johnson (1994) and Oehler et al. (2011). The returns are computed using secondary market transaction data from the TRACE Enhanced dataset. In line with the fixed income literature, I clean the TRACE data for cancellations, corrections, reversals, duplicate interdealer reports, as outlined in Dick-Nielsen (2013). I further exclude commission trades, (retail) transactions with a par value below or equal to \$100,000, trades

<sup>&</sup>lt;sup>9</sup>Note that a disclosure date may include multiple trades in the same stock or across multiple stocks.

exhibiting price swings greater than 25%, and trades executed on non-stock trading days.

The benchmark return,  $R_t^{index}$ , represents the index value change from t-n to t of the ICE BoFA database with a similar rating to the bond at the time of the disclosure date. To determine which ICE BoFA rating benchmark should be used for each bond, I first get the representative rating of a bond in the following order. First, the Standard&Poor's(S&P's) rating is used. If the S&P's rating is not available, the Fitch's rating is applied. When neither S&P's nor Fitch's rating is available, the Moody rating is used. The representative rating is then converted into a numeric rating scale. Finally, each numeric rating is matched to an appropriate benchmark group based on the mapping described in Table A3. The procedure yields two cumulative abnormal return measures:  $CAR_{-}vw_{i,t0,t1}$  and  $CAR_{-}lpr_{i,t0,t1}$ , the former being trade-size-weighted and the latter being based on the day's last transacted price.

#### 3.2 Research Design

The main research question of this paper is whether or not bond market investors react to Congressional politicians' stock trades. I answer this question by examining both the primary and secondary corporate bond markets. In the primary market, I test whether the offering yield spreads of bonds issued after the issuers' stocks were traded in the prior approximately 1-4 months are different in magnitude from those of bonds issued when politicians are not trading those stocks. Because there are not many instances where bond offerings take place just a few days after stock trades by members of Congress, any observed changes in the primary market could not be attributed, with high certainty, to Congressional stock trades. To address this concern, I examine the secondary market reactions by observing the cumulative abnormal returns of existing bonds whose issuers' stocks have been traded by politicians.

The bond-level changes in the primary market following politicians' insider stock trades could be reflected in a number of metrics. I focus on the offering yield spread, as it is an appropriate measure of the cost of debt facing corporations. The offering yield spread is also a suitable measure for comparing bonds with similar characteristics. Furthermore, the unclear direction of changes in offering yield spreads of bonds issued after politicians' stock transactions warrants a detailed study. If politicians' purchases (sales) of stocks are considered

positive (negative) signals for firms' cash flow and future financial health, bond investors are likely to demand more (less) of the bonds issued by those companies, and accordingly tolerate (expect) lower (higher) yield spreads. On the other hand, it is not necessarily true that all (or most) legislators are informed traders, save for a few. Thus, in aggregate, a large number of politicians' trades may not have much valuable information content. Their stock trades then elicit no strong and/or substantial reaction from bond investors. In this scenario, the offering spread of bond issuances preceded by Congressional stock trades should not exhibit any statistically meaningful change. On yet another hand, to the extent that politicians' ownership of stocks is a reliable proxy for political connection, some studies suggest that increased political connection is associated with worsening agency issues and elevated rent-seeking behaviors. Under this view, potential bondholders may require higher (lower) yield spreads on bonds issued by companies whose stocks have been net purchased (sold) by lawmakers in the prior months. Overall, this uncertain prediction calls for empirical investigation. To do so, I estimate the following model:

$$offspr_b = \alpha \ polstocktrd + \beta_b \ controls_b + \beta_{s/f} \ controls_{s/f} + FEs + \epsilon$$
 (4)

where b is the index for a bond, sf indexes a stock/firm. The dependent variable  $offspr_b$ , as described in Section 3.1.1, is the difference between an issue's offering yield and the benchmark Treasury yield with a similar maturity. The regressions are run separately for buy and sell samples. The primary variables and coefficients of interest are polstocktrd and  $\alpha$ . polstocktrd is a binary variable equal to 1 for a bond that is offered after the issuing firm's stocks were traded by Congress lawmakers in [-120, -30] days before issuance, and 0 otherwise.

The set of bond-level controls includes those that are known or expected to be associated with the offering spread: the rating at the time of issuance, maturity, the monthly default spread (the yield premium investors demand for Baa-rated bonds over Aaa-rated bonds), and the natural logarithm of the issue amount. As some stock/firm-level measures are known to have strong associations with bond yields (or yield spreads) (Kwan, 1996; Tolikas 2018), I also include following stock/firm-level controls: the natural logarithm of market capitalization

calculated as the share price multiplied by the number of shares outstanding, (cumulative) market-adjusted stock return over the 12 months preceding the month of issuance, the book-to-market ratio, the return-on-asset measured as net income over total assets, and the debt-to-asset ratio expressed as total debt divided by total assets. Next, FEs represents the list of fixed effects. The empirical design includes issuer fixed effects to absorb time-invariant differences across issuers that could drive yield spread differentials in issued bonds. Industry fixed effects, using the first 2-digits of the NAIC classification from Compustat, control for differences among industries that could be correlated with the cost of debt issuance. Because bond yields could also vary with wider time-varying macroeconomic factors, I also include year fixed effects.  $\epsilon$  is the issuer-clustered standard error term. Table A2 provides a detailed list of variable definitions and sources.

Next, I test the existence of secondary market reactions to the disclosure of politicians' stock trades. The attention to the secondary market should address the concern regarding the validity of the results from analyses of the primary market—namely, that changes in offering yield spreads are not influenced by signals of politicians' stock trades, and are rather caused by other factors concurrent to and independent of politicians' stock trading activities. If politicians' trades are actually not valuable signals for bond investors, there should be little to no discernible changes in secondary market trading measures such as abnormal returns and liquidity. Hence, to establish that politicians' stock trades contain signals for bond market participants, I first measure the cumulative abnormal returns (CARs) of existing bonds over a window period spanning from the day of disclosure to the next 18 trading days. Statistically significant CARs can reinforce the conjecture that bond investors respond to the disclosure of legislators' stock trades. Secondly, to gain an understanding of the kind of signals bond investors incorporate when reacting politicians' stock trades, following Datta and Iskandar-Datta (1996), I examine the variation of cumulative abnormal returns with the characteristics of stock trades disclosed. More specifically, I estimate the following regression

<sup>&</sup>lt;sup>10</sup> issuer\_id fixed effects and industry fixed effects may also subsume confounding factors wherein bond yields of some companies or industries are partially shaped by government spending or policies. Moreover, these fixed effects might absorb the effect of political connections/activities of firms or industries on bonds' offering yields, if such a relation exists. See Meng (2020)

model:

$$CAR_{i} = k + \alpha_{1} \ amount\_log \ (or) \ \alpha_{1} \ holding\_chg + \alpha_{2} \ avg\_rep\_del$$

$$+ \alpha_{3} \ partyindi + \alpha_{4} \ ratavg + FEs + \epsilon$$
(5)

where i indexes a bond and k represents the intercept term.  $amount\_log$  is the natural logarithm of the net amount invested (buy minus sell) as reported by a politician on the date of disclosure.  $^{11}$  holding\\_chg is the percentage change in the holding of a politician,  $avg\_rep\_del$  is the average of transactions reporting delay—measured as the difference in days between the transaction date and the disclosure date, partyindi is a binary variable equal to 1 if the politician is a Republican and 0 otherwise, and ratavg is the average of the ordinal rating numbers converted from the three rating agencies (See Table A3). To absorb time-varying macroeconomic shocks and influence of issuer-level traits on bond trading, I include year-month and issuer fixed effects respectively.  $\epsilon$  is the standard error term clustered standard at the issuer and bond level.

#### 3.3 Data Sources

The data sources used in this study include 2iQ's Capitol Trades, the LSEG Mergent Fixed Income Securities Database (LSEG Mergent FISD), the Trade Reporting and Compliance Engine Enhanced (TRACE Enhanced), the Center for Research in Security Prices (CRSP), the WRDS Financial Ratios Suite, and FRED from the Federal Reserve Bank of St. Louis. The Capitol Trades data contain records of politicians' trading activities in financial securities, including stocks. Table 1 reports all types of financial securities traded by members of Congress during the period 2012–2024. The bond-level issue characteristics are collected from LSEG Mergent FISD, while the bond transaction data are obtained from TRACE Enhanced. The firm-level data, such as market capitalization, stock returns, and the CRSP value-weighted index return, are gathered from CRSP. Additional firm-level control variables, particularly financial ratios, are sourced from the WRDS Financial Ratios Suite.

<sup>&</sup>lt;sup>11</sup>Note that a politician may report buying and selling a stock on the same disclosure day. Similarly, two politicians may disclose same-stock trades on the same day.

#### 3.4 Sample Construction

Table A1 outlines the steps taken to construct the baseline sample and generate the main variable of interest *polstocktrd*. For clarity, I briefly reiterate some of these steps in this section.

The main challenge in constructing the sample lies in linking companies in the Capitol Trades—identified by multiple variables—to the corresponding  $issuer\_id(s)$  and CUSIP(s) in the Mergent FISD and TRACE databases. To address this, I employ two distinct matching methods.<sup>12</sup>

The first method starts by linking CompanyTickers from Capitol Trades to  $company\_symbol$  in TRACE Enhanced. For each matched  $company\_symbol$ , I retrieve all associated  $cusip\_id(s)$ , which are then matched to  $complete\_cusip(s)$  in the Mergent FISD mergedissued table. Finally, the corresponding  $issuer\_id(s)$  are extracted. In summary, the linking process follows this sequence: CompanyTickers to  $company\_symbol$  to  $cusip\_id$  to  $complete\_cusip$  to  $issuer\_id$ . This method yields 3,796 matched pairs of CompanyTickers and  $issuer\_id(s)$ , as shown in Step 8 of Table A1.

The second matching method begins by identifying the corresponding gvkey for each CompanyTicker. Capitol Trades provides a Company table containing gvkey(s), which I link to the Transaction table. I then employ a Python script with a fuzzy matching algorithm to align CompanyName from Capitol Trades with cusip\_name in the FISD mergedissue table. To ensure high-quality matches, I manually verify the accuracy of each pair and retain only those with a fuzzy match score above 93.<sup>13</sup> For each successfully matched cusip\_name, I extract the associated issuer\_id. This procedure yields 1,542 distinct CompanyName—issuer\_id pairs, along with gvkeys, as detailed in Step 12 of Table A1.

Finally, I merge the outputs of the two matching methods on *issuer\_id* to construct a comprehensive link table between Capitol Trades companies and corresponding bond issuers. Figure F1a illustrates an example of this matching process. In the figure, Albemarle

<sup>&</sup>lt;sup>12</sup>Two methods are used because a substantial number of bond issuers—often prominent ones—could not be matched using only the first approach.

<sup>&</sup>lt;sup>13</sup>In cases where the algorithm yields a score below 93 despite similar names, I manually override the score to 100. For instance, the pair *CompanyName* = 'ABN AMRO BANK NV' and *cusip\_name* = 'ABN AMRO BK N V' received an algorithmic score of 90.32, which was manually adjusted.

Corporation is associated with four distinct  $issuer\_id(s)$ , one of which— $issuer\_id = 37270$ —corresponds to Rockwood Holdings, a firm acquired by Albemarle in 2015.

I begin the next step by aggregating politician stock transactions at the politician—day—company—transaction type type level. Using this aggregation, I identify bonds whose issuing firms had stock transactions by politicians in the [-120, -30] day window prior to issuance. For each of these bonds, I compute the net transaction amount—defined as total purchases minus total sales by politicians. A bond is classified as being preceded by net purchase if the net amount is positive, and as being preceded by net sale if the net amount is negative. Bonds with a net amount of zero are excluded from the analysis. Figure 1 illustrates this process.

For each bond issuance linked to politicians' stock trades, I also collect a comparison set of bonds from the same issuer with issuance dates that are not preceded by stock trades of politicians. I then assign a binary indicator variable, polstocktrd, equal to 1 for bonds preceded by politicians' trading activity, and 0 for those that were not. Figure F1b provides a visualized example: the issuer of the bond with  $complete\_cusip = '00083LAF0'$  was involved in five purchases and two sales by two different members of Congress in the pre-issuance window, resulting in a net transaction amount of \$24,000. This bond is therefore treated as having been preceded by net purchase activity and is assigned polstocktrd = 1.

Lastly, I exclude medium-term notes, convertibles, Yankee bonds, asset-backed securities, perpetual bonds, exchange offers, and any bonds with missing information on the coupon, the offering date, or the offering price. The final sample consists of 29,360 bonds in the purchase sample and 29,192 bonds in the sale sample.

<sup>&</sup>lt;sup>14</sup>This largely occurs because members of Congress are only required to disclose trade value ranges rather than exact amounts. Capitol Trades estimates transaction size using the midpoint of each reported range. While this can introduce measurement error, the midpoint approach is widely adopted in prior literature, though some studies alternatively use the lower bound. See C. Eggers and Hainmueller (2013); Karadas (2018); Belmont et al. (2020); Hanousek Jr et al. (2023).

#### 4 Statistics and Empirical Results

### 4.1 A Short Overview of Politicians' Trading Activities in Financial Markets

This section presents an overview of Congressional politicians' trading activities across various financial securities, with analyses provided along several aspects such as political affiliation, temporal trends and changes, and industry preference. I emphasize stock transactions because Table 1 shows that members of Congress trade stocks with a much higher frequency than they do in other financial assets like corporate bonds and ETFs. Between January 2012 and August 2024, approximately 80% of all reported financial transactions by lawmakers were in publicly traded equities. The second most traded asset, municipal security, trails far behind at 6%. Corporate bonds, traded by Congressional legislators 4,871 times over nearly 12 years, are the third most frequently traded asset class among lawmakers. The number of stock purchase transactions (69,395) is only marginally higher than the number of sales (68,289), suggesting that, as a group, Congressional politicians tend to be active traders, as opposed to passive buy-and-hold investors. Overall, the sheer presence of politicians in the stock market—coupled with investment websites solely dedicated to monitoring, tracking, and replicating politicians' stock trades—raises the possibility that investors may treat such trades as informative signals for their own investment decisions.

Table 2 provides a comparative look at trading activity across the two political parties. On average, Republicans have higher trading intensity than Democrats. For example, Republicans reported 39,580 buy transactions of public stocks whereas the same measure for Democrats was only 27,549. This pattern repeats in two other asset markets, corporate bonds, and municipal securities.<sup>16</sup> To understand the temporal variation in trading behaviors, Table 3 and and Figure 1 report the number of Washington lawmakers who traded public stocks and

<sup>&</sup>lt;sup>15</sup> Active' in the sense of engaging in both purchases and sales over time, rather than adhering to long-term holding strategies.

<sup>&</sup>lt;sup>16</sup>Note that this could happen because there are more Republicans than Democrats in Congress. During the sample period, except for the 116<sup>th</sup>(2019-2021) Congress and 117<sup>th</sup>(2021-2023) Congress, Republicans outnumbered Democrats by a large margin in the House of Representatives; and Democrats had a large Senate majority only in the 113<sup>th</sup> Congress (2013-2015), and a thin majority in the 118<sup>th</sup> Congress (2023-2025).

the number of transactions by year and political party. Among Democrats, trading of public stocks became particularly pronounced during 2018-2023. In contrast, Republicans reported a high number of transactions from 2012-2020, and seemed to have cooled off in recent years. Contrary to common speculation, fewer than one third of members of Congress traded stocks in any given year. The number of politicians trading stocks did not substantially rise in 2020 either. The data also do not suggest that more politicians are increasingly executing a larger number of stock transactions.

The choice of stocks among Congressional lawmakers is diverse and broad. In some years, politicians traded in as many as 1,500 public stocks, indicating that their attention (or information advantage) is not limited to a handful of public equities. Overall, these facts—taken together—possibly depict a situation wherein trading activities are constantly concentrated in a group of powerful, well-connected, and influential legislators. Table 3 also shows corporate bond trading activities of politicians. One particular observation stands out. Although fewer politicians invest in and sell corporate bonds than they do in stocks, both the number of traders and the number of trades are not disproportionately concentrated in a few years, indicating a sustained—albeit smaller in scale—presence in the corporate bond market. Furthermore, in any given year, a small group of politicians—ranging from 14 to 26—trade a substantial number of unique corporate bonds. For example, in 2015, 25 legislators reported trading 246 corporate bonds, which again may suggest that a majority of these trades may have been made by informed lawmakers.

Table 4 reports insights into trading patterns across the chambers: the House of Representative (lower body) and the Senate (upper body). On average, members of the lower chamber are more active than their Senate counterparts in terms of transaction count per individual. House Democrats reported 359 transactions per individual whereas the same measure for their Senate peers was only around 175. Similarly, an average House Republican traded stocks 385 times, which is considerably higher than the 227 times an average Senate Republican traded in stocks. Turning to corporate bonds, there is no clear pattern regarding which chamber and party is more active, other than the fact that both House and Senate officials reported owning and selling corporate bonds.

Table 5 offers a closer look at the most frequently traded stocks. Although lawmakers in

Congress traded a diverse set stocks (as mentioned above), the most popular stocks are all well-known large-cap shares.<sup>17</sup> Panel B of Table 5, reporting the top 10 most traded stocks of each party, reveals slight differences in stock picks between the elephant and the donkey. For example, the energy giant, EXXON MOBIL was heavily traded by Republicans whereas it is not among the top 10 stocks for Democrats. Conversely, the chip giant INTEL—among the favored stocks of Democrats—is not popular with Republicans.<sup>18</sup> Table 6 shines further insight into industry preference (or information advantage) for the two parties. Using the first two digits of the NAIC industry classification, I find that Democrats have a smaller number of trades in stocks from the mining industry than Republicans do (1,875 vs. 4,303). On the other hand, Democrats traded more frequently in stocks of the Arts, Entertainment, and Recreation industry than Republicans did (436 vs. 233). Despite the fact that there are more Republicans than Democrats—and more stock-trading Republicans than Democrats—in Congress, the blue politicians traded as much as the red did in equities of the Healthcare and Social Assistance industry, as well as the Information industry.

#### 4.2 Descriptive Statistics

Table 7 presents the descriptive statistics of the characteristics of bonds and issuers for the sample built in Section 3.4. Because of the presence of extreme outliers in some variables, the statistics reported are winsorized at 1% and 99% percentiles. Panel A reports the distribution of variables. First, the offering yield spread averages at 63.82 basis points (bps) and the 99<sup>th</sup> percentile after winsorizing is at 363 bps, which show that there are some high yield bonds in the right-skewed distribution. The offering spread distribution roughly parallels to that of the rating, which is also right-skewed. Consistent with the low average offering spread, the mean of the rating average is also low, indicating that most bonds are of investment grade. The 99<sup>th</sup> percentile is, however, high at 13.5, pointing to the presence of high yield bonds in the

<sup>&</sup>lt;sup>17</sup>This could also be due to liquidity issues with smaller-cap stocks. Besides, to the extent that politicians' information advantage comes from corporate lobbying, politicians may have more informational advantage of large corporations that lobby intensively in Washington.

<sup>&</sup>lt;sup>18</sup>While these differences could suggest taste-based or partisan affinity toward specific firms or industries, they may also reflect industry-specific informational advantages—e.g., Democratic politicians having closer ties to technology firms, while Republicans may be more closely connected to the energy or manufacturing sectors.

sample as well. Bonds in the sample have varying maturities, with some as short as 4 months and some as long as 30 years. After winsorizing, the default spread, which proxies for the additional compensation investors demand to hold riskier corporate bonds, has an average of 92 bps. 19 The bond offering size ranges from approximately \$130,000 at 1th percentile to over \$20 million at 99<sup>th</sup> percentile. Issuers are also varied in terms of financial metrics. Some have a low book-to-market ratio below 1 while others have a book-to-market ratio above 2. In accord with the general fact that corporate bond offerings are generally underpriced, I find that underpricing is negative only at the 1<sup>th</sup> percentile. Bonds in the sample have a mean underpricing of 6.03 bps. At the 99<sup>th</sup> percentile, underpricing is as large as approximately 62 bps. In Panel B, I report the mean of the yield spread separately for cases where polstocktrd binary indicator is 1 and 0. Bonds issued after lawmakers net purchased the stocks of the issuers have a lower offering spread than bonds from the same issuers that were issued when politicians were not trading those stocks. Concerning the offering spread, the magnitude gap is marginally significant with a difference of 6 bps and statistically significant at the 1\%. level In terms of underpricing, the gap is also modestly significant, with a difference of 1 bps and statistical significance at 1% level. Conversely for stock sales, bonds issued close to politicians' stock trades have a higher offering spread. Again, the differences are all statistically significant at the 1% level although the economic significance is rather small.

## 4.3 Do corporations tend to issue bonds after politicians' stock tradings?

I first attempt to investigate—or rather, infer—whether firms' likelihood of bond offerings increases with the politicians stock transactions. Ex ante, it is unclear and also hard to argue that firms tend to launch bond offerings after their public stocks have attracted interest from politicians, not to mention confounding issues such as the possibility that bond offerings had been planned even before politicians buy or sell stocks. Bearing this limitation in mind, I opt for a simpler method than estimating logit models. Instead, I first calculate, for each issuer, the ratio of the number of bonds issued after politicians' stock trades to the total

<sup>&</sup>lt;sup>19</sup>I emphasize winsorizing here because, as is expected, default spreads were abnormally high in some months of 2020.

number of bonds issued by the same issuer within 2012 and 2024, and then plot the histogram of issuers by the calculated ratio.<sup>20</sup> Figure 2 shows the distribution. Based on the figure reported, I find that issuers do not appear to show an increased likelihood of bond offerings after politicians' stock transactions. Insofar as the calculated ratio reasonably approximates firms' timing of bond issuance, it seems that firms do not strategically time offerings either as the number of issuers with the ratios between 0 and 0.5 is fairly large. Overall, the evidence from the histogram suggests that a majority of issuers have both bonds issued both parallel and nonparallel to politicians' stock trades, resulting in a relatively balanced sample for the following empirical tests.

#### 4.4 Politicians Stock Trades and the Primary Bond Market

To examine whether bond market participants react to stock trades by legislators—and whether such reactions manifest in the primary corporate bond market—I estimate Equation (4) three times, with *offspr* as the dependent variable and *polstocktrd* as the main explanatory variable. The regression results are presented in Table 8 and Table 10 for net purchase and net sales, respectively.

Each table includes three specifications. Column (1) reports estimates for the full sample. Column (2) focuses on a subsample restricted to bonds issued following politicians' stock trades that were disclosed within 30 days of execution.<sup>21</sup> This restriction helps address concerns that bond investors cannot respond to political trades if such trades are not disclosed before the offering date.<sup>22</sup> A second identification concern is that bond market responses may reflect legislators' bond transactions rather than their stock trades. As detailed in Section 4.1, bond trades by politicians are relatively rare; hence, the confounding effect of politicians' bond trades on the empirical tests results is likely to be small. Nevertheless, Column (3) excludes bonds issued by firms whose outstanding bonds were traded by politicians prior to

<sup>&</sup>lt;sup>20</sup>I applied the same bond filters as in Section 3.4.

<sup>&</sup>lt;sup>21</sup>A well-known issue with Congressional trading disclosures is reporting delay. Although the STOCK Act requires lawmakers to report transactions within 30–45 days, compliance is uneven. Across all years and politicians, the average delay is 54.5 days—55.27 for purchases and 54.10 for sales. Delays have declined over time, falling from 73–75 days in 2013–2019 to 36 and 26 days in 2023 and 2024, respectively. Maximum delays have also decreased, from 1,106 days in 2011 to 580 in 2023.

<sup>&</sup>lt;sup>22</sup>It is worth noting, however, that news of politicians' stock trades could still reach investors via informal channels prior to formal disclosure.

the offering date.

The results from both Table 8 and Table 10 indicate that politicians' equity trades can influence bond offerings. In the full sample, I find a statistically significant negative coefficient of 0.016 on polstocktrd in Table 8, suggesting that bonds issued by firms whose stocks were net purchased by lawmakers are associated with lower offering spreads relative to other offerings not concurrent with politicians' stock trading activities. Similarly, the coefficient on column (1) in Table 10 is a positive 0.0173. This indicates that firms face higher borrowing costs when their stocks have been sold by politicians. Although the magnitude of coefficients does not seem economically large (0.016 and 0.0173), it should be emphasized that the dependent variable is a yield spread and not a nominal offering yield. When risk-free rates (Treasury yields) are high, even spreads of 1.6 bps and 1.73 bps could be substantial. The results in column (2) of both tables are straightforward and intuitive: the coefficient is more negative for purchases and more positive for sales, as bond investors have clearer signals to interpret and react accordingly based on the disclosed trades of politicians. The -0.0265 coefficient in Table 8 column (2), significantly larger in magnitude than -0.0160 in column (1), offers an interpretation that bond market reaction to politicians' purchase of stocks is much greater when the trades are disclosed before bond offerings. On the other hand, the 0.0196 coefficient in Table 10 column (2) is not much larger than 0.0173 in column (1). While a number of reasons could explain why this is the case, one possible interpretation is that the information about politicians stock sales tend to reach the bond market even before disclosure. This conjecture is highly plausible because sales by politicians could indicate bad news and bond market investors are more attuned to bad news (Defond and Zhang, 2014).

The test results so far establish evidence of an association between corporate bond offerings and political trading activities. However, the research design does not clearly answer whether the changes in the primary bond market are due to reactions to the same underlying information that motivated politicians' stock trades, or simply due to the result of a reaction to the *information* that politicians' stock trades occured. The regression design includes a number of stock- and firm-level controls which should be associated with the information held by politicians in making investment decisions. If some portion of the information that motivated lawmakers' trades is captured by these controls, any remaining significance on

polstocktrd would suggest that bond investors are responding to the presence of political trades themselves, rather than the fundamentals those trades might reflect. Then, the view that the bond market reacts after learning of politician stock trades raises an interesting question: does the degree of reaction vary with the quality of information that can be extracted from certain characteristics of politicians' stock transactions? To explore this question, I next conduct subsample tests designed to identify what features of politicians' trading activity the bond market finds most informative.

#### 4.4.1 Party Agreement

The first subsample is based on the assumption that the information from politicians' stock trades could be more credible when politicians trade in the same direction. Prior to a bond offering, its peer stock may be traded by Democrats only, Republicans only, or both Democrats and Republicans. In the last scenario, if Democrats and Republicans agree on trade direction, i.e., both Democrats and Republicans net buy or sell a stock, such consistent and clear information is likely to be more relevant to bond market participants. To test this, I identify bonds whose associated stocks were traded by at least one Democrat and one Republican in the pre-offering window. I then aggregate net trade amounts at the party level. If both parties exhibit net purchases (or net sales), the bond is classified into the "Dem and Rep agree" group. If their trading directions diverge, the bond falls into the "Dem and Rep disagree" group. I re-estimate Equation (4) on each subsample.

The results, reported in columns (1) and (2) of Table 9 for stock purchases and in Table 11 for stock sales, are striking and interesting. The trade direction disagreement between the two parties neutralizes the strong statistical significance documented earlier. For example, the coefficient on polstoktrd in Table 9 column (2) is positive and weakly significant, in contrast to the negative and strong coefficient found for the full sample in Table 8. Similarly, the coefficient on polstocktrd presented in Table 11 column (2) is positive but not statistically significant. This implies that opposite stock trade directions by Democrats and Republicans—but with a net sale in aggregate—are not followed by a materially significant change in the offering spreads of bonds offered in subsequent months.

#### 4.4.2 Number of Politicians

The next creation of subsample is based on the assumption that the possibility of bond market reactions to the information of politicians' stock trades may be more detectable when considering the number of politicians transacting the stocks. This intuition suggests that for bonds preceded by a net stock purchase, the coefficient on polstocktrd should become more negative as the number of politicians transacting the stocks increases. Conversely, a more positive coefficient for polstocktrd on bonds with net stock sales transacted by more politicians will reinforce the validity of the conjecture. To examine this assumption empirically, I split the sample at the median number of politicians trading the stock associated with each bond. The results, reported in columns (3) and (4) of Table 9 and Table 11, show fairly strong evidence in support of the conjecture. Consistent with expectations, I find stronger effects in the above-median groups. For purchases, the offering spread is 1.91 bps lower when more politicians are involved (-0.0191 vs. -0.0189). For sales, the coefficient is also larger and more significant in the above-median subsample. These patterns suggest that bond investors pay closer attention when a greater number of legislators are involved, and perceive stock trade activities by a greater number of politician-investors to be more relevant to them.

#### 4.4.3 Trade Size

In the last subsample analysis, bond offerings are separated based on the net transaction amount (purchase minus sale) of stocks. This method is motivated by the likelihood that the significance of politicians' stock trades to bond investors increases or decreases with the amount of investment (or divestment). Put differently, the idea is that a larger capital commitment (or divestment) may signal greater conviction or informational advantage on the part of lawmakers. While bond investors may not be able to exactly discern the content of private/valuable information, they can react to the information that certain policymakers have transacted a particular stock in a large quantity. Using the subsamples partitioned by the median net transaction amount, I estimate Equation (4) and report the results in columns (5) and (6). Intuitively, the coefficient of polstocktrd should be more negative (positive) for the purchase (sale) subsample with an above-median net transaction amount. The results

are consistent with the prediction despite the relatively small difference in the coefficient magnitude between the two subsamples. For instance, the spread of bond offerings belonging to the subsample with an above-median net purchase transaction amount is only about 1.9 bps lower. These findings suggest that bond investors do not closely monitor the trade size information of politicians' stock trades, for the purpose of pricing primary market offerings. The findings from all three subsample tests suggest that the bond market may react—as in pay more attention—to the number of politicians trading and whether politicians 'activities are in agreement with one another than to the trade size.

#### 4.5 Politicians Stock Trades and the Secondary Bond Market

A key concern when focusing solely on primary market outcomes is the time lag between a politician's stock transaction and the subsequent bond issuance. During this interval, any event—favorable or unfavorable—may occur and affect bond pricing, and polstocktrd may inadvertently capture the influence of these developments. Moreover, from an investor's perspective, it is unlikely that market participants would wait for bond offerings that occur weeks or months later to respond to politicians' stock trades. Rather, although the bond market is less liquid than the stock market, investors may still act in the secondary market upon coming into possession of information about politicians' stock trades. Thus, to complement analyses of the primary market, I turn to the secondary market and examine the returns on existing bonds. More specifically, I estimate Equation (5) for cross-sectional analyses of the association between cumulative abnormal bond price returns (CARs) and the characteristics of disclosed politicians' trades. CARs are calculated using both trade-size-weighted prices and last-reported daily prices. Unlike in the primary market tests, the date of interest for stock trades is the disclosure date—not the transaction date—to properly establish that the secondary bond market may react promptly to the disclosure.

Previous literature suggests that bond markets respond to equity trading by corporate insiders, particularly when trades are large or indicative of private information (Datta and Iskandar-Datta, 1996; Oehler et al., 2011). Following that approach, I include the following explanatory variables: *amount\_log*, the natural logarithm of the net dollar value traded (purchase minus sale) in a stock reported by a politician on a given disclosure day; *holding\_chg*,

the change in stock holdings by the politician, expressed as a decimal;  $avg\_rep\_del\_log$ , defined as the negative natural log of the average reporting delay; partyindi, an indicator equal to 1 for Republican politicians and 0 otherwise; and ratavg, the average credit rating across S&P, Moody's, and Fitch, converted to numerical scores as described in Table A3.<sup>23</sup> The regression results, with year-month and issuer fixed effects and standard errors clustered at both the issuer and bond levels, are reported in Table 12 and Table 13.

#### 4.5.1 Trade Size

If fixed income investors value the disclosure of politicians' stock transactions as relevant signals for their bond trading activities, the dollar value of the politicians' trading should be a reliable signal for them. This is because larger trade values may imply stronger convictions or greater informational advantage. As such, the expected coefficients on amount\_log is positive for stock purchases (Table 12) and negative for sales (Table 13). The estimated coefficients are consistent with these expectations. For stock purchases, the coefficient on amount\_log is positive and statistically significant at 1% in both columns (1) and (3). For example, a 1% increase in the dollar trading volume is associated with a 0.0123 bps increase in the volume-weighted CAR. Similarly, the corresponding coefficients for stock sales (Table 13) suggest that a 1% increase in the dollar value divested is associated with approximately 0.0171-0.0224 bps decrease in CAR.<sup>24</sup> These results also offer a curious contrast to those in the primary market (see Section 4.4.3), where trade size does not have a significant variation with the primary market metric, the offering yield spread.

#### 4.5.2 Holding Change

Following Datta and Iskandar-Datta (1996), in columns (2) and (4), I exclude *amount\_log* and replace it with *holding\_chg*. I do not use both variables as regressors in the same specification to avoid multicollinearity problem between trade size and holding change. *holding\_chg* may

<sup>&</sup>lt;sup>23</sup>A politician may report several transactions, both buy and sell, in one single stock on the same disclosure day. I aggregate the data at the politician-disclosureday-stock-level. This means that two different politicians disclosing a trade on the same stock on the same day are treated as different observations.

<sup>&</sup>lt;sup>24</sup>The size of the dollar value traded could be more reflective of market capitalization and less of the information content in politicians' trades. In untabulated results, I find that using dollar value scaled by market equity does not change the sign and the statistical significance of estimated coefficients.

have a stronger signaling effect on the bond market since a large positive (negative) holding change in a particular stock is possibly indicative of the politician's confidence in the future prospects of the firm. The expected coefficient sign is positive for both stock purchases and sales because a large increase in holding may signal good news for bond investors whereas a substantial divestment (more negative holding\_chg) should lead to larger negative CARs. Contrary to expectations, the coefficients for holding\_chg are insignificant in both tables. In the sales sample (See Table 13), the signs are even negative, though not statistically significant. These results collectively suggest that bond investors do not place much weight on reported changes in politicians' stock holdings. One possible explanation is that tracking holdings requires additional data collection and analysis, whereas trade amounts are more visible and easier to interpret. On average, bond investors may react more instinctively to trade size than to the more complex details of portfolio rebalancing.

#### 4.5.3 Reporting Delay

Next, I test whether the bond market factors into the reporting delay of disclosed politicians' trades. Unlike corporate insiders, politicians are not held to stringent disclosure standards, and late filings are common and carry few consequences. Given the lax regulation and enforcement of financial securities trading by politicians, instances where a politician discloses transactions made several months earlier are not relatively uncommon. Bond market participants have little reason to react to these disclosures with large reporting delays because any material information embedded in politicians' stock transactions could have changed, disappeared, or become irrelevant by the time of disclosure. Thus, the bond market reaction is likely to be stronger for disclosures with shorter reporting delays. If the conjecture holds true, the coefficient on avg\_rep\_del\_log is positive for samples of stock purchases and negative for stock sales. Results from Table 12 and Table 13 align with the expectation, and the coefficients estimated across the four columns are all positive (negative) for stock purchases (sales). In terms of economic interpretation, using the coefficient of 0.0125 in column (1) of Table 12 and the overall average reporting delay in the sample which is approximately 54 days, speeding up a filing by 1 day is associated with an economically large 0.0245\% point increase in CARs of outstanding bonds.

#### 4.5.4 Political Party

The next cross-sectional test based on political party is motivated by the assumption that the bond secondary market reaction may differ according to the party affiliation of the politician disclosing the trades. This can happen for a number of reasons. For example, if the market perceives that an average Republican is more connected to the corporate world, Republicans' disclosed trades might be regarded as having more information content. Besides, during the sample period 2012-2024 which covers approximately seven Congresses, Republicans held more majorities in the Senate and the House, possibly enabling them to take advantage of their position and make informed stock trades. Furthermore, given the image that Republicans are more pro-business, investors may equate that image with being more adept at reading economic signals and making informed trades. To test whether this is the case, I create a dummy variable partyindi that equals 1 for Republicans and 0 otherwise. If bond market participants react more strongly to Republicans' disclosed trades than they do to those of Democrats, partyindi is expected to display a positive and significant correlation with CAR in Table 12 and a negative and significant correlation with CAR in Table 13. The results do not support this assumption. Coefficients on partyindi are largely insignificant across all specifications in Table 12. In the sales sample (Table 13), weak significance appears only in columns (3) and (4), and even then, the sign of the coefficient is not consistent. Overall, there is no systematic evidence that the market views Republicans' trades as more informative than those of Democrats.

#### 4.5.5 Rating

Research has shown that credit rating is correlated with abnormal price returns and sensitivity to news (Easton et al., 2009; Defond and Zhang, 2014). Accordingly, the last variable included on the right hand side of Equation (5) is the bond rating, as investors may react differently to the news of politicians' trade disclosure depending on the credit rating(s) of the outstanding bonds. A bond's rating scale, assigned by each of the three rating agencies, is converted into a numerical value as outlined in Table A2 and Table A3. Furthermore, without the inclusion of rating as a control, definitive conclusions about the statistical significance of amount\_log

and ave\_rep\_del\_log cannot be made since those variables may be proxies for creditworthiness of the bond. For example, politicians may trade a large quantities of equity in companies with better credit ratings.

Generally speaking, lower rated bonds—i.e., those with larger ratavg—would experience stronger reactions in the form of more negative (positive) CARs from the bond market upon disclosure of stock sales (purchases). Stated differently, the coefficients on ratavg should be negative in Table 13 and positive in Table 12. Furthermore, conditional on the assumption that disclosures involving net sales signal bad news while disclosures involving net purchases are good news, and that the bond market reacts stronger to negative news (Easton et al., 2009), the statistical significance should be higher in Table 13 than in Table 12.

The results, however, are mixed. In the purchase sample, the 10% statistical significance is observed in column (1) and (3), but not in the two other columns despite the positive sign on all four estimated coefficients. In the sales sample, the coefficient sign alternates in addition to the lack of statistical significance in all four columns. This is in stark contrast to the expectation that higher statistical significance should be observed for the sales sample. One possible interpretation of these findings is that bond investors view information from politicians' trades as more salient than credit ratings. After investors process the information content of politician trades observed through amount\_log and ave\_rep\_del\_log, rating becomes a secondary consideration.

Overall, these results provide compelling evidence that the bond market responds to the disclosure of stock trades by politicians—particularly when those trades are large and/or disclosed promptly. These findings altogether highlight a special role played by politicians' stock trading activities in the transmission of information and price efficiency in the fixed income market.

#### 5 Conclusion

Using an extensive record of stock transactions made by politicians, this study gives a first glimpse into the spillover effect(s) of politicians' stock trades into other financial markets. Researching the effect on both the primary and secondary corporate bond markets, I find

evidence in line with the expectation that corporate bond investors may learn from stock trades executed by legislators. More specifically, the effect on the offerings depend on whether the stocks are experiencing purchase or sale interest from legislators. Politicians' stock purchases appear to translate to stronger demand for bonds and lower information asymmetry. Consistent with prior findings that insiders' sale are less informative, politicians' sale signals likely worsen information asymmetry, reflected in higher yield spreads. Furthermore, bond market investors react promptly to disclosures of lawmakers' stock trades, and the nature of reaction is dependent on trade size disclosed and reporting delay.

Although the paper does not discuss the regulation and ethical aspects of Congressional trading, the findings in this paper generally align with some studies that point to the role that Congressional trades may play in enhancing information efficiency. The evidence presented so far suggests that the impact of their stock trades on market efficiency may extend beyond the equity market, suggesting that any discussion about politicians' stock trades should take this into consideration for policymakers and regulators seeking to reform Congressional trading.

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#### Figure 1: Time line for a bond issuance and preceding stock trades by politicians

This figure presents the timeline of stock transactions that happened in [-120,-30] days of a bond issuance by the same company or its subsidiaries. An AT&T-issued bond with the cusip 0020RBU5 is used as an example. The total purchase value was larger than the total sale value. The bond is thus classified as one preceded by net purchase and placed to the buy sample.

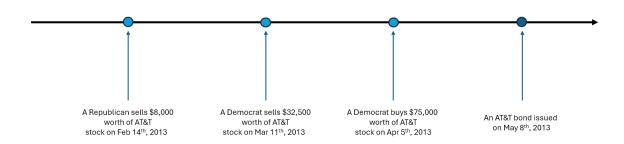
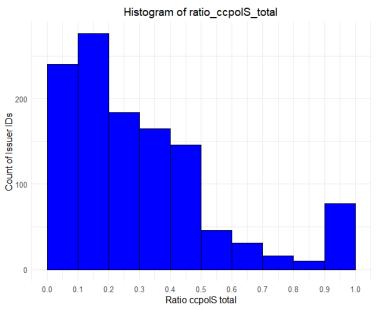
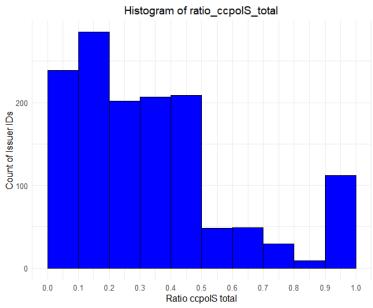


Figure 2: Politicians' stock trades and issuance of bonds

This figure presents the histogram of issuers in terms of their likelihood to issue bonds following the stock transactions of politicians. Panel (a) shows distribution of issuers who launch bond offerings within 6 months after politicians' net purchase of stocks. Panel (b) shows distribution of issuers who launch bond offerings within 6 months after politicians net sell stocks.



(a) Net purchase of stocks by politicians and the following bond offerings within 6 months

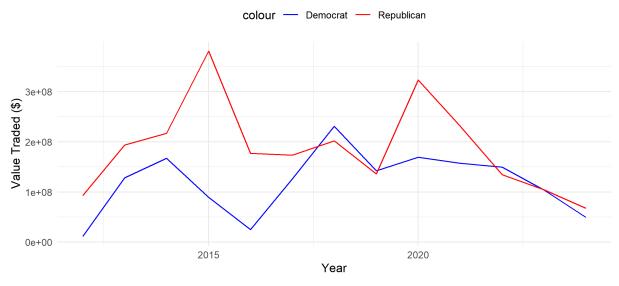


(b) Net sale of stocks by politicians and the following bond offerings within 6 months

 $\label{eq:continuous} Figure \ 3: \ \textbf{Stock trading activities of Democrats and Republicans over the sample } \\ \textbf{period}$ 

This figure presents the stock trading activities of Democrats and Republicans over the sample period in two main measures: the total traded value reported and the total number of transactions in each year. The top figure corresponds to total value and the bottom figure to the number of trades.

#### Value Traded by Democrats and Republicans



#### **Total Number of Stock Trades**

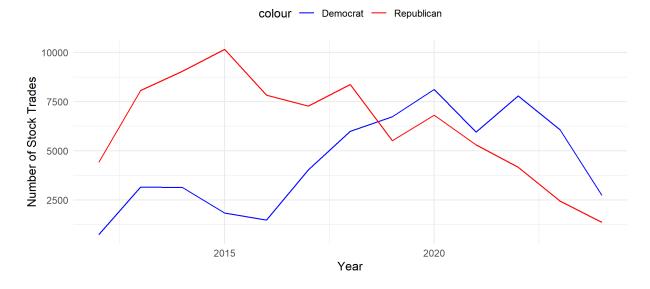


Figure 4: Abnormal returns of outstanding bonds

This figure presents the abnormal returns of outstanding bonds of issuers whose stocks have been purchased or sold by politicians. Abnormal returns are calculated using ICE BoFA rating index as the benchmark. In the top figure, daily returns of existing bonds are calculated using trade-size-weighted prices. In the bottom figure, daily returns of existing bonds are calculated using the last trading price of the day.

#### Trade-size-weighted-average Abnormal Returns

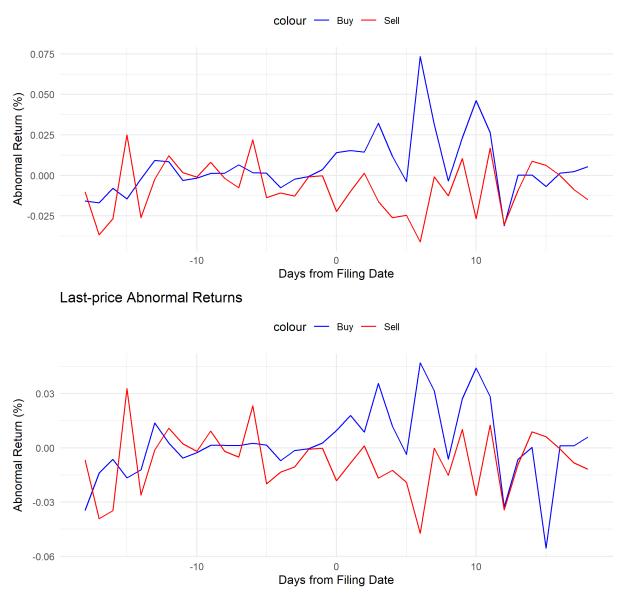


Table 1: Politicians' trades in 21 types of financial securities

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 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
$\operatorname{ETF}$	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	2224	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

Table 2: Democrats' and Republican's trades in 21 types of financial securities

This table presents summary statistics of buy and sell transactions in 21 types of financial assets by Democrat and Republican Congress members respectively over the sample period from Jan, 2012 to Aug, 2024.

AssetType	Dem BUY	Dem SELL	Rep BUY	Rep SELL
ABS	1	0	0	0
Corporate Bond	1189	818	1580	1256
Crypto	2	5	54	26
ETF	611	471	1900	1727
ETN	8	7	22	17
Futures	1	2	74	72
Hedge/Private Equity Funds	94	67	25	86
Municipal Security	2298	1213	4145	3233
Mutual Fund	467	459	1140	914
Non-public Stock	956	340	345	208
Other Investment Fund	240	76	243	77
Other Securities	2	8	27	2
Ownership Interest	4	3	5	3
Preferred Shares	282	152	136	54
Private Equity Fund	124	13	195	51
REIT	1049	899	1175	699
Stock	29784	27549	39580	40703
Stock Appreciation Right	1	1	0	0
Stock Options	760	947	375	1103
Variable Annuity	0	0	2	0
Venture Capital	97	12	17	1

Table 3: Democrats' and Republican's year-by-year trades in stocks and corporate bonds

This table presents summary statistics of stock transactions (Panel A) and corporate bond transactions (Panel B) by Democrat and Republican Congress members in each year from 2012 to 2024.

Year	# of Dem	Dem BUY	Dem SELL	# of Rep	Rep BUY	Rep SELL	# of Unique Securities Traded
2012	45	297	433	56	1714	2703	1176
2013	67	1521	1625	78	4163	3877	1557
2014	62	1525	1625	72	4163	3877	1774
2015	56	1525	1590	82	4608	4403	1590
2016	55	807	621	79	4113	3631	1358
2017	62	2407	1585	78	3659	3549	1425
2018	54	3270	2688	81	4314	3995	1460
2019	63	3324	3357	66	2593	2898	1500
2020	61	4109	3939	76	3625	3149	1582
2021	57	3435	2436	67	2550	2742	1202
2022	52	3959	3802	60	2023	2116	1144
2023	42	2719	3341	49	1124	1306	1323
2024	36	1435	1289	39	582	778	738
Panel	B: Corpora	te Bond					
Year	# of Dem	Dem BUY	Dem SELL	# of Rep	Rep BUY	Rep SELL	# of Unique Securities Traded
2012	7	23	17	9	59	30	65
2013	14	128	72	10	175	149	212
2014	13	161	138	13	52	84	225
2015	11	43	65	14	360	301	246
2016	11	48	65	11	360	301	177
2017	11	42	34	11	228	140	156
2018	14	86	37	7	191	156	243
2019	13	113	107	8	127	97	150
2020	10	43	51	5	107	81	101
2021	13	93	57	8	7	6	91
2022	15	53	33	7	18	1	64
2023	14	302	132	8	28	12	169
2024	8	54	48	6	11	7	76

Table 4: Trades in stocks and bonds by party type and chamber type

This table presents summary statistics of stock transactions (Panel A) and bond transaction (Panel B) by two dimensions: political party affiliation and Chambers of the Congress.

Panel A: Stock						
Chamber	Party	Representatives	Transactions			
House	Democrat	144	51816			
	Independent	1	19			
	Republican	185	71238			
Senate	Democrat	34	5954			
	Independent	1	51			
	Republican	42	9551			
sum		407	138629			

Panel B: Corporate Bond						
Chamber	Party	Representatives	Transactions			
House	Democrat	39	1604			
	Independent	0	0			
	Republican	35	2737			
Senate	Democrat	7	410			
	Independent	1	1			
	Republican	12	119			
sum		94	4871			

Table 5: Top 10 most traded stocks by politicians

This table presents top 10 most popular stocks ranked by the total number of politicians trading that stock, along with the number of bonds issued by the same company, during the sample period: Jan, 2012 to Aug, 2024. Panel A reports statistics pooled across Democrats, Republicans, and Independents, whereas Panel B reports statistics separately for Democrats and Republicans.

Panel A: Most Traded Stocks by Politicians Including Independents					
Company	# of Politicians	# of Bonds Issued			
APPLE	149	110			
MICROSOFT	140	50			
AMAZON	114	49			
ALPHABET	110	9			
GE AEROSPACE	104	34			
JOHNSON & JOHNSON	101	42			
PROTECTOR & GAMBLE	98	58			
AT&T	97	217			
JPMORGAN CHASE & CO	96	1			
DISNEY (WALT)	95	119			

Panel B: Party Breakdown

Company	# of Demo- crat	# of Bonds Issued	Company	# of Repub- lican	# of Bonds Issued
APPLE	64	110	APPLE	83	110
MICROSOFT	62	50	MICROSOFT	78	50
ALPHABET	47	9	PROTECTOR & GAMBLE	66	58
AMAZON	47	49	JOHNSON & JOHNSON	66	42
GE AEROSPACE	45	34	AMAZON	65	49
DISNEY (WALT)	44	119	EXXON MOBIL	64	39
JPMORGAN CHASE & CO	43	1	CHEVRON	63	34
INTEL	40	52	ALPHABET	63	9
AT&T	39	217	AT&T	58	217
VERIZON	39	437	GE AEROSPACE	58	34

Table 6: Industry types of stocks traded by politicians

This table presents industry classifications of stocks traded by Democrat and Republican Congress members. Industry is based on the first 2-digits of NAIC classification from Compustat. The first two columns (1)-(2) report the number of unique stocks and the total number of purchase and sale trades in those stocks executed by Democrats. The next two columns (3)-(4) similarly outline the number of unique stocks and the total number of purchase and sale trades in those stocks executed by Republicans.

Industry	# of Assets	# of Trades by Democrats	# of Assets	# of Trades by Republicans
Accommodation and Food	44	1050	49	1778
Services				
Administrative Support	51	965	46	1239
Agriculture, Fishing, and	2	83	6	164
Hunting				
Arts, Entertainment, and	24	436	31	233
Recreation				
Construction	37	384	34	400
Educational Services	8	35	13	62
Finance and Insurance	400	8262	474	12180
Healthcare and Social	38	715	33	837
Assistance				
Information	376	9067	374	10937
Manufacturing	1054	23428	1194	30443
Mining	148	1875	252	4303
Other Services (except	6	119	11	348
Public Administration)				
Professional, Scientific, and	93	1567	103	2383
Technical Services				
Real Estate and Leasing	91	690	115	1285
Retail Trade	129	3475	152	5692
Transportation and	96	1959	143	3459
Warehousing				
Unclassified Establishments	17	637	23	643
Utilities	97	1407	103	1555
Wholesale Trade	62	1019	86	2071

### Table 7: Descriptive statistics of variables

This table presents descriptive statistics of the variables used in the study. All continuous variables are winsorized at 1% and 99%. Variables are as defined in Table A2. Panel (A) reports summary statistics of variables while Panel (B) report values of *offspr* across *polstocktrd* by purchase and sale separately, along with t-test statistics. \*\*\* p<0.01, \*\* p<0.05, \* p<0.10.

Panel A: Descriptive Statistics of Variables							
Variable	N	Mean	P50	P1	P25	P75	P99
offspr (%)	46557	0.6382	0.33	-0.58	0.015	1.65	3.63
undprc $(\%)$	54418	0.0603	0.0351	-0.1700	0.0000	0.0924	0.6213
ratavg	53272	2.8734	1.5	1	1.2	4.7	13.5
montomat	54418	74.88	60	4	24	97	364
defspr	145	0.92	0.9	0.57	0.71	1.06	1.47
logoffamt	58552	13.83	11.82	9.00	10.768	11.69	16.87
logmktcap	48963	18.37	18.15	14.71	17.73	18.76	19.52
cumadjret (%)	46467	4.555	6.034	-44.51	-11.49	18.63	50.56
bm	44886	0.914	0.857	0.065	0.620	1.072	2.126
roa	42463	0.042	0.022	0.005	0.016	0.033	0.267
da	45248	0.406	0.403	0.070	0.371	0.452	0.635

Panel B: Descriptive Statistics by polstocktrd

Variable	polstocktrd=0	polstocktrd=1	Difference
	(1)	(2)	(2)-(1)
offspr (purchase)	0.5950	0.5311	-0.0639***
offspr $(sale)$	0.5250	0.5965	0.0715***

Table 8: Politician purchase of stocks and offering yield spreads

This table presents results from OLS regression of dependent variable offering spread on bond-, firm-level controls, and fixed effects. The main coefficient of interest is *polstocktrd*, a binary indicator variable equal to 1 if a bond is issued after its stock counterpart experienced net purchase by politicians in [-120, -30] days of issuance, and 0 otherwise. Other control variables are as defined in Table A2. Column (1) corresponds to the complete sample. Column (2) sample filters out cases in which politician stock trades were reported with delays greater than 30 days. The sample corresponding to column (3) excludes bond issues which are preceded by politicians' tradings of existing bonds of the same issuer. Standard errors in parentheses are clustered at the issuer level. \*\*\* p<0.01, \*\* p<0.05, \* p<0.10.

Purchase					
	All	Reporting Delay	No Bond Transaction		
	(1)	(2)	(3)		
polstocktrd	-0.0160**	-0.0265***	-0.0161***		
	(0.0073)	(0.0049)	(0.0049)		
ratavg	0.3607***	0.2819***	0.1809***		
	(0.0073)	(0.0029)	(0.0050)		
montomat	0.0029***	0.0010***	0.0010***		
	(0.0000)	(0.0000)	(0.0000)		
defspr	0.3070***	0.2937***	0.2942***		
	(0.0723)	(0.0172)	(0.0172)		
logoffamt	0.0183***	0.0225***	0.0425***		
	(0.0022)	(0.0019)	(0.0020)		
logmktcap	-0.0603***	-0.0768***	-0.0754***		
	(0.0130)	(0.0100)	(0.0097)		
$\operatorname{cumadjret}$	-0.0010***	-0.0016***	-0.0016***		
	(0.0002)	(0.0001)	(0.0001)		
bm	-0.1504***	-0.1814***	-0.1830***		
	(0.0189)	(0.0132)	(0.0131)		
roa	-1.1610***	-1.2304***	-1.1864***		
	(0.1555)	(0.1305)	(0.1303)		
da	0.2938***	0.2919***	0.2924***		
	(0.0474)	(0.0482)	(0.0480)		
Issuer FE	Yes	Yes	Yes		
Year FE	Yes	Yes	Yes		
N	21384	11074	20999		
$\mathbb{R}^2$	0.36	0.35	0.33		
10	0.90	0.00	0.00		

Table 9: Politician purchase of stocks and offering yield spreads, subsample analysis

This table presents results from OLS regression of dependent variable offering spread on bond-, firm-level controls, and fixed effects. The main coefficient of interest is polstocktrd, a binary indicator variable equal to 1 if a bond is issued after its stock counterpart experienced net purchase by politicians in [-120, -30] days of issuance, and 0 otherwise. Other control variables are as defined in Table A2. Columns (1)-(2) examine the heterogeneity in terms of whether Democrats and Republicans, in aggregate, are trading in the same direction. Columns (3)-(4) examine the heterogeneity in terms of the number of politicians trading stocks. Columns (5)-(6) examine the heterogeneity in terms of the amount traded in stocks by politicians. Standard errors in parentheses are clustered at the issuer level. \*\*\* p<0.01, \*\* p<0.05, \* p<0.10.

			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)
ratavg	0.1450***	0.1475***	0.1359***	0.1877***	0.1654***	0.1708***
	(0.0061)	(0.0065)	(0.0066)	(0.0053)	(0.0057)	(0.0052)
montomat	0.0011***	0.0015***	0.0011***	0.0009***	0.0010***	0.0009***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
defspr	0.2613***	0.2607***	0.2727***	0.2748***	0.2773***	0.2855***
	(0.0173)	(0.0176)	(0.0175)	(0.0175)	(0.0174)	(0.0172)
logoffamt	0.0395***	0.0401***	0.0394***	0.0420***	0.0411***	0.0414***
	(0.0019)	(0.0019)	(0.0019)	(0.0019)	(0.0019)	(0.0019)
logmktcap	-0.0321***	-0.0494***	-0.0422***	-0.0612***	-0.0610***	-0.0543***
	(0.0118)	(0.0125)	(0.0126)	(0.0108)	(0.0109)	(0.0105)
cumadjret	-0.0014***	-0.0016***	-0.0015***	-0.0017***	-0.0015***	-0.0016***
	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0001)
bm	-0.1970***	-0.1991***	-0.1844***	-0.1706***	-0.1913***	-0.1818***
	(0.0141)	(0.0146)	(0.0144)	(0.0135)	(0.0138)	(0.0133)
roa	-1.4472***	-0.7063***	-1.0168***	-1.1377***	-1.246***	-1.033***
	(0.1544)	(0.1609)	(0.1621)	(0.1440)	(0.1486)	(0.1347)
da	0.2597***	0.2583***	0.2366***	0.2505***	0.2728***	0.2784***
	(0.0556)	(0.0571)	(0.0579)	(0.0516)	(0.0526)	(0.0496)
Issuer FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	14872	6512	10610	10774	11527	9857
$\mathbb{R}^2$	0.33	0.30	0.31	0.31	0.34	0.34

Table 10: Politician sale of stocks and bond offering yield spreads

This table presents results from OLS regression of dependent variable offering spread on bond-, firm-level controls, and fixed effects. The main coefficient of interest is polstocktrd, a binary indicator variable equal to 1 if a bond is issued after its stock counterpart experienced net purchase by politicians in [-120, -30] days of issuance, and 0 otherwise. Other control variables are as defined in Table A2. Column (1) corresponds to the complete sample. Column (2) sample filters out cases in which politician stock trades were reported with delays greater than 30 days. The sample corresponding to column (3) excludse bond issues which are preceded by politicians' tradings of existing bonds of the same issuer. Standard errors in parentheses are clustered at the issuer level. \*\*\* p<0.01, \*\* p<0.05, \* p<0.10.

$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	Sale				
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$		All			
$\begin{array}{c} \text{ratavg} & (0.0083) & (0.0096) & (0.0085) \\ 0.3400^{***} & 0.1769^{***} & 0.1777^{***} \\ (0.0058) & (0.0050) & (0.0050) \\ \text{montomat} & 0.0021^{***} & 0.0010^{***} & 0.0010^{***} \\ (0.0000) & (0.0000) & (0.0000) \\ \text{defspr} & 0.7121^{***} & 0.5916^{***} & 0.5914^{***} \\ (0.0704) & (0.0120) & (0.0171) \\ \text{logoffamt} & 0.0318^{***} & 0.0418^{***} & 0.0419^{***} \\ (0.0022) & (0.0019) & (0.0019) \\ \text{logmktcap} & -0.0507^{**} & -0.0217^{***} & -0.0245^{***} \\ (0.0232) & (0.008) & (0.0012) \\ \text{cumadjret} & -0.0010^{***} & -0.0016^{***} & -0.0015^{***} \\ (0.0002) & (0.0001) & (0.0001) \\ \text{bm} & -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ (0.0139) & (0.0132) & (0.0122) \\ \text{roa} & -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ (0.1569) & (0.1327) & (0.1329) \\ \text{da} & 0.2440^{***} & 0.2440^{***} & 0.2470^{***} \\ (0.0488) & (0.0488) & (0.0487) \\ \hline \\ \text{Issuer FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \text{Year FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \end{array}$		(1)	(2)	(3)	
$\begin{array}{c} {\rm ratavg} & 0.3400^{***} & 0.1769^{***} & 0.1777^{***} \\ & (0.0058) & (0.0050) & (0.0050) \\ & (0.0058) & (0.0050) & (0.0050) \\ & (0.0001) & (0.0010^{***} & 0.0010^{***} \\ & (0.0000) & (0.0000) & (0.0000) \\ & (0.0000) & (0.0000) & (0.0000) \\ & (0.0704) & (0.0120) & (0.0171) \\ & (0.0704) & (0.0120) & (0.0171) \\ & (0.0022) & (0.0019) & (0.0019) \\ & (0.0019) & (0.0019) & (0.0019) \\ & (0.0232) & (0.008) & (0.0012) \\ & (0.0032) & (0.008) & (0.0012) \\ & (0.0002) & (0.0001) & (0.0001) \\ & bm & -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ & (0.0139) & (0.0132) & (0.0122) \\ & roa & -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ & (0.1569) & (0.1327) & (0.1329) \\ & da & 0.2440^{***} & 0.2440^{***} & 0.2470^{***} \\ & (0.0488) & (0.0488) & (0.0487) \\ \hline \\ Issuer FE & Yes & Yes & Yes \\ Year FE & Yes & Yes & Yes \\ Yes & Yes & Yes \\ \end{array}$	polstocktrd	0.0173**	0.0196**	0.0175**	
$\begin{array}{c} \text{montomat} & (0.0058) & (0.0050) & (0.0050) \\ 0.0021^{***} & 0.0010^{***} & 0.0010^{***} \\ (0.0000) & (0.0000) & (0.0000) \\ \text{defspr} & 0.7121^{***} & 0.5916^{***} & 0.5914^{***} \\ & (0.0704) & (0.0120) & (0.0171) \\ \text{logoffamt} & 0.0318^{***} & 0.0418^{***} & 0.0419^{***} \\ & (0.0022) & (0.0019) & (0.0019) \\ \text{logmktcap} & -0.0507^{**} & -0.0217^{***} & -0.0245^{***} \\ & (0.0232) & (0.008) & (0.0012) \\ \text{cumadjret} & -0.0010^{***} & -0.0016^{***} & -0.0015^{***} \\ & (0.0002) & (0.0001) & (0.0001) \\ \text{bm} & -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ & (0.0139) & (0.0132) & (0.0122) \\ \text{roa} & -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ & (0.1569) & (0.1327) & (0.1329) \\ \text{da} & 0.2440^{***} & 0.2440^{***} & 0.2470^{***} \\ & (0.0488) & (0.0488) & (0.0487) \\ \hline \text{Issuer FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \text{Year FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \end{array}$		(0.0083)	(0.0096)	(0.0085)	
$\begin{array}{c} \text{montomat} & 0.0021^{***} & 0.0010^{***} & 0.0010^{***} \\ & (0.0000) & (0.0000) & (0.0000) \\ \text{defspr} & 0.7121^{***} & 0.5916^{***} & 0.5914^{***} \\ & (0.0704) & (0.0120) & (0.0171) \\ \text{logoffamt} & 0.0318^{***} & 0.0418^{***} & 0.0419^{***} \\ & (0.0022) & (0.0019) & (0.0019) \\ \text{logmktcap} & -0.0507^{**} & -0.0217^{***} & -0.0245^{***} \\ & (0.0232) & (0.008) & (0.0012) \\ \text{cumadjret} & -0.0010^{***} & -0.0016^{***} & -0.0015^{***} \\ & (0.0002) & (0.0001) & (0.0001) \\ \text{bm} & -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ & (0.0139) & (0.0132) & (0.0122) \\ \text{roa} & -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ & (0.1569) & (0.1327) & (0.1329) \\ \text{da} & 0.2440^{***} & 0.2440^{***} & 0.2470^{***} \\ & (0.0488) & (0.0488) & (0.0487) \\ \hline \text{Issuer FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \text{Year FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \end{array}$	ratavg	0.3400***	0.1769***	0.1777***	
$\begin{array}{c} \text{defspr} & \begin{array}{c} (0.0000) & (0.0000) \\ 0.7121^{***} & 0.5916^{***} & 0.5914^{***} \\ (0.0704) & (0.0120) & (0.0171) \\ \\ \text{logoffamt} & \begin{array}{c} 0.0318^{***} & 0.0418^{***} & 0.0419^{***} \\ (0.0022) & (0.0019) & (0.0019) \\ \\ \text{logmktcap} & \begin{array}{c} -0.0507^{**} & -0.0217^{***} & -0.0245^{***} \\ (0.0232) & (0.008) & (0.0012) \\ \\ \text{cumadjret} & \begin{array}{c} -0.0010^{***} & -0.0016^{***} & -0.0015^{***} \\ (0.0002) & (0.0001) & (0.0001) \\ \\ \text{bm} & \begin{array}{c} -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ (0.0139) & (0.0132) & (0.0122) \\ \\ \text{roa} & \begin{array}{c} -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ (0.1569) & (0.1327) & (0.1329) \\ \\ \text{da} & \begin{array}{c} 0.2440^{***} & 0.2440^{***} \\ (0.0488) & (0.0488) \\ \end{array} & \begin{array}{c} \text{Yes} & \text{Yes} \\ \text{Year FE} & \text{Yes} & \text{Yes} \\ \text{Yes} & \text{Yes} \\ \end{array} & \begin{array}{c} \text{Yes} \\ \text{Yes} \end{array} & \begin{array}{c}$		(0.0058)	(0.0050)	(0.0050)	
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	montomat	0.0021***	0.0010***	0.0010***	
$\begin{array}{cccccccccccccccccccccccccccccccccccc$		(0.0000)	(0.0000)	(0.0000)	
$\begin{array}{c} & (0.0704) & (0.0120) & (0.0171) \\ 0.0318^{***} & 0.0418^{***} & 0.0419^{***} \\ (0.0022) & (0.0019) & (0.0019) \\ logmktcap & -0.0507^{**} & -0.0217^{***} & -0.0245^{***} \\ (0.0232) & (0.008) & (0.0012) \\ cumadjret & -0.0010^{***} & -0.0016^{***} & -0.0015^{***} \\ (0.0002) & (0.0001) & (0.0001) \\ bm & -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ (0.0139) & (0.0132) & (0.0122) \\ roa & -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ (0.1569) & (0.1327) & (0.1329) \\ da & 0.2440^{***} & 0.2440^{***} & 0.2470^{***} \\ (0.0488) & (0.0488) & (0.0487) \\ \hline Issuer FE & Yes & Yes & Yes \\ Year FE & Yes & Yes & Yes \\ Year FE & Yes & Yes & Yes \\ \end{array}$	$\operatorname{defspr}$	0.7121***	0.5916***	0.5914***	
$\begin{array}{c} & (0.0022) & (0.0019) & (0.0019) \\ logmktcap & -0.0507^{**} & -0.0217^{***} & -0.0245^{***} \\ & (0.0232) & (0.008) & (0.0012) \\ cumadjret & -0.0010^{***} & -0.0016^{***} & -0.0015^{***} \\ & (0.0002) & (0.0001) & (0.0001) \\ bm & -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ & (0.0139) & (0.0132) & (0.0122) \\ roa & -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ & (0.1569) & (0.1327) & (0.1329) \\ da & 0.2440^{***} & 0.2440^{***} & 0.2470^{***} \\ & (0.0488) & (0.0488) & (0.0487) \\ \hline Issuer FE & Yes & Yes & Yes \\ Year FE & Yes & Yes & Yes \\ \end{array}$		(0.0704)	(0.0120)	(0.0171)	
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	logoffamt	0.0318***	0.0418***	0.0419***	
$\begin{array}{c} \text{cumadjret} & (0.0232) & (0.008) & (0.0012) \\ \text{cumadjret} & -0.0010^{***} & -0.0016^{***} & -0.0015^{***} \\ & (0.0002) & (0.0001) & (0.0001) \\ \text{bm} & -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ & (0.0139) & (0.0132) & (0.0122) \\ \text{roa} & -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ & (0.1569) & (0.1327) & (0.1329) \\ \text{da} & 0.2440^{***} & 0.2440^{***} & 0.2470^{***} \\ & (0.0488) & (0.0488) & (0.0487) \\ \hline \\ \text{Issuer FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \text{Year FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \hline \\ \text{N} & 21079 & 10446 & 19875 \\ \hline \end{array}$		(0.0022)	(0.0019)	(0.0019)	
$\begin{array}{c} \text{cumadjret} & -0.0010^{***} & -0.0016^{***} & -0.0015^{***} \\ & (0.0002) & (0.0001) & (0.0001) \\ \text{bm} & -0.2759^{***} & -0.1759^{***} & -0.1772^{***} \\ & (0.0139) & (0.0132) & (0.0122) \\ \text{roa} & -1.0863^{***} & -1.033^{***} & -0.9987^{***} \\ & (0.1569) & (0.1327) & (0.1329) \\ \text{da} & 0.2440^{***} & 0.2440^{***} & 0.2470^{***} \\ & (0.0488) & (0.0488) & (0.0487) \\ \hline \\ \text{Issuer FE} & \text{Yes} & \text{Yes} & \text{Yes} \\ \text{Year FE} & \text{Yes} & \text{Yes} \\ \end{array}$	logmktcap	-0.0507**	-0.0217***	-0.0245***	
$\begin{array}{cccccccccccccccccccccccccccccccccccc$		(0.0232)	(0.008)	(0.0012)	
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	cumadjret	-0.0010***	-0.0016***	-0.0015***	
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$		(0.0002)	(0.0001)	(0.0001)	
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	bm	-0.2759***	-0.1759***	-0.1772***	
$\begin{array}{cccccccccccccccccccccccccccccccccccc$		(0.0139)	(0.0132)	(0.0122)	
da       0.2440***       0.2440***       0.2470***         (0.0488)       (0.0488)       (0.0487)         Issuer FE       Yes       Yes       Yes         Year FE       Yes       Yes       Yes         N       21079       10446       19875	roa	-1.0863***	-1.033***	-0.9987***	
(0.0488)       (0.0488)       (0.0487)         Issuer FE       Yes       Yes       Yes         Year FE       Yes       Yes       Yes         N       21079       10446       19875		(0.1569)	(0.1327)	(0.1329)	
Issuer FE Year FEYes YesYes YesYesN210791044619875	da	0.2440***	0.2440***	0.2470***	
Year FE         Yes         Yes         Yes           N         21079         10446         19875		(0.0488)	(0.0488)	(0.0487)	
N 21079 10446 19875		Yes	Yes	Yes	
	Year FE	Yes	Yes	Yes	
	N	21079	10446	19875	
	$\mathbb{R}^2$				

Table 11: Politician sale of stocks and offering yield spreads, subsample analysis

This table presents results from OLS regression of dependent variable offering spread on bond-, firm-level controls, and fixed effects. The main coefficient of interest is polstocktrd, a binary indicator variable equal to 1 if a bond is issued after its stock counterpart experienced net purchase by politicians in [-120, -30] days of issuance, and 0 otherwise. Other control variables are as defined in Table A2. Columns (1)-(2) examine the heterogeneity in terms of whether Democrats and Republicans, in aggregate, are trading in the same direction. Columns (3)-(4) examine the heterogeneity in terms of the number of politicians trading stocks. Columns (5)-(6) examine the heterogeneity in terms of the amount traded in stocks by politicians. Standard errors in parentheses are clustered at the issuer level. \*\*\* p<0.01, \*\*\* p<0.05, \* p<0.10.

			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)
ratavg	0.1389***	0.1475***	0.1397***	0.1769***	0.1636***	0.1765***
-	(0.0061)	(0.0065)	(0.0063)	(0.0050)	(0.0057)	(0.0051)
montomat	0.0011***	0.0011***	0.0016***	0.0009***	0.0010***	0.0008***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
defspr	0.5644***	0.5916***	0.5684***	0.5748***	0.2733***	0.2891***
	(0.0073)	(0.0018)	(0.0017)	(0.0018)	(0.0174)	(0.0172)
logoffamt	0.0391***	0.0418***	0.0401***	0.0420***	0.0407***	0.0418***
	(0.0019)	(0.0019)	(0.0019)	(0.0019)	(0.0019)	(0.0019)
logmktcap	-0.0314***	-0.0417***	-0.0443***	-0.0612***	-0.0590***	-0.0517***
	(0.0120)	(0.0100)	(0.0126)	(0.0108)	(0.0112)	(0.0102)
cumadjret	-0.0014***	-0.0015***	-0.0015***	-0.0017***	-0.0015***	-0.0015***
	(0.0002)	(0.0001)	(0.0002)	(0.0002)	(0.0002)	(0.0001)
$_{ m bm}$	-0.1928***	-0.1759***	-0.1793***	-0.1706***	-0.1874***	-0.1779***
	(0.0142)	(0.0132)	(0.0144)	(0.0135)	(0.0138)	(0.0133)
roa	-1.3377***	-1.0328***	-0.8610***	-1.1377***	-1.0661***	-0.9877***
	(0.1569)	(0.1327)	(0.1608)	(0.1440)	(0.1485)	(0.1334)
da	0.2467***	0.2440***	0.2232***	0.2505***	0.2544***	0.2460***
	(0.0559)	(0.0488)	(0.0582)	(0.0516)	(0.0533)	(0.0490)
Issuer FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	16875	4204	10872	10207	12834	8245
$\mathbb{R}^2$	0.31	0.29	0.33	0.30	0.33	0.33

Table 12: Politician purchase of stocks and cumulative abnormal returns of existing bonds

This table presents results from OLS regression of [0, 18] days cumulative abnormal returns (%) of existing bonds issued by firms whose stocks have been net sold by politicians. Day 0 represents the day on which politicians' purchases of stocks were disclosed.  $amount\_log$  is the natural logarithm of traded amount in stocks disclosed by politicians.  $holding\_chg$  represents the change in the holding of the stocks by politicians, expressed in decimals.  $avg\_rep\_del\_log$  is -1 times the natural logarithm of average days delay between the actual date of transaction and reported date. partyindi equals to 1 when the reporting politician is a Republican and 0 otherwise. ratavg is the average of numeric rating numbers converted from Standard & Poor's, Moody's and Fitch ratings. See Table A3 for details. In columns (1)-(2), cumulative returns were calculated using trade-size-weighted prices. In columns (3)-(4), cumulative returns were calculated with the last reported price of the day. Standard errors in parentheses are clustered at the issuer and bond level. \*\*\*\* p<0.01, \*\*\* p<0.05, \* p<0.10.

		Purchase		
	trade-size-w	eighted-price	last	price
	(1)	(2)	(3)	(4)
intercept	-0.1560**	-0.0271	-0.1355**	-0.0135
	(0.0743)	(0.0383)	(0.0640)	(0.0387)
$\operatorname{amount}_{-} \log$	0.0123***	,	0.0112***	,
_	(0.0039)		(0.0041)	
holding_chg	, , ,	0.0031	,	0.0031
		(0.0024)		(0.0217)
avg_rep_del_log	0.0125***	0.0007***	0.0089***	0.0015***
	(0.0003)	(0.0001)	(0.0000)	(0.0000)
partyindi	-0.0350	-0.0961	-0.0416	-0.1093
	(0.0156)	(0.0405)	(0.0356)	(0.1010)
ratavg	0.0120*	0.0067	0.0120*	0.0074
_	(0.0068)	(0.0084)	(0.0071)	(0.0087)
Year-Month FE	Yes	Yes	Yes	Yes
Issuer FE	Yes	Yes	Yes	Yes
N	108242	51602	108242	51602
$\mathbb{R}^2$	0.21	0.15	0.21	0.15

Table 13: Politician sale of stocks and cumulative abnormal returns of existing bonds

This table presents results from OLS regression of [0, 18] days cumulative abnormal returns of existing bonds issued by firms whose stocks have been net purchased by politicians. Day 0 represents the day on which politicians' sale of stocks were disclosed.  $amount\_log$  is the natural logarithm of traded amount in stocks disclosed by politicians.  $holding\_chg$  represents the change in the holding of the stocks by politicians, expressed in decimals.  $avg\_rep\_del\_log$  is -1 times the natural logarithm of average days delay between the actual date of transaction and reported date. partyindi equals to 1 when the reporting politician is a Republican and 0 otherwise. ratavg is the average of numeric rating numbers converted from Standard & Poor's, Moody's and Fitch ratings. See Table A3 for details. In columns (1)-(2), cumulative returns were calculated using trade-size-weighted prices. In columns (3)-(4), cumulative returns were calculated with the last reported price of the day. Standard errors in parentheses are clustered at the issuer and bond level. \*\*\* p<0.01, \*\*\* p<0.05, \* p<0.10.

		Sale		
	trade-size-we	trade-size-weighted-price		price
	(1)	(2)	(3)	(4)
intercept	-0.3412***	-0.0108**	-0.2774***	-0.0948**
	(0.0532)	(0.0051)	(0.0554)	(0.0458)
$\mathrm{amount\_log}$	-0.0224***	,	-0.0171***	,
	(0.0038)		(0.0040)	
holding_chg	,	-0.0003	,	-0.0062
		(0.0030)		(0.0059)
avg_rep_del_log	-0.0028***	-0.0020***	-0.0008***	-0.0017***
-	(0.0000)	(0.0000)	(0.0000)	(0.0000)
partyindi	0.0262	-0.0133	0.0165*	-0.0241*
	(0.0885)	(0.0093)	(0.0094)	(0.0140)
ratavg	-0.0017	0.0011	-0.0025	0.0010
	(0.0070)	(0.0083)	(0.0073)	(0.0086)
Year-Month FE	Yes	Yes	Yes	Yes
Issuer FE	Yes	Yes	Yes	Yes
N	98569	41207	98569	41207
$\mathbb{R}^2$	0.16	0.08	0.17	0.09

## 6 Appendix A

# Figure F1: Visual presentations of matching stocks to bonds and determining net purchase or sale

This figure shows visual examples on deducing issuer\_id of stocks in CapitolTrade (in Panel(a)) and whether a bond issue is preceded by net purchase or sale of the corresponding stock by politicians (in Panel(b)).

	SecurityTicker	CompanyMainTicker	CompanyName	gvkey_	CUSIP_NAME	MatchScore	MyAssignedMatchScore	issuer_id	source
1	ALB	ALB						37270	firstmethod
2	ALB	ALB	ALBEMARLE CORP	29751	ALBEMARLE CORP	100	100	38297	both
3	ALB	ALB	ALBEMARLE CORP	29751	ALBEMARLE CORP	100	100	41771	both
4	ALB	ALB						49997	firstmethod

(a) Getting issuer\_id (from Mergent FISD) of Companies (from CapitolTrades) whose stocks were traded by politicians

	ReportingIndividualId	TransactionDate	Transaction Type	Value	COMPLETE_CUSIP	OFFERING_DATE	daysgap	bothbuyandsell	alltranaggamt
1	H001051	2013-05-17	BUY	8000	00083LAF0	20130719	63	1	1
2	M001158	2013-04-11	BUY	8000	00083LAF0	20130719	99	1	1
3	M001158	2013-04-12	BUY	8000	00083LAF0	20130719	98	1	1
4	M001158	2013-04-13	SELL	8000	00083LAF0	20130719	97	1	1
5	M001158	2013-04-25	BUY	8000	00083LAF0	20130719	85	1	1
6	M001158	2013-05-07	BUY	8000	00083LAF0	20130719	73	1	1
7	W000779	2013-05-07	SELL	8000	00083LAF0	20130719	73	1	1

(b) Determining whether a bond issue is proceeded by net stock purchase or sale by politicians

Table A1: Sample Construction

This table presents the steps involved in constructing the sample described in Section 3.4. The sample period of stock transactions is 2012-2024. The period of bond transactions is also 2012-2024.

Step	Action Taken	# of obs.
1	2iQ Research Capitol Trades Transaction table and merge to Asset table and then to Company table	173,665
2	Generate a list of unique company tickers from the table in step 1*	4,046
3	Generate a list of unique company_symbol from TRACE Enhanced*	11,660
4	Match tickers from step 2 and company_symbol from step 3*	1,849
5	From TRACE enhanced, get all cusip_id of company_symbol from step 4*	287,955
6	From LSEG Mergent mergedissue table, get issuer_id of complete_cusip from step 5 by matching on complete_cusip = cusip_id*	271,132
7	Generate a pair of CompanyTicker and issuer_id from the table in step 6*	3,796
8	Generate a pair of gvkey and company name from the table in step $1^{\dagger}$	3,961
9	From LSEG Mergent fisd_mergedissue, generate a pair of issuer_id and cusip_name <sup>†</sup>	16,983
10	Perform fuzzy name matching in Python between companyname from step 8 and cusip_name from step 9 <sup>†</sup>	
11	Create a merged table consisting of gvkey, companyname, issuer_id, and cusip_name <sup>†</sup>	4,422
12	Generate a pair of company name and issuer_id from the table in step 11 with the condition that fuzzy matching score is at least greater than $93^{\dagger}$	1,542
13	Merge the table from step 7 and step 12 based on issuer_id (See Figure F1a.)	4,361
14	Aggregate politicians stock transaction at politician-day-company- transactiontype level	109,442
15	Merge the table from step 14 with the table from step 13 on SecurityTicker, then on CompanyName	457,274
16	Using LSEG Mergent mergedissue table, get all corresponding issue_id of issuer_id in the table from step 13	153,112,046

 $<sup>^{\</sup>star\dagger}$  Matching is done in two methods to ensure that bonds issued by subsidiaries with different issuer\_id are not missed in the sample construction. Figure F1a shows a column tracing which method used found the matched issuer\_id(s).

continued on next page

Table A1: Sample Construction (continued)

17	Filter out bonds that were issued after its stock counterpart were traded by politicians in [-120, -30] days of issuance (the same bond matched to multiple stock transactions, hence the large number)	5,091,257
18	Aggregate the stock transactions that preceded bonds issued at bond level, particularly purchase amount and sale amount, and get a list of bonds issued following net purchase and net sale by politicians respectively. Removed bonds if net trading amount is zero	117,735 (purchase); 125,816 (sale)
19	Get other issuer_id(s) of issue_id found in step 18, and assign polstocktrd=1 and polstocktrd=0 to bonds (See Figure F1b)	428,299 (purchase); 437,545 (sale)
20	Remove convertible, perpetual, yankee, asset_backed, medium- term note, mortgage-backed securities, exchange offers, bonds with missing coupon, missing offering date, or missing offering price	127,799 (purchase); 129,109 (sale)
21	Limit offering period of bonds to 2012-2024 period <sup>†</sup>	29,360 (purchase); 29,192 (sale)

<sup>&</sup>lt;sup>†</sup>This step is done because some bond issues that are not preceded by politician stock trades lie outside the sample period of 2012-2024.

Table A2: Variable Descriptions

Variable	Definition/Description	Source
polstocktrd	A binary variable equal to 1 if a bond is issued after its stock counterpart experienced net purchase or sale by politicians in the previous 45 to 120 days of issuance date, and 0 otherwise	LSEG Mergent, TRACE, CapitolTrades
offyld (%)	The yield to maturity of a bond's at the time of issuance	LSEG Mergent
offspr (%)	The difference between the yield of a bond at time of issuance and the corresponding benchmark treasury with similar maturity	LSEG Mergent, FRED
logoffamt	The natural logarithm of the par value of the issued bond	LSEG Mergent
ratavg	The average of numeric rating numbers converted from Standard & Poor's, Moody's and Fitch ratings. See Table A3 for rating conversion details.	LSEG Mergent
logmktcap	The natural logarithm of 1 plus market capitalization derived from the product of monthly price and public shares outstanding	CRSP
$\begin{array}{c} \text{cumadjret} \\ (\%) \end{array}$	The cumulative monthly stock return adjusted for CRSP value-weighted index over 12 months before a bond's offering date	CRSP
bm	The book-to-market ratio	WRDS Financial Ratios Suite
da	The total debt to total asset ratio	WRDS Financial Ratios Suite
roa	The return on asset, net income over total assets	WRDS Financial Ratios Suite
defspr $(\%)$	The difference between Moody's seasoned Baa and Aaa corporate bond yield	FRED
montomat	The number of months remaining until a bond matures	LSEG Mergent

Table A3: Ratings of Three Main Agencies and Corresponding Rating Numerals

This table details the mapping between three main credit agencies' ratings and the corresponding rating numerals and groups used in calculating abnormal returns. To determine an appropriate rating group for rating-group-adjusted abnormal returns, Standard & Poor's (S&P's) rating is first used. If S&P's rating is not available, Fitch's rating is used. When neither S&P's nor Fitch's rating is available, Moody rating is used.

Fitch's or Standard & Poor's	Moody	Rating Numeric	Rating Group for Abnormal Returns
AAA	Aaa	1	1
AA+	Aa1	2	2
AA	Aa2/Aa	3	2
AA-	Aa3	4	2
A+	A1	5	3
A	A2/A	6	3
A-	A3	7	3
BBB+	Baa1	8	4
BBB	Baa/Baa2	9	4
BBB-	Baa3	10	4
BB+	Ba1	11	5
BB	Ba2/Ba	12	5
BB-	Ba3	13	5
B+	B1	14	6
В	B/B2	15	6
B-	В3	16	6
CCC+	Caa1	17	7
CCC	Caa2	18	7
CCC-	Caa3	19	7
CC	Ca	20	7
С	С	21	7