The Spillover Channel: How US Equity Market Shocks Transmit to Emerging Market Capital Flows

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Abstract

This paper investigates whether US equity market spillovers constitute an independent channel for transmitting US financial shocks to Emerging Market (EM) capital flows. We extend the traditional "push-pull" framework by utilizing a dynamic, time-varying measure of financial interconnectedness derived from a Time-Varying Parameter Vector Autoregression (TVP-VAR). Our results establish that US equity spillovers are a statistically and economically significant predictor of EM capital flows, particularly those originating from the US. This finding is robust to controlling for a comprehensive set of global "push" factors (e.g., US uncertainty, QE shocks) and local "pull" factors (e.g., EM growth). The significance of lagged spillovers strengthens the causal interpretation of this transmission. Crucially, the spillover effect is identifiable only after accounting for cross-country heterogeneity in financial integration and institutional quality, which act as key confounding controls. The impact is most pronounced for US-specific equity flows, underscoring the dominant role of US financial conditions in bilateral capital allocation. By demonstrating that financial market interconnectedness operates as an active transmission medium distinct from conventional channels, this research provides critical insights for policymakers managing vulnerabilities stemming from the global financial pipeline linking US markets to EM capital dynamics.

The global financial landscape for emerging markets has long been characterized by a fundamental tension: the growth-financing capital inflows versus the risk of destabilizing

outflows. For decades, the "push-pull" framework has served as the dominant narrative for understanding this volatility, establishing that capital movements are driven more by global factors like US monetary policy and risk appetite than by domestic fundamentals (Davis et al., 2021; Forbes & Warnock, 2012; Fratzscher, 2012; Koepke, 2019). Indeed, a powerful Global Financial Cycle, emanating largely from the United States, explains a substantial share of capital flow variations worldwide (Davis et al., 2021). Given the established pattern of shock transmission from core to peripheral markets through push and pull factors, the logical next step is to develop a dynamic metric. Such a measure would capture the time-invariant, systemic linkage between push and pull factors, moving beyond their separate analysis to provide a unified instrument for forecasting flows.

A growing literature points to the central role of US-generated uncertainty and policy shocks as potent triggers (Cerutti, Claessens, & Puy, 2019; Cerutti, Claessens, & Rose, 2019; Davis et al., 2021; Fratzscher, 2012; Milesi-Ferretti & Tille, 2011). The US-led “push” factors play a major role in capital flow movement during crisis, making the “pull” factors secondary in importance (Fratzscher, 2012). US monetary policy shocks, particularly during sensitive periods like the "taper tantrum," have been shown to exert sizable effects on both US holdings of emerging market assets and their valuations (Chari et al., 2021). Simultaneously, US economic policy uncertainty significantly alters the probability of extreme capital flow episodes in emerging economies, such as sudden stops and retrenchments (Du & Pu, 2025). These shocks do not travel through a vacuum; they transmit across borders, raising risk premia in countries where US financial interlinkages are strong (O. Akinci et al., 2022). The critical intermediary in this process is the dynamic interconnectedness of equity markets, the financial spillovers that see a shock on Wall Street rapidly reverberate across emerging markets. The measure of US equity spillovers captures the dynamic, country-specific intensity with which US financial shocks transmit to emerging markets, accounting for both the exogenous shock itself and heterogeneous market receptivity

The existing literature leaves a pivotal question unanswered: Do equity market spillovers themselves act as a direct, independent channel driving capital flows, beyond their correlation with broader push factors? While spillovers are often implicitly acknowledged and their determinants are widely studied, their explicit role in capital movements remains underexplored. Is it merely that US uncertainty and monetary policy cause both spillovers and capital flows independently, or do spillovers constitute the very pathway through which these global shocks are translated into portfolio decisions?

This paper investigates this spillover channel directly. We move beyond the established push-pull dichotomy to argue that time-varying financial market interconnectedness is not a passive indicator of global shocks but an active medium for capital flow transmission. Utilizing a dynamic measure of spillovers from US to emerging equity markets, we test whether the intensity of shock spillovers from one market to another have significant predictive power for subsequent capital flows, even after controlling for a comprehensive set of established push and pull factors. Furthermore, we examine whether this channel effects all EMs equally, or including the country-specific controls such as financial integration or a institutional quality is a pre-requisite, which must exist for the exogenous shocks to have an effect on capital flows, as evidenced by previous literature(see Cerutti, Claessens, & Puy, 2019; Fratzscher, 2012; Julio & Yook, 2016; Milesi-Ferretti & Tille, 2011).

Our findings confirm that US equity spillovers are a statistically and economically significant predictor of capital flows, particularly those specifically from the US to emerging markets. By pinpointing spillovers as a key transmission mechanism, this research provides a more in-depth understanding of the financial pipeline that connects US financial conditions to capital flow dynamics, offering valuable insights for policymakers seeking to manage the double-edged sword of global financial integration.

Literature Review

1. The Dominance of Global Financial Cycles and the Search for Transmission Channels

The integration of emerging markets (EMs) into the global financial system has made them vulnerable to waves of capital flows, largely dictated by external "push" factors. A robust consensus confirms that global risk appetite, largely shaped by US monetary policy, is the primary driver of these flows (Davis et al., 2021; Forbes & Warnock, 2012; Koepke, 2019; (Chari et al., 2021). This phenomenon, often termed the Global Financial Cycle, underscores the limited insulation available to EMs. However, while the existence of these powerful global drivers is well-established, a critical question remains: through what specific channels are these global shocks transmitted to individual emerging economies?

Early literature points that idiosyncratic factors play a role in determining the sensitivity of capital flows to global shocks (Cerutti, Claessens, & Puy, 2019; Fratzscher, 2012; Julio & Yook, 2016; Milesi-Ferretti & Tille, 2011). (Cerutti, Claessens, & Puy, 2019; Milesi-Ferretti & Tille, 2011) shows that countries integration with global financial system effects its sensitivity to

global factors. (Julio & Yook, 2016) find that high institutional quality softens the effect of political uncertainty on Foreign Direct Investment. (Fratzscher, 2012) demonstrates that the influence of global factors on capital flows is moderated by the quality of a recipient country's political institutions. This suggests that the impact of spillovers on capital flows is likely conditional on the financial integration and institutional environment of the recipient country, a nuance often missing from aggregate analyses. It is necessary to control for such domestic and heterogenous factors as studies like (Cerutti, Claessens, & Rose, 2019) which omit country-level controls, find that global factors have only a weak unconditional effect on capital flows. When domestic conditions are not accounted for, the heterogeneous and often offsetting responses across countries can mask the true influence of global shocks, which becomes apparent only when pull factors are properly controlled for. This suggests that the intensity of spillovers is not uniform but varies according to a country's financial and institutional connections to the global core.

2. US Policy and Uncertainty as a Central Shock Generator

Within the category of global push factors, the United States plays an outsized role. A growing body of evidence identifies US monetary policy and economic uncertainty as potent shock generators with immediate international repercussions. Chari et al. (2017) demonstrate that US monetary policy shocks have "sizable effects" on US holdings of EM assets, with the impact being disproportionately large during the "tapering" period, highlighting the time-varying nature of this transmission.

Beyond interest rates, US uncertainty itself is a critical export. Akinci et al. (2022) show that an exogenous increase in U.S.-specific uncertainty transmits to higher risk premia in countries where US financial holdings are large. This risk channel is complemented by a flow channel, where US Economic Policy Uncertainty (EPU) significantly alters the probability of extreme capital flow episodes such as sudden stops and retrenchment in EMs (Du et al., 2025). The transmission of US uncertainty is so potent that it negatively impacts stock returns not only domestically but also in major markets across Europe, China, and Japan (Chiang, 2020).

3. The Essential Role of Financial Market Spillovers

This is where the concept of financial market spillovers becomes central. While the literature has established that US shocks create the disturbance, and that capital flows in EMs react, the intermediary step, the real-time, high-frequency transmission of shocks through interconnected equity markets, has become a critical field of study. The transmission is not merely a correlation

but a causal chain. US uncertainty and policy shocks alter the risk-return profile of US assets, which then rapidly spill over to EM equity markets through co-movement and contagion, ultimately triggering portfolio rebalancing and capital flow decisions by global investors.

This spillover channel helps explain several observed phenomena. It provides a mechanism for the "flight-to-safety" effect, where rising global uncertainty (Zhang & Chen, 2025) or geopolitical risk (Agoraki et al., 2024) causes capital to retreat from risky EM assets.

It elucidates why the effects of US monetary policy are "largest for emerging equity markets relative to fixed income markets" (Chari et al., 2017), as equities are typically more sensitive to risk and sentiment shifts transmitted through spillovers.

It offers a micro-level transmission pathway for the macro-level findings that uncertainty drives "abnormal cross-border capital flows" (Deng et al., 2023).

4. The Moderating Role of Domestic Institutions and the Endogeneity Challenge

The reception of these global spillovers is not uniform across EMs. Domestic "pull" factors, particularly institutional quality, act as crucial moderators. Countries with stronger institutions, such as robust governance and regulatory frameworks, are better equipped to absorb these external shocks, as evidenced by (Fratzscher, 2012; Julio & Yook, 2016). (Julio & Yook, 2016) find that high institutional quality mitigates the deterring effect of political uncertainty on Foreign Direct Investment. (Fratzscher, 2012) shows that quality of political institution is associated with higher flows. This suggests that the impact of spillovers on capital flows is likely conditional on the institutional environment of the recipient country, a nuance often missing from aggregate analyses.

Furthermore, studying this transmission is complicated by endogeneity. The relationship between spillovers and flows is likely bidirectional; while spillovers may drive flows, the magnitude of future spillovers might itself be influenced by the level and volatility of past capital flows, creating a complex, dynamic feedback loop.

5. Gap and Contribution

The existing literature has thus firmly established three key pillars. 1) Global Shocks Originate from the core country making US shocks such as monetary policy and uncertainty the primary drivers of global financial conditions. 2) Capital Flows react to the global shocks, and these shocks lead to volatile and often disruptive capital flow episodes in EMs. 3) Institutional quality and domestic conditions determine how vulnerable a country is to the global shocks.

However, a critical gap exists in directly and dynamically linking the transmission mechanism between these pillars. While spillovers are acknowledged, few studies explicitly model how time-varying equity market spillovers themselves act as a primary channel through which US shocks are transmitted to capital flows, and how this relationship is shaped by domestic financial openness and institutional quality.

This paper seeks to fill this gap. Moving beyond the established push-pull dichotomy, this paper investigates whether and how real-time financial market spillovers from the US to EM equities serve as a direct transmission channel for capital flows. This paper has two central hypotheses:

H1: The intensity of US-to-EM equity market spillovers has a significant, independent effect on subsequent capital flows to emerging markets, even after controlling for traditional push and pull factors.

H2**:** The sensitivity of capital flows to these spillovers is conditional on domestic institutional quality, with stronger governance and more managed capital accounts acting as buffers that dampen the transmission.

By testing these hypotheses, this research aims to provide a more nuanced understanding of the financial pipelines that connect US financial conditions to capital flow dynamics in emerging markets.

Data and Methodology

This study utilizes data from a range of standard international sources. Daily stock returns, sourced from MSCI country indices, are aggregated to a monthly frequency. Data on Equity flows from US to emerging markets and from emerging markets to US is obtained from Treasury International Capital (TIC) System website, and net cross-border equity flows to emerging markets is obtained from the Institute of International Finance (IIF). The monetary policy shock data is from (Bauer & Swanson, 2023), available at Federal Reserve Bank of San Francisco. The data for calculation of Quantitative easing/tightening shock is also collected from the same source. The 10-year t-note yield changes that are used for the calculation of Quantitative easing/tightening shock are also collected from (Bauer & Swanson, 2023) over a 30-minute window around FOMC announcement are regressed on orthogonalized monetary policy shock series by (Bauer & Swanson, 2023), to separate the effect of monetary policy shock from quantitative easing/tightening shock. To account for the effect of unconventional monetary policy, a simplified two-factor identification strategy is employed

(Gurkaynak et al., 2005). There are two main limitations of this single-factor approach is that the Quantitative easing/tightening shock might be contaminated by the influence of other monetary factors and non-monetary noise. Given that quantitative easing/tightening shock is the not the primary focus of this paper, this identification technique is sufficient for the analysis. Global financial cycle data is from (Miranda-Agrippino & Rey, 2020)

Country-specific macroeconomic variables, including policy rates, exchange rates, and trade balances, are sourced from LSEG, while broader country characteristics such as GDP, inflation, market capitalization, World governance indicators are drawn from the World Bank's database. Market velocity and capitalization data is obtained from World federation of Exchanges. The updated capital account openness and intensity measures are from (Chinn & Ito, 2006) and (Quinn & Toyoda, 2008). The analysis employs a comprehensive monthly dataset spanning from 2000 to 2024 for 31 emerging markets. The variables can be categorized into three groups: country-specific financial and macroeconomic indicators i.e the pull factors, external (US) financial conditions i.e the push factors, and the core spillover measures that are the focus of this study.

The risk premium is measured as the difference between equity returns and treasury yield. And the premium spread is the difference between the emerging market's risk premium and the US risk premium. The detail of each variable is provided in appendix A. The descriptive statistics for the main variables are provided in Appendix C and D.

Spillovers Measure

The core dependent variables, the dynamic spillovers from United States Equity market to emerging countries' stock market are calculated using the Time-Varying Parameter Vector Autoregression (TVP-VAR) connectedness approach developed by (Antonakakis et al., 2020). While Diebold and Yilmaz index, introduced by (Diebold & Yilmaz, 2009; Diebold & Yılmaz, 2012, 2014) is widely used in literature to capture spillover dynamics; TVP-VAR is a more advanced variation of the DY index, which replaces the rolling-window VAR method with a time-varying variance-covariance construct. TVP-VAR shows better performance in capturing structural changes due to crisis and thus is a better choice over the traditional DY index, especially when dealing with a long-time frame. (Korobilis & Yilmaz, 2018) give evidence of TVP-VAR's dominance over the older DY spillover calculation methods.

Unlike rolling correlations or constant parameter approaches, TVP-VAR spillovers capture the time-varying nature of financial market integration while distinguishing directional

transmission. This is particularly crucial given the structural breaks in financial markets during our sample period, including the global financial crisis, quantitative easing programs, and the COVID-19 pandemic. The spillovers variable specifically measures the proportion of forecast error variance in emerging market equity returns attributable to US market shocks, providing a dynamic, model-based measure of financial interconnectedness that adapts to changing market regimes. The spillovers measure evolves over time (not constant), shows direction, not just correlation, accounts for complex dynamics (multiple lags, changing volatility) and captures structural breaks automatically.

For each country i, a bivariate TVP-VAR model is estimated using daily return series of country *i* and a corresponding US equity return index *j*. The focus is specifically on the "FROM" spillover, i.e., the time-varying contribution of US equity returns shocks to the return variance of country *i*. This approach captures the evolving direction and intensity of external spillovers without requiring orthogonalization of shocks, making it robust to ordering.

A two-variable TVP-VAR model is specified as:

$$Y_t = \Phi_{1,t} Y_{t-1} + \Phi_{2,t} Y_{t-2} + \Phi_{3,t} Y_{t-3} + \Phi_{4,t} Y_{t-4} + \Phi_{5,t} Y_{t-5} + \varepsilon_t$$

$$Y_t = \begin{pmatrix} y_{1,t} \\ y_{2,t} \end{pmatrix}$$

$$\varepsilon_t \sim N(0, \Sigma_{\varepsilon,t})$$

(1)

where, Y is a vector of stock returns, $y_{1,t}$ is the US index of stock return, $y_{2,t}$ is the stock returns of country i, Φ1,t,…, Φ5,t are coefficient matrices. The parameters Φk,t evolve according to a Random Walk process, εt is a vector of innovations with mean = 0 and covariance matrix = Σε,t which captures the time-varying variances and covariances of the residuals (shocks). The time-varying parameter vector moving average (TVP-VMA) representation of the model, which is required to compute the time-varying generalized forecast error variance decomposition (GFEVD), which forms the basis for the dynamic spillover index, is given by:

$$Y_t = \sum_{k=0}^{\infty} A_{k,t} \varepsilon_{t-k}$$

(2)

where A0,t=I and the subsequent time-varying matrices Ak,t are derived recursively from the TVP-VAR coefficient matrices Φk,t. These matrices describe how shocks propagate through the stock markets at each point in time.

The H-step ahead forecast error is calculated as

$$\xi_t(H) = \sum_{k=0}^{H-1} A_{k,t}\, \varepsilon_{t+H-k} \tag{3}$$

where ξt(H) is the forecast error in predicting Yt+H . Ak,t are the time-varying moving average coefficient matrices and εt+H-k are future shocks.

The contribution of shocks in US index j to the forecast error variance of country i at time t is calculated as a proportion of the total forecast error variance of i at time t. This yields the time-varying generalized “FROM” spillover:

$$\text{GFEVD}_{ij,t}(\text{H}) = \frac{\sigma_{jj,t}^{-1} \sum_{k=0}^{H-1} (e_i' A_{k,t} \Sigma_{\varepsilon,t} e_j)^2}{\sum_{k=0}^{H-1} (e_i' A_{k,t} \Sigma_{\varepsilon,t} A_{k,t}' e_{i)}} \tag{4}$$

where σjj,t is the time-varying variance of shock to US returns index j, ei and ej are selection vectors for country i (response) and US returns index j (source), respectively. The numerator gives the variance contribution from variable j to variable i’s forecast error at horizon H and time t. The denominator gives the total forecast error variance of variable i at horizon H and time t.

We use the normalized GFEVD to compute the time-varying "FROM" spillover, which is defined as:

$$\widetilde{\phi_{ij,t}^{g}}(H) = \frac{GFEVD_{ij,t}(H)}{\sum_{j=1}^{2} GFEVD_{ij,t}(H)} x100$$

Where $\text{GFEVD}_{ij,t}(\text{H})$ is the un-normalized contribution of variable *j* to the variance of variable *i’s* H-step ahead forecast error, and the normalization ensures the row sum for each variable equals 100%. This yields the time-varying generalized "FROM" spillover percentage.

Quantitative Easing and Tightening Shock

The 10-year t-note yield changes that are used for the calculation of Quantitative easing/tightening shock, obtained from (Bauer & Swanson, 2023), over a 30-minute window around FOMC announcement are regressed on orthogonalized monetary policy shock series by (Bauer & Swanson, 2023), to separate the effect of monetary policy shock from quantitative easing/tightening shock. To account for the effect of unconventional monetary policy, a simplified two-factor identification strategy is employed (Gurkaynak et al., 2005). There are two main limitations of this single-factor approach is that the Quantitative easing/tightening shock might be contaminated by the influence of other monetary factors and non-monetary noise. Given that quantitative easing/tightening shock is the not the primary focus of this paper, this identification technique is sufficient for the analysis.

Findings

Table 1 presents the baseline fixed-effects regression results. Columns 1–3 estimate a parsimonious specification containing only global 'push' factors: US equity spillovers, the VIX, US economic policy uncertainty, and US equity returns. Columns 4–6 introduce the Chinn-Ito index of capital account openness as a key time-varying, country-specific control.

The results reveal a crucial methodological insight. When estimated in isolation (Columns 1–3), the unconditional effect of contemporaneous US equity spillovers is statistically insignificant for US-targeted flows and total equity flows. This finding aligns with the evidence in Cerutti et al. (2019), who demonstrate that common global factors alone explain a very small share of capital flow variation. The low within R^2 values (0.016 to 0.033) in these columns underscore this point.

However, the relationship changes markedly when the heterogeneity in financial integration is accounted for. In Columns 4–6, which include capital account openness, the coefficient on US equity spillovers becomes positive and statistically significant across all three flow measures. This pattern indicates that capital account openness acts as a critical confounder. Its omission biases the estimated spillover effect toward zero, masking a transmission channel that is conditional on a recipient country's financial openness.

The comparison across specifications delivers our first core finding: US equity market spillovers constitute a significant independent channel for capital flows, but this channel is only identifiable after controlling for differences in countries' financial integration. This result

provides empirical support for the theoretical priors established in earlier literature (Cerutti, Claessens, & Puy, 2019; Fratzscher, 2012), which argues that the influence of global factors is moderated by recipient-country characteristics.

The dynamic panel specifications in Table 2 reveal strong persistence in capital flows, with lagged flows significantly predicting current flows in most specifications. Despite controlling for this persistence, US equity market spillovers remain statistically significant predictors of capital flows to emerging markets. The improved model fit (R-squared increases substantially compared to Table 1) suggests that accounting for lagged flows is important for understanding the determinants of capital movements. The consistent significance of US economic policy uncertainty across all specifications highlights the importance of US policy conditions for emerging market capital flows.

Table 3 presents results using lagged US equity spillovers to address potential reverse causality concerns. The significant positive coefficients on lagged spillovers across all three flow measures indicate that US equity market spillovers have persistent effects on emerging market capital flows. The fact that lagged spillovers remain statistically significant, with magnitudes comparable to the contemporaneous effects in Table 1, strengthens the causal interpretation that spillovers drive capital flows rather than vice versa. The strongest effect is observed for total net equity flows (Column 3), where a one standard deviation increase in lagged US equity spillovers is associated with a 0.000409 increase in total capital flows as a percentage of GDP to emerging markets.

Table 4 presents comprehensive specifications including both “push” and “pull” factors identified in the literature. Despite the reduced sample size due to data availability, US equity spillovers remain statistically significant predictors of US-specific capital flows to emerging markets (Columns 1-2). However, spillovers lose significance for total capital flows (Column 3), suggesting that the spillover channel may be specific to US investors rather than global investors more broadly. Among control variables, US economic policy uncertainty and QE/QT shocks consistently negatively predict flows, while emerging market GDP growth emerges as the most robust pull factor. The improved model fit, particularly for total flows (R-squared = 0.0987), indicates these factors collectively explain a substantial portion of capital flow variation.

Table 5 presents results using lagged values for all emerging market-specific variables i.e the “pull” variables, to address potential reverse causality concerns as used by (Chari et al., 2021).

Lagged US equity spillovers remain statistically significant predictors of US-specific capital flows to emerging markets, with coefficients similar in magnitude to the contemporaneous specifications. This strengthens the causal interpretation that spillovers drive capital flows rather than vice versa. The consistency of results across specifications with different timing assumptions demonstrates the robustness of our main finding.

Table 6 presents results using alternative variable specifications to address potential multicollinearity concerns. The substitution of highly correlated variables (see appendix B) does not qualitatively alter our core findings: replacing economic policy uncertainty with global financial cycle by (Miranda-Agrippino & Rey, 2020), US policy rate levels with changes, and risk premium spreads with EM equity returns. The correlations matrix for these highly correlated variables in given in appendix B. The high correlation between US policy rate levels and changes (0.901) and between risk premium spreads and EM equity returns (0.859) justifies their substitution across specifications to mitigate multicollinearity concerns. The moderate correlation between US economic policy uncertainty and the global financial crisis dummy (-0.619) reflects their conceptual relationship as global risk measures. These substitutions in Table 7 demonstrate that our core results are robust to alternative variable definitions. In addition, 2 new pull factors are added to the specification. Lagged US equity spillovers remain statistically significant predictors of US-specific capital flows, demonstrating the robustness of the main results to alternative model specifications.

Our final specification in Table 7 demonstrates that US equity spillovers significantly predict capital flows across all three measures, with particularly strong effects for US-specific flows (0.000299, $p<0.01$ for net flows). The results reveal important asymmetries: spillovers have stronger impacts on targeted US-EM flows than on total flows to emerging markets. Global factors consistently drive capital movements, with QE shocks reducing flows (particularly US-specific ones), US economic policy uncertainty exerting negative pressure across all specifications, and US equity returns strongly attracting total flows. Among domestic factors, GDP growth emerges as the most robust pull factor, while capital account openness shows contrasting effects by significantly reducing US flows but positively (though insignificantly) associated with total flows. This pattern suggests that while financial openness may dampen bilateral US-EM financial connections, it facilitates broader global capital integration.

The contrasting effects of capital account openness is negatively associated with bilateral US flows but positively (though insignificantly) with total flows, suggesting that financial

openness may influence the composition rather than the aggregate volume of capital integration. Specifically, while greater openness may dilute bilateral US-EM financial connections by enabling diversification, it simultaneously facilitates broader global capital market integration.

Our robustness checks in Tables 8 and 9 examine the relationship between US equity spillovers and capital flows under alternative institutional controls. Spillover effects remain statistically significant when controlling for Government Effectiveness ($p<0.10$ for purchases, $p<0.05$ for flows) and Regulatory Quality ($p<0.05$ for flows). However, they become statistically insignificant when using the Quinn-Toyoda de facto capital account restrictions index. This pattern suggests that spillover transmission is sensitive to the choice of institutional proxy rather than operating exclusively through any specific institutional dimension. The loss of significance with the capital restrictions index may reflect either measurement differences or the possibility that de jure openness (captured by the Chinn-Ito index) matters more for spillover transmission than de facto restrictions.

Importantly, the stability of other key determinants across specifications, including consistently negative effects of QE shocks and positive effects of US equity returns, strengthens the credibility of the core model. The institutional controls themselves generally show limited direct explanatory power, suggesting they act primarily as confounding controls rather than independent drivers or systematic moderators of spillover effects in equity markets.

The statistical significance of the US equity spillover variable indicates that interconnectedness between US and emerging market equity markets represents a fundamental channel for international capital flow transmission. Specifically, a one standard deviation increase in spillovers from US to emerging market equities predicts an increase of 0.0189%-0.0299% in capital flows relative to GDP, depending on the flow measure. This finding substantiates that financial market spillovers are not merely statistical artifacts but actively influence investor allocation decisions. The transmission likely operates through multiple mechanisms: as US market shocks propagate to emerging markets, they reshape global risk perceptions, alter return expectations, and trigger portfolio rebalancing that manifests in measurable capital flows. The stronger effects for US-specific flows versus total flows further suggests that US investors are particularly responsive to these cross-market linkages, highlighting the dominant role of US financial conditions in global capital allocation decisions.

Discussion

The empirical findings reveal a crucial conditional relationship where the US financial spillover significantly drives equity flows into emerging markets (EMs), but only when financial openness or institutional quality are added as the confounders. Specifically, the analysis shows that a higher US spillover index is associated with significantly higher EM equity flows, a result that holds for both contemporaneous and lagged effects. This positive correlation suggests that the calculated spillover index, in the context of global financial assets, primarily captures the transmission of an expansionary, 'risk-on' shock originating in the US (e.g., accommodative monetary policy or reduced global uncertainty). This external push triggers the well-documented 'search for yield' behaviour, prompting investors to reallocate capital from lower-yielding US safe assets toward higher-yielding EM equities.

The pattern of results highlights the confounding role of financial integration and institutional variables rather than a strictly conditional relationship. The results suggest institutional measures act as omitted variables whose inclusion corrects bias in the spillover coefficient rather than moderating its effect. That is, spillovers correlate with financial openness and institutional quality; failing to control for these factors masks the true spillover effect. This explains why the coefficient gains significance once capital account openness or broad institutional indicators are included.

The limited significance of institutional variables as independent predictors, and their inability to consistently moderate spillover effects, suggests that for equity investors in our sample, US financial conditions operate alongside, rather than through, institutional channels. This contrasts with credit- or banking-flow models (e.g. (Ö. Akinci & Queralto, 2024)), where institutional and legal frictions directly amplify balance-sheet vulnerabilities. In equity markets, the transmission appears more direct, relying on cross-market correlations and global risk sentiment, with domestic institutions playing a secondary role in attracting or retaining flows.

Table 1: Impact of US Equity Spillovers on Emerging Market Capital Flows

Variable	(1) US Net Purchases	(2) US Net Flows	(3) Total Net Equity Flows	(4) US Net Purchases	(5) US Net Flows	(6) Total Net Flows
US Equity Spillovers	0.000083 (0.000066)	0.000146* (0.000084)	0.000026 (0.000333)	0.000123** (0.000061)	0.000194** (0.000084)	0.000339** (0.000133)
VIX	-0.000069** (0.000031)	-0.000109* (0.000057)	-0.000201* (0.000111)	-0.000065** (0.000031)	-0.000111* (0.000058)	-0.000265** (0.000112)
US Economic Policy Uncertainty	-0.000307** (0.000123)	-0.000436*** (0.000162)	-0.000620*** (0.000231)	- 0.000188*** (0.000047)	- 0.000316*** (0.000109)	- 0.000439*** (0.000162)
US Equity Returns	0.000131*** (0.000048)	0.000138 (0.000083)	0.001041** (0.000478)	0.000091*** (0.000031)	0.000074 (0.000059)	0.000573*** (0.000190)
Capital Account Openness	—	—	—	-0.000144 (0.000109)	-0.000374* (0.000220)	0.000004 (0.000432)
Constant	0.000225 (0.000134)	0.000077 (0.000147)	0.000777*** (0.000194)	0.000077 (0.000052)	-0.000107 (0.000099)	0.000685*** (0.000171)
Observations	5,713	5,644	6,743	5,311	5,242	6,296
R-squared (Within)	0.0161	0.0180	0.0334	0.0246	0.0197	0.0232
Number of Countries	25	25	33	23	23	31

*This table presents fixed-effects regression results with bootstrap standard errors (1,000 replications) in parentheses. The dependent variables are: (1) Net US purchases of EM equity scaled by EM GDP; (2) Net equity flows from US to EMs scaled by EM GDP; (3) Total net equity flows to EMs from all countries scaled by EM GDP. All variables are standardized according to z-score standardization. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

Table 2: Dynamic Panel Regression Results - Impact of US Equity Spillovers on Emerging Market Capital Flows

Variable	(1) US Net Purchases	(2) US Net Flows	(3) Total Net Flows
US Equity Spillovers	0.000094* (0.000049)	0.000156** (0.000070)	0.000283** (0.000131)
VIX	-0.000040 (0.000025)	-0.000084* (0.000050)	-0.000202 (0.000135)
US Economic Policy Uncertainty	-0.000147*** (0.000038)	-0.000247*** (0.000083)	-0.000388*** (0.000125)
US Equity Returns	0.000100*** (0.000032)	0.000090 (0.000058)	0.000600*** (0.000206)
Capital Account Openness	-0.000110 (0.000086)	-0.000298* (0.000175)	0.000010 (0.000416)
Lagged Dependent Variable	0.218824*** (0.031148)	0.208405*** (0.041445)	0.123265 (0.085093)
Constant	0.000061 (0.000040)	-0.000086 (0.000081)	0.000593*** (0.000155)
Observations	5,286	5,219	6,271
R-squared (Within)	0.0711	0.0609	0.0382
Number of Countries	23	23	31

*This table presents dynamic fixed-effects regression results with bootstrap standard errors (1,000 replications) in parentheses. The dependent variables are: (1) Net US purchases of EM equity scaled by EM GDP; (2) Net equity flows from US to EMs; (3) Total net equity flows to EMs from all countries. All independent variables are standardized. The lagged dependent variable controls for persistence in capital flows. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

Table 3: Lagged Spillover Effects - Impact of US Equity Spillovers on Emerging Market Capital Flows

Variable	(1) US Net Purchases	(2) US Net Flows	(3) Total Net Flows
Lagged US Equity Spillovers	0.000115** (0.000056)	0.000172** (0.000078)	0.000409*** (0.000124)
VIX	-0.000059* (0.000033)	-0.000099* (0.000056)	-0.000271*** (0.000102)
US Economic Policy Uncertainty	-0.000188*** (0.000047)	-0.000317*** (0.000111)	-0.000440*** (0.000158)
US Equity Returns	0.000087*** (0.000031)	0.000067 (0.000060)	0.000554*** (0.000195)
Capital Account Openness	-0.000143 (0.000116)	-0.000375 (0.000229)	0.000008 (0.000421)
Constant	0.000079 (0.000055)	-0.000100 (0.000096)	0.000683*** (0.000160)
Observations	5,293	5,224	6,285
R-squared (Within)	0.0243	0.0193	0.0240
Number of Countries	23	23	31

*This table presents fixed-effects regression results with bootstrap standard errors (1,000 replications) in parentheses. The dependent variables are: (1) Net US purchases of EM equity scaled by EM GDP; (2) Net equity flows from US to EMs; (3) Total net equity flows to EMs from all countries. All independent variables are standardized. The main variable of interest is the one-period lag of US equity spillovers. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

Table 4: Comprehensive Model - Impact of US Equity Spillovers with Push and Pull Factors

Variable	(1) US Net Purchases	(2) US Net Flows	(3) Total Net Flows
A. Spillover Variable			
US Equity Spillovers	0.000181*** (0.000059)	0.000386** (0.000173)	0.000171 (0.000178)
B. Push Factors (Global)			
US Monetary Policy Shocks	-0.000007 (0.000039)	-0.000100 (0.000104)	-0.000010 (0.000092)
QE/QT Shocks	-0.000068** (0.000032)	-0.000105** (0.000050)	-0.000118 (0.000094)
VIX	-0.000052 (0.000068)	-0.000177 (0.000148)	-0.000286* (0.000163)
US Economic Policy Uncertainty	-0.000178*** (0.000067)	-0.000394*** (0.000146)	-0.000384 (0.000250)
Inflation US	-0.000034 (0.000043)	0.000038 (0.000068)	-0.000024 (0.000147)
US Policy Rate	-0.000072 (0.000059)	-0.000165 (0.000105)	-0.000332 (0.000240)
US Equity Returns	0.000103** (0.000048)	0.000018 (0.000105)	0.000979*** (0.000248)
C. Pull Factors (EM-Specific)			
FX Returns	0.000029 (0.000142)	0.000227 (0.000210)	-0.000500 (0.000430)
Interest Rate Differential	0.000170 (0.000157)	0.000163 (0.000166)	0.000404 (0.000532)
GDP Growth	0.000198*** (0.000064)	0.000209*** (0.000078)	0.000144 (0.000134)
EM Equity Volatility	-0.000112 (0.000070)	-0.000148 (0.000103)	-0.000164 (0.000219)
Policy Rate Changes	0.000008 (0.000029)	0.000005 (0.000033)	0.000060 (0.000083)
Money Velocity	-0.000059 (0.000174)	-0.000048 (0.000390)	-0.000064 (0.000278)
Market Cap/GDP	0.000079 (0.001527)	-0.000507 (0.002468)	-0.000023 (0.003405)

Capital Account Openness	-0.000056 (0.000193)	-0.000564 (0.000346)	0.000052 (0.000393)
Risk Premium Spread	0.000067** (0.000029)	-0.000019 (0.000073)	0.001237*** (0.000368)
Constant	0.000061 (0.000386)	-0.000317 (0.000626)	0.000666 (0.000830)
Fixed effects	Yes	Yes	Yes
Observations	3,137	3,115	3,341
R-squared (Within)	0.0409	0.0343	0.0987
Number of Countries	18	17	19

*This table presents fixed-effects regression results with bootstrap standard errors in parentheses. The dependent variables are: (1) Net US purchases of EM equity scaled by EM GDP; (2) Net equity flows from US to EMs; (3) Total net equity flows to EMs from all countries. All variables are standardized. Push factors represent global conditions affecting all EMs; pull factors represent EM-specific characteristics. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

Table 5: Lagged Pull Factors Specification - Impact of US Equity Spillovers on Emerging Market Capital Flows

Variable	US Net Purchases	US Net Flows	Total Net Flows
A. Spillover Variable			
Lagged US Equity Spillovers	0.000187*** (0.000060)	0.000331** (0.000150)	0.000261 (0.000173)
B. Push Factors (Global)			
US Monetary Policy Shocks	-0.000020 (0.000035)	-0.000104 (0.000099)	-0.000182*** (0.000060)
QE/QT Shocks	-0.000063* (0.000035)	-0.000104** (0.000044)	-0.000059 (0.000083)
VIX	-0.000055 (0.000078)	-0.000129 (0.000152)	-0.000398** (0.000193)
US Economic Policy Uncertainty	-0.000184** (0.000072)	-0.000425*** (0.000147)	-0.000411 (0.000258)
Inflation	-0.000039 (0.000052)	0.000017 (0.000058)	-0.000034 (0.000134)
US Policy Rate	-0.000073 (0.000059)	-0.000177* (0.000099)	-0.000247 (0.000258)
US Equity Returns	0.000109** (0.000049)	0.000016 (0.000096)	0.000948*** (0.000249)
C. Pull Factors (Lagged EM-Specific)			
Lagged FX Returns	0.000112 (0.000108)	0.000041 (0.000216)	-0.000259 (0.000373)
Lagged Interest Rate Differential	0.000164 (0.000172)	0.000119 (0.000160)	0.000516 (0.000541)
Lagged GDP Growth	0.000186*** (0.000064)	0.000125 (0.000077)	0.000023 (0.000129)

Lagged EM Equity Volatility	-0.000107 (0.000089)	-0.000155 (0.000102)	0.000015 (0.000172)
Lagged Policy Rate Changes	0.000013 (0.000029)	0.000078 (0.000149)	0.000088 (0.000096)
Lagged Money Velocity	-0.000063 (0.000191)	-0.000021 (0.000436)	-0.000136 (0.000354)
Lagged Market Cap/GDP	0.000021 (0.001240)	-0.000342 (0.002336)	-0.000008 (0.004031)
Lagged Risk Premium Spread	0.000067 (0.000054)	0.000020 (0.000071)	0.000377 (0.000150)**
Lagged Capital Account Openness	-0.000059 (0.000209)	-0.000556 (0.000365)	0.000105 (0.000378)
Constant	0.000046 (0.000308)	-0.000268 (0.000609)	0.000672 (0.000930)
Observations	3,123	3,101	3,332
R-squared (Within)	0.0400	0.0327	0.0627
Number of Countries	18	17	19

*This table presents fixed-effects regression results with bootstrap standard errors in parentheses. The dependent variables are: (1) Net US purchases of EM equity scaled by EM GDP; (2) Net equity flows from US to EMs; (3) Total net equity flows to EMs from all countries. All EM-specific (pull) factors are lagged one period to address reverse causality. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

Table 6: Alternative specification - Impact of US Equity Spillovers on Capital Flows

Variable	(1) US Net Purchases	(2) US Net Flows	(3) Total Net Flows
A. Spillover Effects			
Lagged US Equity Spillovers	0.000175*** (0.000067)	0.000256** (0.000107)	0.000235 (0.000157)
B. Push Factors (Global)			
US Monetary Policy Shocks	-0.000027 (0.000029)	-0.000096 (0.000079)	-0.000213** (0.000087)
QE/QT Shocks	-0.000054** (0.000025)	-0.000094*** (0.000035)	-0.000023 (0.000060)
VIX	-0.000137** (0.000054)	-0.000292** (0.000142)	-0.000318 (0.000198)
Global Financial Crisis Dummy	0.000089** (0.000043)	0.000152** (0.000076)	0.000070 (0.000313)
US Inflation	-0.000039 (0.000033)	-0.000024 (0.000046)	0.000056 (0.000099)
US Policy Rate Changes	-0.000028 (0.000026)	-0.000130** (0.000066)	0.000008 (0.000111)
US Equity Returns	0.000065* (0.000038)	-0.000018 (0.000092)	0.000694*** (0.000210)
C. Pull Factors (Lagged EM-Specific)			
Lagged FX Returns	0.000001 (0.000058)	-0.000013 (0.000099)	0.000009 (0.000179)
Lagged Interest Rate Differential	0.000128 (0.000105)	0.000085 (0.000157)	0.000631* (0.000343)
Lagged GDP Growth	0.000164*** (0.000047)	0.000220*** (0.000066)	0.000249* (0.000137)
Lagged EM Equity Volatility	-0.000016 (0.000051)	-0.000001 (0.000048)	0.000004 (0.000091)
Lagged EM Equity Returns	0.000044 (0.000039)	0.000032 (0.000042)	0.000402*** (0.000131)

Lagged Capital Account Openness	-0.000056 (0.000184)	-0.000477 (0.000345)	0.000156 (0.000425)
Lagged Trade Balance/GDP	0.000188 (0.000146)	-0.000421 (0.000265)	0.000975 (0.000659)
Lagged CPI	0.000030 (0.000062)	-0.000009 (0.000126)	0.000013 (0.000166)
Constant	0.000114 (0.000110)	0.000121 (0.000187)	0.000555** (0.000275)
Model Statistics			
Observations	4,094	4,072	4,691
R-squared (Within)	0.0307	0.0225	0.0396
Number of Countries	20	20	25

*This table presents comprehensive fixed-effects regression results with bootstrap standard errors in parentheses. The dependent variables are: (1) Net US purchases of EM equity scaled by EM GDP; (2) Net equity flows from US to EMs; (3) Total net equity flows to EMs from all countries. All EM-specific variables are lagged one period. New controls include trade balance/GDP and CPI. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

Table 7: Final Specification - Impact of US Equity Spillovers on Emerging Market Capital Flows

Variable	(1) US Net Purchases	(2) US Net Flows	(3) Total Net Flows
A. Spillover Effects			
Lagged US Equity Spillovers	0.000189** (0.000073)	0.000299*** (0.000110)	0.000250* (0.000149)
B. Push Factors (Global)			
QE/QT Shocks	-0.000057** (0.000025)	-0.000088*** (0.000032)	-0.000059 (0.000053)
VIX	-0.000077* (0.000042)	-0.000136* (0.000079)	-0.000149 (0.000133)
US Economic Policy Uncertainty	-0.000181*** (0.000059)	-0.000365*** (0.000131)	-0.000366* (0.000199)
US Equity Returns	0.000095*** (0.000036)	0.000074 (0.000064)	0.000792*** (0.000222)
C. Pull Factors (Lagged EM-Specific)			
Lagged Interest Rate Differential	0.000114 (0.000100)	0.000199 (0.000125)	0.000446 (0.000376)
Lagged GDP Growth	0.000114** (0.000046)	0.000103* (0.000055)	0.000246* (0.000140)
Lagged EM Equity Volatility	-0.000027 (0.000047)	-0.000061 (0.000067)	0.000025 (0.000071)
Lagged EM Equity Returns	0.000025 (0.000038)	-0.000006 (0.000041)	0.000484*** (0.000113)
Lagged Capital Account Openness	-0.000107 (0.000172)	-0.000548** (0.000279)	0.000327 (0.000523)
Lagged Trade Balance/GDP	0.000169 (0.000149)	-0.000353 (0.000218)	0.000818 (0.000639)
Constant	0.000054 (0.000083)	-0.000117 (0.000138)	0.000665*** (0.000222)
Model Statistics			
Observations	4,184	4,162	4,738
R-squared (Within)	0.0348	0.0272	0.0414
Number of Countries	20	20	25

Note: *This table presents the final specification of fixed-effects regressions with bootstrap standard errors (1,000 replications) in parentheses. The dependent variables are: (1) Net US purchases of EM equity scaled by EM GDP; (2) Net equity flows from US to EMs; (3) Total net equity flows to EMs from all countries. All EM-specific variables are lagged one period. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

Table 8: Alternative Institutional Controls - Impact of US Equity Spillovers with Institutional Controls

Variable	(1) US Net Purchases	(2) US Net Flows	(3) US Net Purchases	(4) US Net Flows	(5) US Net Purchases	(6) US Net Flows
A. Spillover Effects						
Lagged US Equity Spillovers	0.000068* (0.000038)	0.000128** (0.000058)	0.000055 (0.000037)	0.000107** (0.000052)	0.000063 (0.000046)	0.000047 (0.000052)
B. Push Factors (Global)						
VIX	-0.000014 (0.000024)	-0.000060 (0.000040)	-0.000007 (0.000026)	-0.000050 (0.000044)	-0.000043 (0.000037)	-0.000062* (0.000037)
US Economic Policy Uncertainty	-0.000194*** (0.000071)	-0.000309*** (0.000108)	-0.000193*** (0.000070)	-0.000307*** (0.000112)	-0.000040 (0.000077)	-0.000032 (0.000069)
US Equity Returns	0.000148*** (0.000054)	0.000159* (0.000089)	0.000150*** (0.000054)	0.000161* (0.000090)	0.000198*** (0.000060)	0.000234*** (0.000078)
C. Institutional Controls						
Government Effectiveness	-0.000156 (0.000136)	-0.000271 (0.000208)	-	-	-	-
Regulatory Quality	-	-	-0.000051 (0.000141)	-0.000110 (0.000219)	-	-
Capital Account Index	-	-	-	-	-0.000044 (0.000076)	-0.000172 (0.000106)
D. Dynamics						
Lagged Dependent Variable	0.430*** (0.112)	0.324*** (0.081)	0.431*** (0.114)	0.325*** (0.079)	0.453*** (0.128)	0.352*** (0.121)
Constant	0.000136 (0.000093)	0.000068 (0.000126)	0.000129 (0.000080)	0.000057 (0.000129)	0.000212*** (0.000057)	0.000264*** (0.000070)
Model Statistics						
Observations	5,683	5,616	5,683	5,616	3,853	3,853

R-squared (Within)	0.1993	0.1207	0.1989	0.1201	0.2119	0.1322
Number of Countries	25	25	25	25	21	21

*This table presents dynamic fixed-effects panel regressions with bootstrap standard errors (1,000 replications) in parentheses. The dependent variables are US net equity purchases in emerging markets (Columns 1, 3, 5) and net equity flows from US to EMs (Columns 2, 4, 6). Columns 1-2 use Government Effectiveness, Columns 3-4 use Regulatory Quality, and Columns 5-6 use a Capital Account Index as institutional controls. All specifications include lagged dependent variables to account for persistence. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

Table 9: Robustness Checks - Alternative Institutional Measures with "push" and "pull" factors as controls

Variable	(1) GE: US Purchases	(2) RQ: US Purchases	(3) CAI: US Purchases	(4) GE: US Flows	(5) RQ: US Flows	(6) CAI: US Flows
A. Spillover Effects						
Lagged US Equity Spillovers	0.000147* (0.000087)	0.000126 (0.000086)	0.000107 (0.000086)	0.000246** (0.000108)	0.000219** (0.000107)	0.000112 (0.000095)
B. Push Factors (Global)						
QE/QT Shocks	-0.000104* (0.000055)	-0.000102** (0.000051)	-0.000103 (0.000065)	-0.000145** (0.000070)	-0.000142** (0.000069)	-0.000149* (0.000079)
VIX	-0.000085* (0.000052)	-0.000079* (0.000043)	-0.000138** (0.000065)	-0.000155* (0.000081)	-0.000146* (0.000080)	-0.000144** (0.000069)
US Economic Policy Uncertainty	-0.000338** (0.000154)	-0.000337** (0.000150)	-0.000087 (0.000133)	-0.000511*** (0.000194)	-0.000510** (0.000201)	-0.000109 (0.000140)
US Equity Returns	0.000147** (0.000059)	0.000148** (0.000059)	0.000214*** (0.000079)	0.000154 (0.000097)	0.000155 (0.000098)	0.000286*** (0.000101)
C. Pull Factors (Lagged EM-Specific)						
Lagged Interest Rate Differential	0.000097 (0.000101)	0.000096 (0.000107)	0.000041 (0.000226)	0.000218 (0.000143)	0.000219 (0.000158)	0.000101 (0.000282)
Lagged GDP Growth	0.000095** (0.000046)	0.000078 (0.000053)	0.000217** (0.000095)	0.000091 (0.000056)	0.000070 (0.000065)	0.000211* (0.000113)
Lagged EM Equity Volatility	-0.000032 (0.000046)	-0.000014 (0.000042)	0.000045 (0.000067)	-0.000070 (0.000066)	-0.000048 (0.000066)	0.000025 (0.000081)
Lagged EM Equity Returns	0.000069 (0.000066)	0.000075 (0.000065)	0.000133 (0.000114)	0.000039 (0.000068)	0.000046 (0.000068)	0.000119 (0.000115)
Lagged Trade Balance/GDP	0.000254** (0.000108)	0.000248** (0.000112)	-0.000167 (0.000545)	-0.000071 (0.000216)	-0.000073 (0.000205)	-0.000610 (0.000389)

D. Institutional Controls						
Government Effectiveness	-0.000441 (0.000396)	-	-	-0.000653 (0.000446)	-	-
Regulatory Quality	-	-0.000224 (0.000332)	-	-	-0.000413 (0.000414)	-
Capital Account Index	-	-	0.000053 (0.000247)	-	-	-0.000163 (0.000223)
Constant	0.000304 (0.000328)	0.000265 (0.000251)	0.000426* (0.000246)	0.000190 (0.000336)	0.000144 (0.000279)	0.000438** (0.000205)
Model Statistics						
Observations	4,459	4,459	3,108	4,437	4,437	3,108
R-squared (Within)	0.0235	0.0214	0.0124	0.0266	0.0243	0.0141
Number of Countries	21	21	19	21	21	19

*This table presents robustness checks with alternative institutional measures: Government Effectiveness (GE), Regulatory Quality (RQ), and Capital Account Index (CAI). The dependent variables are US net equity purchases in emerging markets (Columns 1-3) and net equity flows from US to EMs (Columns 4-6). All EM-specific variables are lagged one period. Bootstrap standard errors (1,000 replications) in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.*

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Appendix A: Data Sources and Variable Descriptions

Variable Category	Variable Name	Description	Frequency	Source
Dependent Variables				
	Net US Purchases/GDP	US net purchases of EM equity scaled by EM GDP	Monthly	US Treasury TIC System
	US Net Flows/GDP	Net equity flows from US to EMs	Monthly	US Treasury TIC System
	Total Net Flows/GDP	Total net equity flows to EMs from all countries	Monthly	Institute of International Finance (IIF)

Core Spillover Measures				
	US Equity Spillovers	TVP-VAR based spillovers from US to EM equity markets	Daily → Monthly	Calculations based on MSCI indices
US Push Factors				
	Monetary Policy Shocks	Orthogonalized US monetary policy surprises	Monthly	Bauer & Swanson (2023), FRB San Francisco
	QE/QT Shocks	Quantitative easing/tightening shocks	Monthly	Measured by regressing t-note yield changes before and after FOMC announcements, on orthogonalized monetary policy shocks series. The data is taken from: Bauer & Swanso (2023), FRB San Francisco
	VIX	CBOE Volatility Index	Monthly	Chicago Board Options Exchange
	US EPU	US Economic Policy Uncertainty Index	Monthly	(Baker et al., 2016)
	US Equity Returns	S&P 500 index returns	Monthly	Daily data compounded to calculate monthly returns. LSEG Datastream
	US Policy Rate	Federal funds rate	Monthly	Federal Reserve
	Global Financial Cycle	Comovement in the international financial variables	Monthly	(Miranda-Agrippino & Rey, 2020)
	US Inflation	Inflation rate in the US	Yearly	LSEG
EM Pull Factors				

	Policy Rate	Domestic policy interest rate	Monthly	LSEG Datastream
	FX Returns	Local currency/USD exchange rate returns	Monthly	LSEG Datastream
	GDP Growth	Year-over-year real GDP growth	Quarterly → Monthly	World Bank
	Inflation	Consumer price index changes	Monthly	World Bank
	Trade Balance/GDP	Trade balance as percentage of GDP	Quarterly → Monthly	LSEG Datastream
	Market Cap/GDP	Stock market capitalization to GDP ratio	Monthly	World Federation of Exchanges
	Market Velocity	Stock market turnover velocity	Monthly	World Federation of Exchanges
	EM Equity Returns	MSCI country index returns	Monthly	Daily data compounded to calculate monthly returns. Data is sourced from MSCI indices.
	EM Equity Volatility	Rolling standard deviation of equity returns	Monthly	Daily MSCI returns data is used to calculate volatility.
Institutional Controls				
	Capital Account Openness	Chinn-Ito financial openness index	Annual → Monthly	(Chinn & Ito, 2006)
	Capital Account Restrictions	Quinn-Toyoda capital control index	Annual → Monthly	(Quinn & Toyoda, 2008)
	Government Effectiveness	World Governance Indicators index	Annual → Monthly	World Bank
	Regulatory Quality	World Governance Indicators index	Annual → Monthly	World Bank

The dataset covers 25 emerging markets from January 2000 to June 2024. Lower-frequency variables (annual, quarterly) are converted to monthly frequency using the last-observation-carried-forward method. All flow variables are scaled by respective country GDP. Spillover measures are calculated using Time-Varying Parameter Vector Autoregression (TVP-VAR) methodology following (Antonakakis et al., 2020)

Appendix Table B: Correlation Matrix for Alternative Variable Specifications

Variable	a	b	c	d	e	f
US Economic Policy Uncertainty (a)	1.000					
Global Financial Crisis Dummy (b)	-0.619	1.000				
US Policy Rate (c)	-0.252	0.302	1.000			
US Policy Rate Changes (d)	-0.198	0.266	0.901	1.000		
Risk Premium Spread (e)	-0.070	0.070	0.033	0.022	1.000	
EM Equity Returns (f)	-0.061	0.102	0.020	0.18	0.859	1.000

Appendix C: Descriptive Statistics by Country – Main Variables

Country	Net US Purchases (Mean ± SD)	US Net Flows (Mean ± SD)	Total Net Flows (Mean ± SD)	US Equity Spillovers (Mean ± SD)
Brazil	323.55 ± 953.63	316.42 ± 1016.05	598.41 ± 2205.29	20.94 ± 10.81
Bulgaria	0.79 ± 8.18	0.56 ± 13.16	-0.28 ± 34.49	0.56 ± 1.70
Chile	-16.08 ± 162.37	-14.11 ± 347.28	139.31 ± 503.40	18.31 ± 7.89
China	-480.83 ± 2874.69	-480.83 ± 2874.69	3126.99 ± 5870.92	17.76 ± 7.71
Colombia	-16.09 ± 57.12	-16.09 ± 57.12	123.55 ± 433.80	13.31 ± 9.09
Czech Republic	-8.39 ± 73.69	-11.27 ± 79.74	7.47 ± 165.47	10.85 ± 8.53
Estonia	-	-	-0.49 ± 85.99	7.93 ± 7.54
Hungary	-0.50 ± 42.50	-0.83 ± 61.37	-19.92 ± 173.13	13.39 ± 8.42

India	141.93 ± 931.81	182.96 ± 944.31	836.27 ± 2451.41	12.84 ± 7.28
Indonesia	34.38 ± 173.99	34.21 ± 176.67	75.98 ± 634.24	11.24 ± 7.91
Kenya	-	-	51.50 ± 308.14	2.40 ± 3.13
Korea	132.50 ± 941.71	-111.03 ± 1162.81	120.43 ± 2710.01	19.80 ± 6.89
Latvia	-	-	1.02 ± 9.25	0.28 ± 0.32
Lebanon	-0.09 ± 8.83	-0.39 ± 19.25	12.74 ± 71.14	1.51 ± 2.20
Lithuania	-	-	-0.11 ± 37.57	0.50 ± 1.17
Malaysia	44.22 ± 177.12	36.46 ± 228.69	-28.41 ± 558.30	15.53 ± 8.11
Mexico	-95.48 ± 366.87	-176.94 ± 546.89	97.88 ± 969.45	26.54 ± 8.93
Mongolia	-	-	4.12 ± 49.24	1.06 ± 3.37
North Macedonia	-	-	0.52 ± 5.15	0.91 ± 1.11
Pakistan	3.10 ± 25.40	3.71 ± 25.41	-12.38 ± 61.73	2.85 ± 3.79
Philippines	9.37 ± 57.29	8.97 ± 61.62	14.01 ± 303.96	16.05 ± 11.38
Poland	10.03 ± 52.95	13.02 ± 61.01	84.23 ± 859.90	16.84 ± 8.55
Qatar	-	-	119.76 ± 168.86	0.84 ± 0.75
Romania	-0.82 ± 23.24	-0.08 ± 23.35	4.82 ± 127.46	0.22 ± 0.40
Russia	-14.98 ± 108.36	-12.36 ± 109.15	-	14.84 ± 7.47
Saudi Arabia	-108.51 ± 548.50	-126.76 ± 2153.98	504.37 ± 1031.56	1.01 ± 0.76
Serbia	0.27 ± 3.35	0.34 ± 3.74	-1.95 ± 9.04	0.50 ± 1.07
Slovenia	-	-	6.59 ± 49.07	7.84 ± 9.10
South Africa	44.76 ± 172.65	38.87 ± 224.25	108.27 ± 712.94	18.58 ± 7.61
Sri Lanka	-	-	-2.47 ± 21.51	1.68 ± 2.20
Taiwan, China	251.45 ± 1053.87	237.20 ± 1104.19	170.27 ± 2829.03	18.68 ± 6.87
Thailand	27.23 ± 147.92	21.64 ± 192.92	-104.89 ± 705.98	11.60 ± 6.62
Turkey	23.96 ± 158.32	23.96 ± 161.18	73.00 ± 533.61	11.53 ± 8.66
Ukraine	5.23 ± 33.99	4.23 ± 35.41	14.70 ± 74.44	0.93 ± 2.08
Vietnam	-	-	-7.75 ± 172.64	-

Appendix D: Descriptive Statistics – Openness and Institutional Quality

Variable	Description	Observations	Mean	Standard Deviation	Minimum	Maximum
Chinn-ito Index (Capital Account Openness)	Capital Openness (Chinn-Ito Index)	10,200	0.36	1.34	-1.93	2.29
Regulatory Quality (WGI)	Regulatory Quality	10,800	0.26	0.62	-1.14	1.69
Government Effectiveness (WGI)	Government Effectiveness	10,800	0.19	0.58	-1.58	1.54
Quinn-Toyoda Index (Capital Account Restrictions)	Capital Openness Intensity (Quinn-Toyoda Index)	7,344	61.54	32.42	0.00	100.00