

Partisan Professionals: Evidence from Credit Rating Analysts

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 - “Partisan perceptual screen” (Campbell et al. (1960))
 - Partisan perception in the formation of economic expectations (e.g., Gerber and Huber (2009) and Mian et al. (2017))

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 - Spending behavior: yes (Makridis (2018)) and no (McGrath (2017), Mian et al. (2017))
 - Portfolio choice: yes (Meeuwis et al. (2018))
- So far, **no evidence on economic decisions in high-stake environments**

- **This paper:** Does political alignment with the president affect decisions by finance professionals?

- Setting: **credit rating analysts**
 - ① We can link credit rating decisions to individual analysts (Fracassi et al. (2016))
 - ② Credit ratings matter for firms' cost of capital, financing and investment policies (e.g., Kisgen (2006, 2009), Almeida et al. (2017))
 - ③ Requires *long-term* forecasts of credit risk
 - ④ Multiple analysts rate the *same firm* at the *same point in time*

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 - ② Mechanism: differences in **beliefs about aggregate economic conditions**
 - Conducted online survey of credit rating analysts
 - Effect is larger for **cyclical firms**, and when views of economic conditions are **more politically polarized**

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 - Moody's: Moody's DRD
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- Match to a press release that contains the name(s) of the analyst(s) covering the firm
 - Usually contain two names, the lead analyst and the rating committee chair or secondary analyst

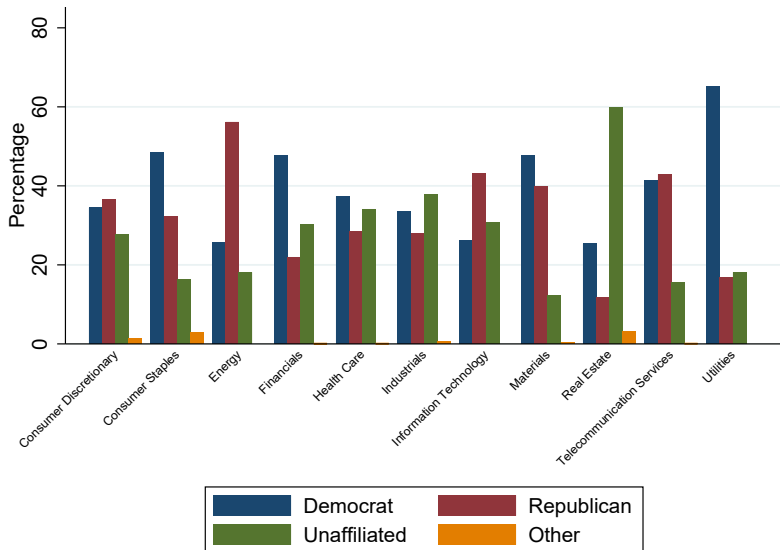
- Part II: **Data on party affiliation**

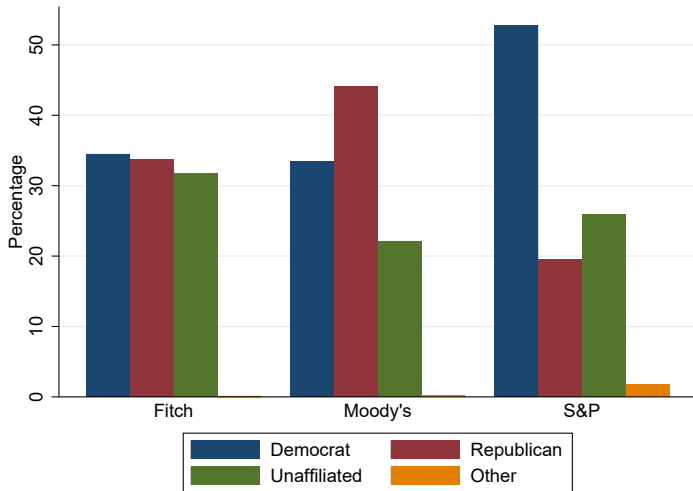
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- **Final sample: 557 analysts** covering 1,984 firms (match rate of 46%)





	N	Mean	Std. Dev.
<i>Dependent Variable</i>			
Rating change	72,732	0.026	0.387
<i>Partisan Bias</i>			
Ideological mismatch	76,969	0.370	0.483

- Rating change = difference (in notches) between rating at the end of the calendar quarter and rating at the beginning of the quarter
 - Ratings transformed into cardinal scale, starting with 1 for Aaa and ending with 21 for C
 - I.e., positive change = downgrade
- Ideological mismatch = 1 if party affiliation does match the president's, 0 otherwise

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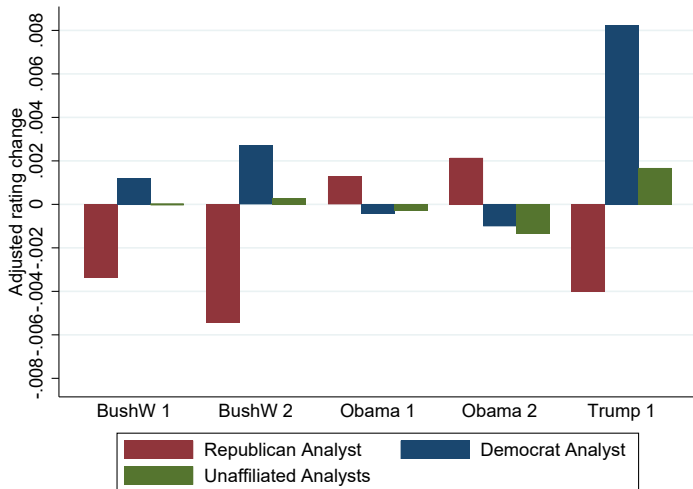
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- Why changes instead of levels?
 - Analysts may respond gradually rather than instantly



	Rating Change		
	(1)	(2)	(3)
Ideological mismatch	0.0168 (4.18)	0.0170 (4.26)	0.0134 (3.79)
Tenure	0.0001 (0.03)	-0.0006 (-0.23)	-0.0004 (-0.15)
No. of firms covered	-0.0001 (-0.10)	0.0001 (0.05)	-0.0000 (-0.02)
Observations	49,792	49,792	49,790
R ²	0.804	0.804	0.808
Firm × Quarter FE	Yes	Yes	Yes
Agency FE	Yes	No	No
Agency × Sector FE	No	Yes	No
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- Analysts who do not support the president's party on average downward-adjust more by **0.013 notches per quarter** (0.21 notches over four years)

	Coeff	t-statistic
Baseline	0.0134	3.79
Panel A: Alternative dependent variables		
Rating change indicator	0.0110	3.88
Downgrade	0.0064	3.24
Upgrade	-0.0046	-2.21
Panel B: Alternative definitions of ideological mismatch		
Use only party affiliation from presidential elections	0.0144	2.75
Add party affiliation from political contributions	0.0135	4.36
Panel C: Estimation		
Triple-cluster standard errors (analyst, firm and quarter)	0.0134	4.33
Firm-agency level	0.0298	3.82
Weighted least squares	0.0125	3.35
Add Analyst FE	0.0108	2.40
Agency \times Sector \times Quarter FE	0.0087	2.82
Add NBER Recession \times Party affiliation FE	0.0150	4.03

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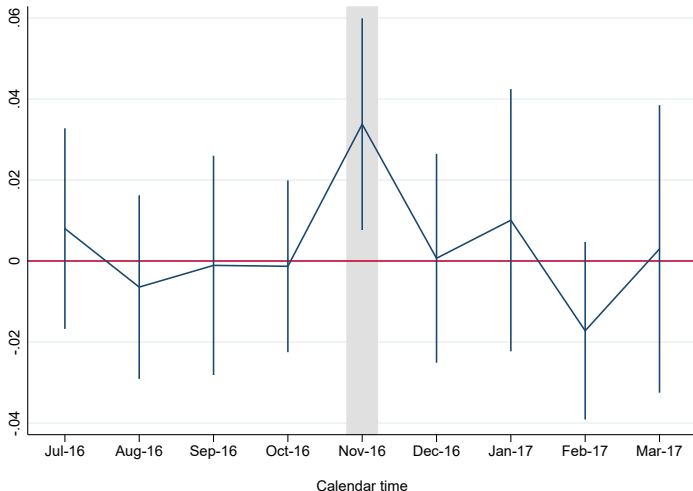
- We conduct an event study around the 2016 presidential election
- Unique setting:
 - Unexpected outcome
 - Candidates had very different views on economic policy (Meeuwis et al. (2018))
 - Election date did not overlap with other major economic events

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 - Corresponds to a USD-difference of **89–107 million** for the average firm
 - ② Bond yields
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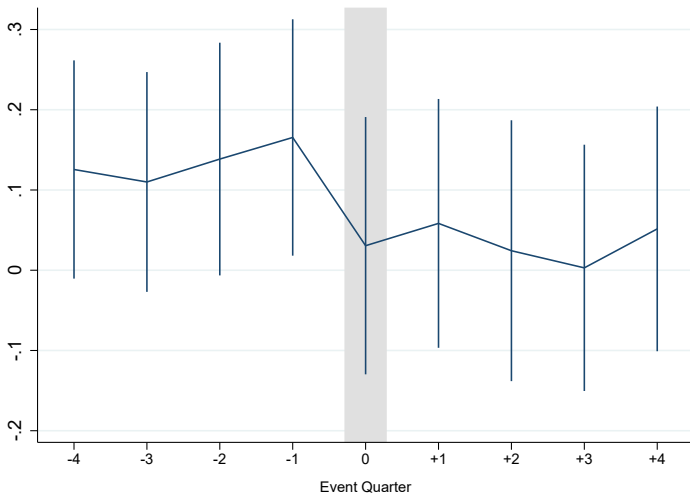
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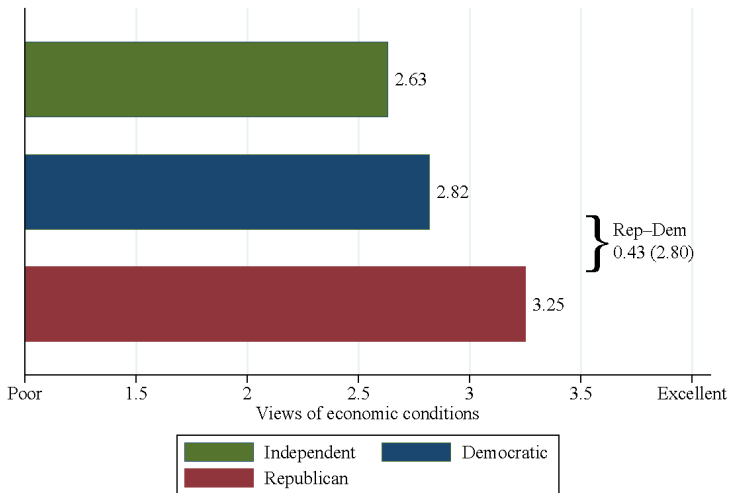
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 - 3 Effect is stronger when **political polarization** in views of economic conditions is high

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 - “How would you rate economic conditions in this country today — as excellent, good, only fair, or poor?”
 - The responses to the question are converted into a numerical scale that ranges from 1 (poor) to 4 (excellent)



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- Suggests partisan perception may have real effects