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Analyst Coverage Network and Stock Return Comovement in Emerging Markets

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Abstract

This paper shows that analyst coverage networks (ACN) play an important role in explaining stock return commonalities across Latin American stocks. First, pairs of stocks connected by analysts exhibit higher comovement and excess comovement. Second, firms easily traded by foreign investors are more strongly affected by common coverage. Third, international analysts are an important source of across-country excess comovement. Finally, by creating the network at the brokerage house level and exploiting exogenous changes in the ACN around the MSCI LATAM Index reviews, this study addresses endogeneity concerns related to the effect of ACN on commonalities.

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