Discussion of: The Visible Hand when Revenues Stop: Evidence from Loan and Stock Markets during Covid-19

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[1] The views presented here are those of the author alone and may not necessarily represent those of the Bank of Greece, the European Central Bank, or the European System of Central Banks.

Summary

Comments

Recap

- Examines the disconnect between real and stock market performance in the early COVID era. Stock market took off after an initial dive, and it is not clear why. Rally lasted for some time.
  - Focuses on the role of government interventions.
  - Does public intervention in the presence of (firm) liquidity shocks affect how firms borrow by banks? If so, how?
- Empirical challenges in identifying effect of interventions to firm demand:
  1. Shocks affect bank loan supply.
  2. Credit market failures may cause liquidity shock, not the other way round.
  3. Data not very granular so lots of sources of OVB.

Recap

Two-pronged approach:

- Granular IVs (Gabaix-Koijen): a few large firms account for an important share of economic activity $\rightarrow$ idiosyncratic shocks to these firms provide valid (and perhaps powerful) instruments.
  - Overcomes simultaneity/OVB between liquidity shocks and lending.

Plausibly allows for consistent estimation of the effects of public interventions on lending.

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  - Overcomes simultaneity/OVB between liquidity shocks and lending.
- Khwaja-Mian: with multiple lending relationships per firm, use firm fixed effect to purge demand shock and isolate supply shock. Here it's the opposite: use multiple (country) lending relationships per bank, use bank fixed effect, purge bank liquidity/balance sheet concerns, isolate response to country shocks/interventions.
  - Firm-borrowing channel instead of bank-lending channel.
  - Estimate how public interventions and liquidity shocks affect the lending of the same bank across countries. Correctly focus on foreign markets (moral suasion).

Plausibly allows for consistent estimation of the effects of public interventions on lending.

Findings

- Public interventions effective in allowing firms hit by liquidity shocks to borrow additional funds from banks. Not much action on the equity margin.
  - Loan guarantees/support increase debt capacity.
  - Grants create substitution effect $\rightarrow$ firms rely less on bank credit.
- Stock valuations increase in public spending for interventions. Firms' revenues do not appear to immediately respond to interventions. (Comment: should they?)
- Overall, results are consistent with investors perceiving interventions as valuable to improve firms' long-run prospects.
  - Banks' valuations benefit from public interventions when they are exposed to affected firms.
  - Corporate loans are a channel through which firms pass their liquidity shocks to the financial sector.

My response

- Very interesting paper. Goes to the heart of a unique episode in our recent economic history and answers a very pertinent question about the policy response.
- Innovative empirical approach. GIV is a fairly new method and this application is a nice illustration of its potential usefulness.
- Nice way of overcoming the lack of access to firm-bank data.

My comments:

- Comment 1: Motivation (disconnect) not fully clear.
- Comment 2: Alternative explanations not explored/fully controlled for.
- Comment 3: Some threats to identification from country-specific shocks.
- Minor comments

Summary

Comments

Comment 1 - Motivation

- Need to update paper. Especially consider how revenues developed later on.
- Crux of the motivation is the disconnect between markets and real economy, but paper released 1.5 years ago. Is the disconnect still there? At least continue the analysis until end of 2021 (to avoid contamination from Ukraine war).
- **Argument:** measures were effective in buttressing valuations, but revenues do not immediately respond $\rightarrow$ interventions drive a part of the disconnect between markets and the real economy.
- But should revenues respond? Valuations are forward-looking, revenues are not. Measures taken at a time of depressed activity, often targeted to most affected sectors. Wouldn't a fast rebound of revenues after support indicate bad targeting?

Comment 1 - Motivation (continued)

- This result relies on variation within country-sector cells in *Haltnews*. Is there enough variation in such a small sample?
  - Shocks highly correlated at the sectoral level.
  - In many countries shutdown decisions were mandated, so perhaps most within-variation comes from few cells.
- *Haltnews* action only relevant for a subset of sectors (Consumer goods, Materials, Real Estate).
- Picture is better for *goodnews*/*badnews* where more sectors are driving the variation.

Comment 2 - Other factors driving disconnect?

- Broader fiscal (e.g. checks to households) or monetary support could contaminate estimates (for borrowing result) if correlated at the country level.
- Is job support included? Halting operations when the government is responsible for wage payments (and you don't have to let go of your workers) can be important. Job retention schemes can be very helpful in jumpstarting production after the shock.
- Expected reallocation very prominent (Barrero et al. 2020, Pagano et al. 2020) .... but does not seem to have materialized (Consolo and Petroulakis 2022, ECB WP 2703).

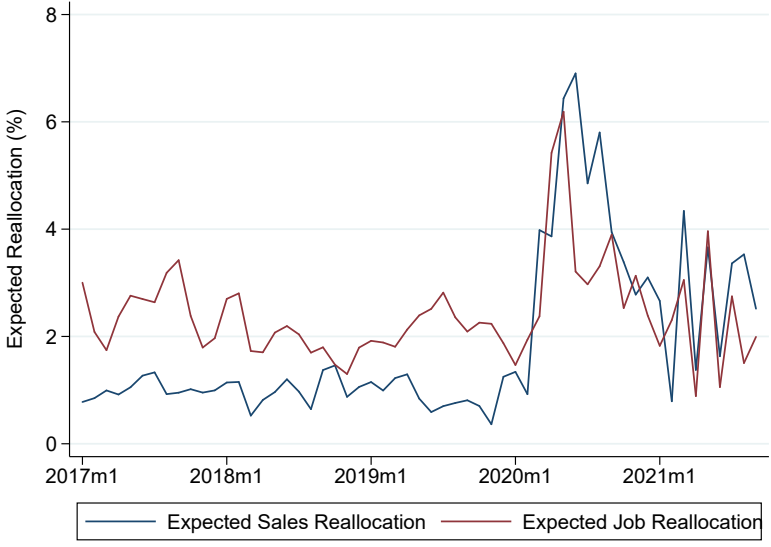

Figure: Atlanta Fed Business Expectations Survey


CNBC
Amazon to hire 100,000 more workers and give raises to current staff to deal with coronavirus demands
PUBLISHED MON, MAR 16 2020·4:16 PM EDT UPDATED TUE MAR 17 2020·12:06 AM EDT


VentureBeat
Zoom's daily participants jumped from 10 million to over 200 million in 3 months
April 2, 2020 :43 AM


The New York Times
Everyone You Know Just Signed Up for Netflix
The streaming giant added nearly 16 million new subscribers in the first three months of the year.
April 21, 2020


FINANCIAL TIMES
myFT
Light on tech, heavy on banks – has Warren Buffett lost his touch?
Too big. Too slow. Too old-fashioned. Criticism mounts after Berkshire Hathaway's bad run
Eric Platt in New York JUNE 16 2020
308


BARRON'S
George Soros Bought a Big Peloton Stake
March 11, 2020 7:00 am ET

Company	Current value of 10'000$ invested	Difference
PELOTON	871 USD	-91%
robinhood	1'118 USD	-89%
affirm	1'166 USD	-88%
Lemonade	1'597 USD	-84%
DRAFT KINGS	1'702 USD	-83%
TELADOC.	1'751 USD	-82%
ROKU	1'788 USD	-82%
BEYOND MEAT	1'944 USD	-81%
DocuSign	2'180 USD	-78%
coinbase	2'264 USD	-77%
zoom	2'272 USD	-77%
NETFLIX	2'469 USD	-75%

May 2022 (relative to peak)

make it

The world's 10 richest people have all lost billions since 2022 started — except for Warren Buffett

Published Fri, Jan 28 2022• 2:21 PM EST
Updated Sun, Jan 30 2022• 7:34 PM EST

Comment 3 - Country-specific shocks

- Authors do a good job in capturing two sources of bias (OVB, simultaneity of firm liquidity and credit shocks) - but what about simultaneity between government intervention and credit contractions?
- Focus on foreign lending. But results much weaker there...
- Cleanly identifying this margin is a huge order - governments threw the kitchen sink in support to firms.
- However, bias would presumably be negative. Any way to show/bound this (Khwaja-Mian)?
- Moreover, bank FE structure assumes no country-specific credit supply. Seems strong (stronger than Khwaja-Mian, no bank-specific firm demand).

Minor comments

- UK firms account for over a third of the sample
  - Representativeness? Policy similarities?
  - UK operations or just UK HQ/listing?
- The GIV-bank FE specifications appear in Table 10. If these are the main results, then the organization of the paper is distracting. If they are not, then the intro is misleading about the focus of the empirical exercise.
- Data approach is interesting, but can you push further by using quarterly earnings reports (Hassan et al) - this could greatly increase the sample.
- Hard to tell how effective interventions are in Table 8 without looking at text. Can you adjust scales?
- Why does 2nd stage have fewer observations than first?
- Do the results of this paper supports the case for a windfall tax?