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INVESTOR SENTIMENT AND CAPITAL STRUCTURE IN LATIN AMERICA

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Introdução

Finance literature has extensively examined the factors driving the capital structure decisions of companies over the years. A large portion of studies focus on firm-specific factors or incorporate economic variables into their models. These factors provide a broader context for understanding the mix of equity and debt. However, they may need to be more sufficient to explain the financing decisions made by firms. In this sense, the present research focuses on investor sentiment as a potential determinant of capital structure.

Problema de Pesquisa e Objetivo

This study aims to analyze the relationship between investor sentiment and firms' capital structure in South America.

Fundamentação Teórica

In times of optimism, stock prices rise and often become overvalued, just as in times of pessimism, prices fall and can become undervalued (Lemmon & Portniaguina, 2006). This practice underpins the market-timing hypothesis, where managers take advantage of mispricing by issuing shares to raise more funds at lower costs during periods of optimism and repurchasing shares at lower rates during periods of pessimism (Baker & Wurgler, 2002). In general, the market-timing hypothesis posits that companies make financing decisions by timing and responding to price variations driven by sentiment

Metodologia

Use of the Ordinary Least Squares (OLS) and the System Generalized Method of Moments (Sys-GMM) on a sample of 341 Brazilian companies, 81 Argentine companies, 157 Chilean companies, and 93 Peruvian companies from 2012 to 2023,. We propose the market sentiment index, which can be adapted for other countries. To provide robustness to the findings, we used firm-specific investor sentiment by Seok, Cho, and Ruy (2019).

Análise dos Resultados

The results emphasize the importance of considering investor sentiment as a factor influencing the firm's capital structure. The negative relationships identified remain robust across various estimation methods and different interpretations of the key variables. This suggests that companies choose lower debt and higher equity levels when optimistic. Conversely, managers opt for more debt rather than equity during periods of low sentiment. These insights offer practical implications for managers and researchers regarding the impact of sentiment on financing decisions.

Conclusão

The greater the sentiment is, the lower the company's use of debt in its financing structure. This aligns with the market timing theory, which suggests that managers observe the market and, when sentiment is high (optimism), they issue shares to raise more funds at lower costs, increasing the equity component and consequently reducing debt.

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