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Explaining bank stock performance with crisis sentiment

Felix Irresberger[1], Janina Mühlnickel[1], Gregor N.F. Weiß

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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

Corresponding author. Tel.: +49 231 755 4608.

1 Tel.: +49 231 755 8212.