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Article Abstract

Title: **The impact of market sentiment on capital structures in the USA**

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Journal: ***International Journal of Behavioural Accounting and Finance 2010 - Vol. 1, No.4 pp. 335 - 348***

Abstract: This paper represents one of the first studies to document an empirical relation between market sentiment and capital structure in the USA. In a sample of US firms we find that market sentiment as proxied by the University of Michigan Consumer Sentiment Index is pervasive and significant in explaining firm financing decisions, both in the long and short terms. When market sentiment is higher firms in the following year have higher levels of debt. This result is robust to different regression models, different model specifications, as well as different calculations of sentiment and sample selection. The results confirm that the general level of optimism/pessimism in society affects financial decisions and leads to market wide phenomenon. This provides some support to the existing literature that overconfident managers use relatively more debt in a firm's capital structure. Market-to-book is found to be a significant determinant of capital structure as documented by previous studies. Evidence of persistence of long-past market-to-book ratios was shown to be not very robust.

Keywords: capital structures; leverage; market sentiment; confidence; USA; United States; consumer sentiment; overconfidence.

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