SWEDISH HOUSE OF FINANCE | STOCKHOLM SCHOOL OF ECONOMICS

Newsletter October 2024

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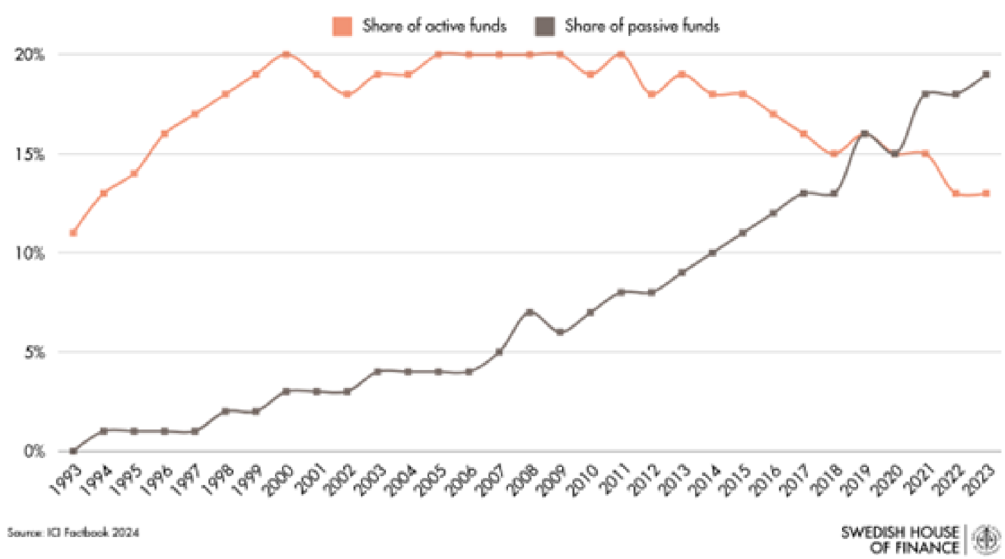
- Passive investing cuts costs, boosts diversification, but may impact market fundamentals – article
- Are mortgage ceilings and amortization requirements efficiently designed? – register to upcoming seminars
- ESG boosts sustainability under owner leadership but may weaken under managers – new research
- Why is the stock market volatile while the economy stays stable? How does public perception shape central bank policies? – interviews with SHoF visiting researchers

“Dumb Money": Is the Rise of Passive Investing Always Good?



While passive investing has lowered costs and improved diversification, its broader market impact is raising concerns, according to insights shared at a recent Fireside Chat led by SHoF researchers **Paul Huebner** and **Alexander Ljungqvist**.

Summary of talking points:

Collateral Damage: Passive investing disproportionately benefits large-cap firms, leading to market inefficiencies and a widening gap between valuations and fundamentals.

Corporate Governance Impact: Concerns were raised about passive investing's negative impact on corporate governance, with less oversight and potential harm to competition due to common ownership.

Less Can Be More in Regulation: Regulatory changes, such as improving transparency and reducing restrictions, were suggested to address passive investing risks and enhance market competition.

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RESEARCH IN THE SPOTLIGHT

The Growing Influence of ESG: A Double-Edged Sword for Organizational Sustainability

Jan Starmans (SHoF/SSE) explores how pro-social preferences influence sustainability. His research highlights that owner-led ESG initiatives tend to strengthen sustainability, while manager-driven efforts can create conflicts and weaken outcomes.
Key insights:

- A top-down approach, where owners drive sustainability initiatives, generally enhances organizational sustainability, while a bottom-up approach led by managers can create conflicts of interest that may reduce sustainability.
- More pro-social stakeholders do not necessarily make an organization more sustainable, implying that simply promoting pro-social behavior, regardless of where it originates within the organizational hierarchy, is insufficient.
- Sustainability may decline when a pro-social manager's preferences conflict with the owner's, prompting the owner to reclaim control, thereby weakening sustainability efforts.

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INTERVIEWS

International scholars from top universities present their research at the SHoF's Friday Seminar series. During their visit to Stockholm, SHoF also had the chance to interview some of the speakers.

Why Does the Stock Market Fluctuate While the Economy Stays Steady?

Stock market volatility often dominates headlines, with dramatic rises and falls that seem disconnected from the broader economy. But is it really? **Andrew Atkeson** (UCLA) explained how small shifts in investor expectations about the distribution of corporate income can cause significant market swings—without destabilizing the economy.

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How Should Central Banks Respond to Shifting Public Perceptions on Inflation?

As inflation surged during COVID-19, the U.S. Federal Reserve faced a balancing act between public expectations and economic uncertainty. **Adi Sunderam** (Harvard) explains how market participants misunderstood the Fed’s response, highlighting the importance of actions in restoring confidence and the evolving role of policy in economic shocks.

Read more

UPCOMING EVENTS

November 7: Mortgages Around the World: Insights and Lessons for Policy

Don’t forget to register to the upcoming seminar with **John Y. Campbell** (Harvard) to discover how global mortgage systems differ, the importance of flexible mortgage rules for consumer and economic protection, and what Sweden can learn from international crises.

The event will be conducted in English and moderated by Magnus Dahlquist (SHoF/SSE).

Register here

November 22: SNS/SHoF Finance Panel – Are Swedish Mortgage Ceilings and Amortization Requirements Efficiently Designed?

The committee "Overview of borrower-based macro-supervisory measures" has, on behalf of the government, analyzed which macroeconomic risks are associated with household indebtedness and how mortgage ceilings and amortization requirements can counteract these. Listen to **Peter Englund** (SHoF/SSE), chairman of the committee, present the proposal and following panel discussion.

The seminar will be held in Swedish and moderated by Jacob Bursell, journalist.

Register here

IN THE PRESS

Supply chain shortages, large firms’ market power, and inflation
2024-10-14 • English • CEPR
Mariassunta Giannetti (SHoF/SSE) and co-authors highlight how the pandemic and geopolitical tensions exposed global supply chain vulnerabilities. Their research shows larger firms gained a competitive advantage during disruptions, contributing to up to 23% of U.S. inflation in 2021. Strengthening supply chain resilience and promoting fair competition are key solutions.

Experts: Bankruptcy protection in the US could be Northvolt’s saving grace

2024-09-20 • Swedish • Dagens Nyheter

Bo Becker (SHoF/SSE) highlighted the U.S. as having the most efficient bankruptcy process, noting that its Chapter 11 legislation enables viable businesses to continue operating instead of being forced into liquidation.
