U.S. Populist Rhetoric and Currency Returns
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Abstract
We implement textual analysis to construct a novel index of U.S. populist rhetoric. Aggregate Populist Rhetoric (APR) Index spikes around populist events. We decompose the APR Index into sub-indices. We show that APR Index and International Relations sub-index are negatively priced in the cross-section of currency excess returns. Currencies that perform well (badly) when U.S. populist rhetoric is high yield low (high) expected excess returns. Investors require high risk premium for holding currencies which underperform in times of rising U.S. populist rhetoric, especially in the post-crisis period. A long-short strategy that buys (sells) currencies with high (low) exposure to U.S. populism offers strong diversification benefits.

Objectives
- We implement textual analysis to construct a novel index of U.S. populism by assessing the overall populist rhetoric reported by leading newspapers.
- We then decompose this main index into sub-indices, each of which corresponding to a topic identified by LDA Algorithm.
- Our empirical findings show that U.S. populist rhetoric is negatively priced in the cross-section of currency excess returns.

Methodology
- We follow the same methodology as in Baker, Bloom, and Davis (2016) to construct our Aggregate Populist Rhetoric (APR) Index.
- We use 26 populist terms in the dictionary constructed by Bonikowski and Gidron (2015) (e.g., special interest, top 1 percent, average American taxpayer).
- We search for all articles containing at least one of these terms and define them as “populist” articles.
- For each newspaper, we construct the monthly counts of populist articles divided by the counts of U.S. politics articles and our APR index is the weighted average of 5 newspapers based on circulation.
- We then implement LDA Algorithm developed by Blei et al. (2003) to discover topics conveyed in populist articles. For developed countries, those with higher holding of U.S. assets experience higher sensitivity to U.S. Populist rhetoric than those with higher holding of U.S. assets.
- In cross-sectional regressions, the risk price of APR Index (and IR sub-index) is negative and statistically significant.

References

Results
Aggregate Populist Rhetoric (APR) Index

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