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## Explaining bank stock performance with crisis sentiment

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## Abstract

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

## JEL classification

G21; G01; G02

## Keywords

Financial crisis; Bank performance; Investor sentiment

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