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Safe-haven flows into the German bond market and the role of policy disagreement

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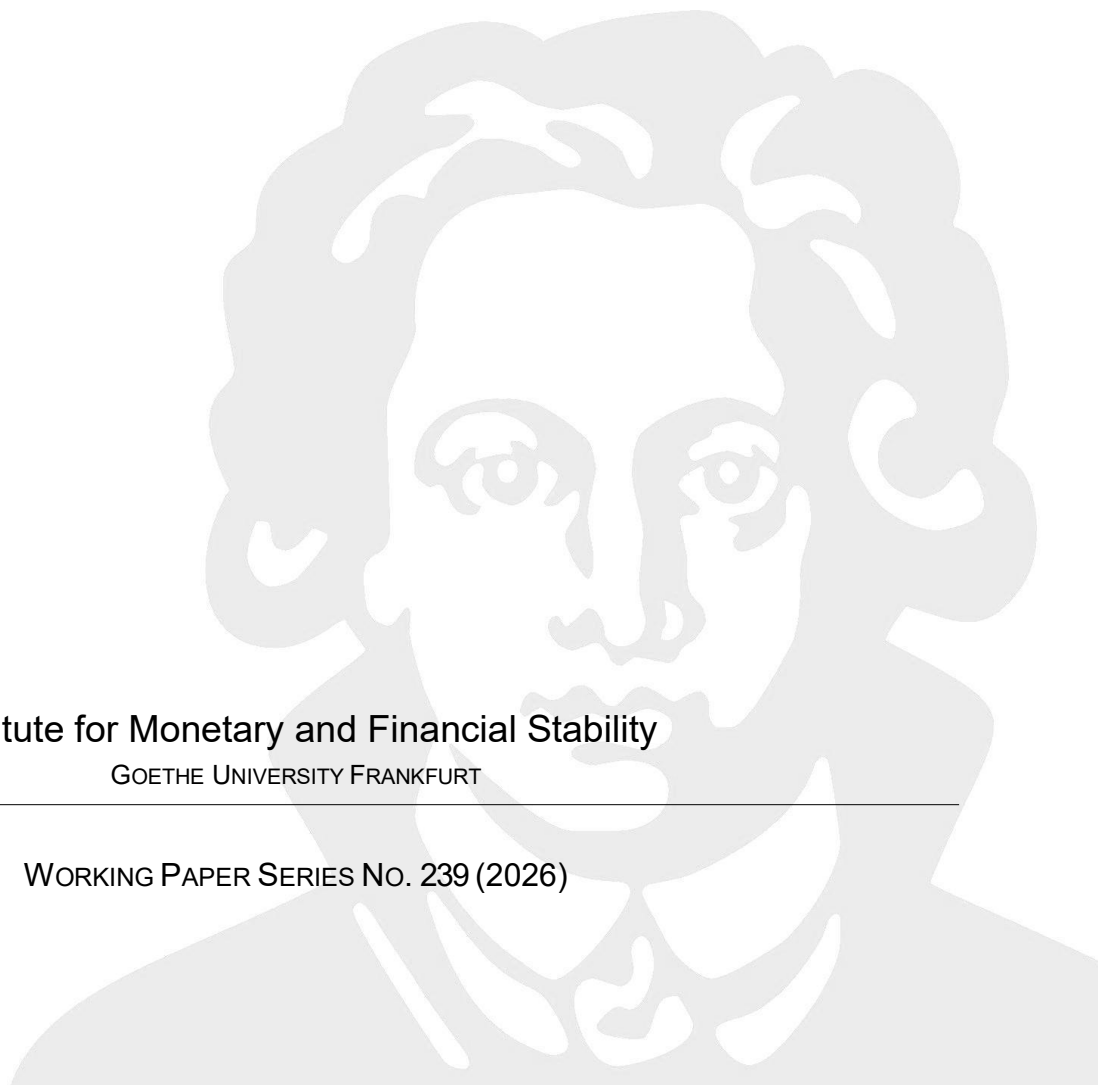


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Institute for Monetary and Financial Stability
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Safe-Haven Flows into the German Bond Market and the Role of Policy Disagreement*

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March 26, 2026

Abstract

German government debt is considered a safe asset in times of turbulence. We estimate the impact of changes in the risk appetite of global investors on weekly investment fund flows into the German sovereign bond market. Our key contribution is to allow the impact of such shocks to depend on the extent of disagreement about the path of fiscal policy, which we measure from the texts of all speeches delivered in the German Bundestag. An increase in global risk causes strong inflows into German government bonds if the coalition government is united, but only small and short-lived inflows if disagreement within the government is high. In contrast, disagreement between the government and the opposition has no moderating effect on fund inflows. We also find that the dependence of safe-haven flows on the prevailing level of fiscal disagreement is higher for actively managed funds and for funds domiciled abroad.

Keywords: capital flows, disagreement, policy uncertainty, safe asset, text analysis

JEL classification: F41, G15, H30

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1 Introduction

If global risk increases, investors rush into safe and liquid assets. As the risk appetite of investors falls as a consequence of wars, geopolitics, financial crises, natural disasters, or other events, the demand for safe investment opportunities increases. Over the past decades, U.S. government bonds served as the dominant safe asset (Krishnamurty and Vissing-Jorgensen, 2012) in a world economy in which safe assets are generally scarce (Caballero et al., 2017). German government bonds are also considered a safe-haven asset, though the market for Bunds is small compared to the market for Treasuries.

In this paper, we estimate the impact of changes in the risk perceived by investors on investment fund flows into German government bonds. An increase in risk causes a significant increase in fund flows into Bunds. A recent episode exemplifies this finding: when the “Liberation Day” tariff announcement of President Trump on April 2, 2025 scared global investors, fund flows to German government bonds were five times larger than the week before.

Our key contribution is to allow the impact of such shocks to depend on the extent of political disagreement in German politics. We argue that high disagreement about the path of fiscal policy, which also implies disagreement about the evolution of the supply of German Bunds, impairs the safe-haven status. All else equal, an increase in disagreement should make German debt less attractive as an investment. Our evidence supports this notion: an increase in global risk causes strong inflows into German government bonds if disagreement is low, but only small and short-lived inflows if disagreement is high.

Our analysis draws on weekly data on inflows of investment funds into German sovereign bonds between 2014 and 2025. The high-frequency of this data is a major advantage over other sources of capital flows data. As another advantage, this data set allows us to study the evolution of capital flows net of valuation effects. We interpret the change in the VIX index of implied volatility as an increase in global risk or a decrease in global risk appetite, respectively, which drives the global allocation of capital (Habib and Stracca,

2012; Habib et al., 2020; Goldberg and Krogstrup, 2023). An increase in the VIX index causes a strong increase in inflows.

Based on the corpus of all speeches delivered in the German parliament, the Bundestag, we use tools from Natural Language Processing (NLP) to construct indicators of fiscal sentiment (Latifi et al., 2024). We aggregate the sentiment score, which expresses the fiscal stance reflected in each parliamentary speech on an expansionary-restrictive scale, to the weekly frequency. The data allows us to build two measures of disagreement about fiscal policy: the absolute difference in fiscal sentiment between the government and the opposition parties, and the absolute difference between the sentiment of the parties within the coalition government (Latifi et al., 2026). Thus, we take account of the nature of the German political system with two- or three-party coalition governments. In our previous work (Latifi et al., 2026), we showed that fiscal policy disagreement has contractionary effects on economic activity in Germany. Here, let fiscal disagreement interact with fund inflows. Estimating state-dependent local projections, we find that disagreement in the coalition strongly weakens the impact of global risk shocks. An increase in risk causes a strong inflow into German sovereign bonds if the coalition is united, but only a small inflow if the coalition fights about the path of policy. In contrast, government-opposition disagreement has no significant effect on the responses of inflows to changes in global risk.

The data also provides us with a decomposition of the flows according to the type of funds. We can distinguish between actively managed funds and passive funds as well as between domestic funds and funds located abroad. Investments of actively managed funds are more sensitive to the level of disagreement than flows of passive funds. In the low-disagreement state, active funds strongly increase inflows as a response to higher risk. In the high-disagreement state, this response is much weaker. Likewise, funds located abroad are more sensitive to the level of disagreement than domestic funds.

In a series of alternative specifications, we show that the results remain unchanged if we use alternative measures of global risk shocks, an indicator of economic policy uncertainty instead of fiscal policy disagreement, and an alternative transition function between states. Moreover, we show that the

results mostly stem from positive shocks, i.e., increases in global risk causing fund inflows, rather than decreases in global risk causing outflows.

This paper adds to the empirical literature on assets provided in safe havens. [Habib and Stracca \(2015\)](#) regress the purchases of foreigners of debt instruments on shocks to risk aversion. Their results document the safe-haven properties of U.S. Treasuries. [Habib et al. \(2020\)](#) study the responsiveness of bond yields to global risk in a panel of 40 countries. They also let the sensitivity of yields to changes in the risk environment depend on country characteristics such as political risk, the quality of institutions, the size of the asset market, and the external position. [Baele et al. \(2020\)](#) identify flight-to-safety days for a panel of countries. They find a significant flow from riskier asset classes into government bonds on these days. [Nenova \(2025\)](#) uses granular data at the level of individual funds on bond holdings across the world. She estimates the elasticities of substitution across assets, which allows her to classify assets with respect to their ability to serve as a safe haven. If the elasticity of demand is low, the asset is considered relatively safe. She finds that German debt serves as a safe alternative for other euro area sovereign bonds. [Longariac et al. \(2025\)](#) investigate the response of investment funds to financial crises risk originating in the euro area. They find that fund managers sell debt from the euro area periphery, but do not shift funds into debt issued in the core of the euro area. In contrast, we focus exclusively on global risk shocks reflected in changes in the VIX index and on flows into German Bunds.

Furthermore, our paper draws on the literature on capital flows under political uncertainty. [Azzimonti \(2019\)](#) presents evidence for the U.S. on the detrimental impact of political uncertainty on the inflow of foreign direct investment (FDI). She uses the Trade Partisan Conflict Index, which is constructed similarly to her index of partisan conflict with respect to domestic policy issues ([Azzimonti, 2018](#)) to show that a surprise increase in partisanship in U.S. politics is associated with a fall in FDI inflows. [Julio and Yook \(2016\)](#) study the FDI flows of U.S. firms into the rest of the world. Higher political uncertainty in the recipient countries, which the authors measure from election results, deters FDI inflows. The effect is weaker for countries

with a high quality of political institutions. [Honig \(2020\)](#) revisits the impact of election uncertainty on capital flows. He finds that upcoming presidential elections in emerging market economies reduce FDI inflows, but not other inflows. In a panel model of push and pull factors of capital flows, [Arakelyan and Epstein \(2025\)](#) also use elections as a proxy for political uncertainty. Capital flows tend to decline around elections, though this cannot be interpreted as a causal effect. This literature studies FDI flows. Due to the irreversible nature of FDI, political risk should matter more for FDI than for other types of inflows. In contrast, our evidence suggests that political disagreement deters bond market inflows even in an advanced economy with very well-developed political institutions. [Beckmann and Bettendorf \(2025\)](#) show that the impact of broadly defined uncertainty shocks differs across countries in their panel using high-frequency portfolio flow data. They do not look at safe-haven flows.¹

We also extend the literature on the domestic effect of policy disagreement and uncertainty, respectively, ([Julio and Yook, 2012](#); [Hong et al., 2025](#); [Hantzsche, 2022](#); [Hacıoğlu-Hoke, 2024](#); [Latifi et al., 2026](#)) to include the impact on cross-border capital flows.

The outline of the paper is the following: Section 2 introduces the data on fund flows. Section 3 explains how we measure fiscal policy disagreement. The main empirical model is shown in Section 4, while Section 5 discusses the results. Section 6 concludes. An online appendix contains the results of several robustness analyses.

2 Fund flows into German sovereign bonds

To measure portfolio flows into the German sovereign bond market, we use fund flow data from Emerging Portfolio Fund Research (EPFR). The EPFR database is the most widely used high-frequency data set for portfolio flows and covers more than 10,500 funds with more than 10 trillion USD in assets

¹The literature also studies the response of capital flows to geopolitical risk ([Converse and Mallucci, 2025](#)) and the risk of natural disasters ([Ferriani et al., 2025](#)). See [Albori \(2025\)](#) for a survey on the impact of geopolitical risk on capital flows.

under management as of the end of 2024.² Fund flows play an increasingly important role in global capital movements (Schmidt and Yeşin, 2022). The dataset provides estimates of fund flows and allocations to specific countries and sectors on a monthly, weekly, and daily basis. As explained by Koepke and Paetzold (2024), EPFR publishes fund flows aggregated at the level of the recipient country. These are constructed by multiplying the monthly average of a fund’s country-level portfolio allocation by the weekly or daily flows into the fund. One limitation of EPFR data is that it does not capture the full universe of investors. It includes mutual funds and exchange-traded funds, but lacks information about large institutional investors such as sovereign wealth funds and pension funds. Importantly, the fund flows in the EPFR dataset are not influenced by valuation effects, as they eliminate portfolio changes due to asset returns and exchange rate changes. Based on self-reported information from funds, EPFR takes the difference between the asset valuation at the beginning of the period and the asset valuation at the end of the period, and then eliminates the effects of market performance, exchange rate fluctuations, and interest payments. Through this method, they calculate the estimates of net fund flows.

We use the weekly flows into the German bond market of funds which allocate at least 65% of their assets into federal or state government bonds. In addition, we use two decompositions of the types of funds. The first is the distinction between actively managed funds and passive funds. Active funds are those which are actively traded and not tied to a passive index or benchmark. Passive funds are those which are tied to an index and seek to mirror the performance of this index. We expect active funds to respond more strongly to risk shocks and also to be more sensitive to fiscal policy disagreement than passive funds. The second is the distinction between domestic funds and funds residing abroad. EPFR offers this classification based on the information provided by fund managers in the prospectus or other documents. The bond holdings of funds are quantitatively important:

²There is also a very active literature that uses EPFR data to study fund flows as a transmission mechanism of monetary policy surprises (Schmukler and Raddatz, 2012; Ciminelli et al., 2022; Blanco et al., 2026).

according to the OECD Global Debt Report (OECD, 2026), 14.1% of the German federal debt in 2025 was held by mutual funds.

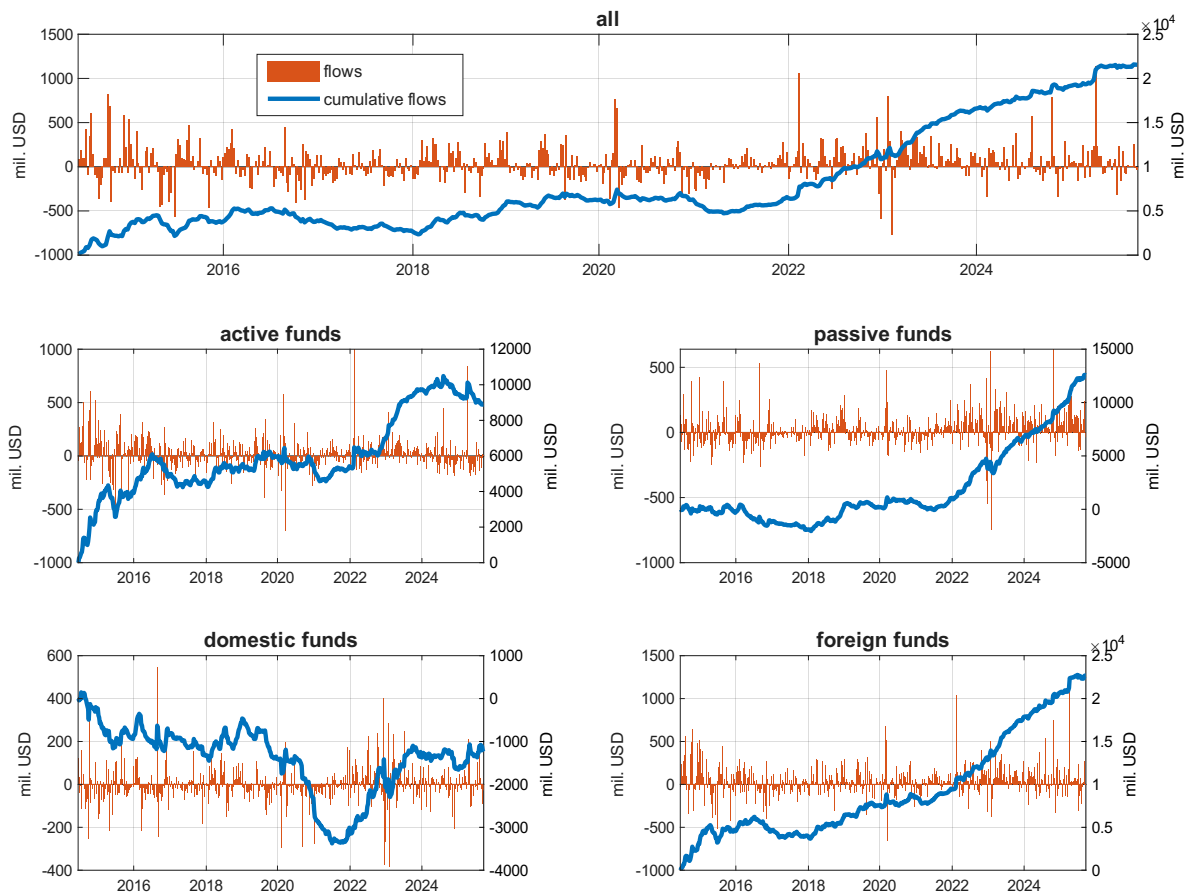
Figure (1) shows the fund flows into the German bond market at a weekly frequency (for a seven-day week ending Wednesday) over the sample period June 25, 2014 to September 19, 2025. We see strong fluctuations with inflows of more than one billion USD in April 2025 and outflows of almost 700 million USD in February 2023. We also show the decomposition of aggregate flows into active and passive funds as well as domestic and foreign funds. In terms of volume, flows from passive funds are much smaller than flows from active funds. Likewise, flows from domestic funds are generally smaller than flows from foreign funds. During the pandemic, domestically managed funds tend to reduce their investments in the market for German government bonds more drastically than funds managed abroad. Due to the high volatility of the flows, we concentrate the empirical analysis on the cumulative flows, which are also shown in the figure.

To understand the nature of flows, let us consider one specific episode as a case study. On April 2, 2025, President Trump announced tariffs against almost all U.S trading partners. In Trump’s own words, this is supposed to be a “Liberation Day” for the U.S. economy. However, markets quickly noted the harm the new policy regime does to the global role of the U.S. dollar and the evolution of the U.S. economy. Besides, the Trump administration frightened markets with inconsistent communication and threats of even higher tariffs. As a result, the risk appetite of investors fell strongly and the VIX index increased by more than five standard deviations. We will present and discuss this index in Subsection 4.2.

Figure (2) shows the weekly fund flows into German Bunds from the start of the Trump administration in January to May 2025. The response to the “Liberation Day” announcement is clearly visible. Inflows increase to one billion USD in the week ending April 9.³ This is five times the volume of inflows of the previous week. Thus, investors seek refuge in the German

³“Liberation Day” was April 2, the last day of the previous week. The impact of the announcement is recorded in the next week, which is why we highlight the week ending April 9.

Figure 1: Fund flows into German sovereign bonds



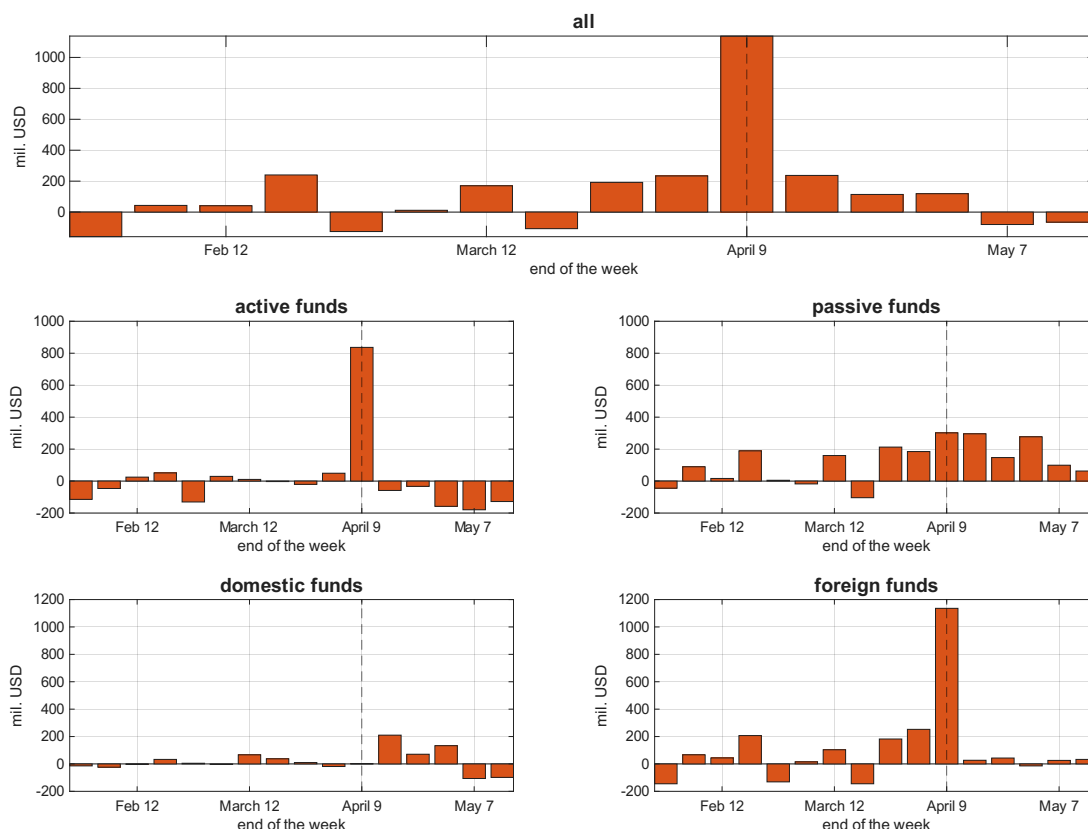
Notes: The figure shows the weekly inflows of investment funds covered by EPFR into German sovereign bonds.

bond market. The inflows from actively managed funds account for 80% of the overall inflows in this week, while passive funds account for only 20% of the inflows. Almost all inflows come from funds residing abroad.

3 Measuring fiscal policy disagreement

In this section, we briefly describe the procedure used to construct the fiscal policy disagreement indices. We build on the original data set of [Latifi et al. \(2024\)](#), which contains parliamentary speeches from the German Bundestag along with metadata such as the date, party affiliation of the speaker,

Figure 2: Fund inflows into German sovereign bonds around “Liberation Day” in 2025



Notes: The figure shows the weekly inflows of investment funds covered by EPFR into German sovereign bonds. The vertical line highlights the week that includes the “Liberation Day” tariff announcements.

and a dummy for governing parties. The data set covers the period from September 1949 to September 2021 and includes 877,140 speeches. To expand the corpus, we follow the procedure described by [Latifi et al. \(2024\)](#). We download the XML files containing the protocols of all sessions from the official website of the German Bundestag.⁴ The files are processed using the Python package `pybundestag` ([Hruzik, 2019](#)) and subsequently homogenized to match the structure of the previously available data. The resulting data set covers the period until June 2025, comprising 905,909 speeches.

⁴<https://www.bundestag.de/services/opendata>.

For preprocessing, we follow [Latifi et al. \(2024\)](#) and first restrict the sample to speeches delivered by members of the German Bundestag. We remove very short and very long speeches and lemmatize the remaining corpus. Afterwards, we convert umlauts and eszett, lowercase all text, and remove line breaks, one-character tokens, and tokens exceeding 30 characters. We further remove German stopwords as well as Bundestag-specific stopwords collected by [Latifi et al. \(2024\)](#). For the period covered by [Latifi et al. \(2024\)](#), we adopt the sentiment provided in their data set. For the remaining period, we construct the sentiment following the same methodology by training a dynamic Doc2Vec model. Doc2Vec is an NLP method that represents documents as high-dimensional vectors while preserving their semantic meaning ([Le and Mikolov, 2014](#)). As a result, documents with similar meaning are located closer together in the vector space.

The model is trained using a rolling window of ten years with a one-quarter shift to account for changes in language over time. For each quarter, speech vectors are inferred from a model trained on the preceding ten years. We then obtain the term vectors for both fiscal dictionaries provided by [Latifi et al. \(2024\)](#). These contain terms associated with expansionary or contractionary fiscal policy. For each dictionary, we compute the mean vector across all term vectors, resulting in one expansionary and one contractionary vector per quarter. Next, the cosine similarity between each speech vector and both dictionary vectors is calculated. The sentiment of a speech is obtained by subtracting the contractionary similarity from the expansionary similarity. This yields a sentiment score, ranging from -1 to 1, where positive values indicate a more expansionary speech, and negative values indicate a more contractionary speech.

We aggregate the fiscal sentiment of each parliamentary party at the weekly level. Since the sentiment series is very volatile, we calculate 24-week moving averages. Based on these averages, we construct two alternative series of fiscal policy disagreement. The first is the absolute difference in fiscal sentiment between the parties forming the government and the opposition parties

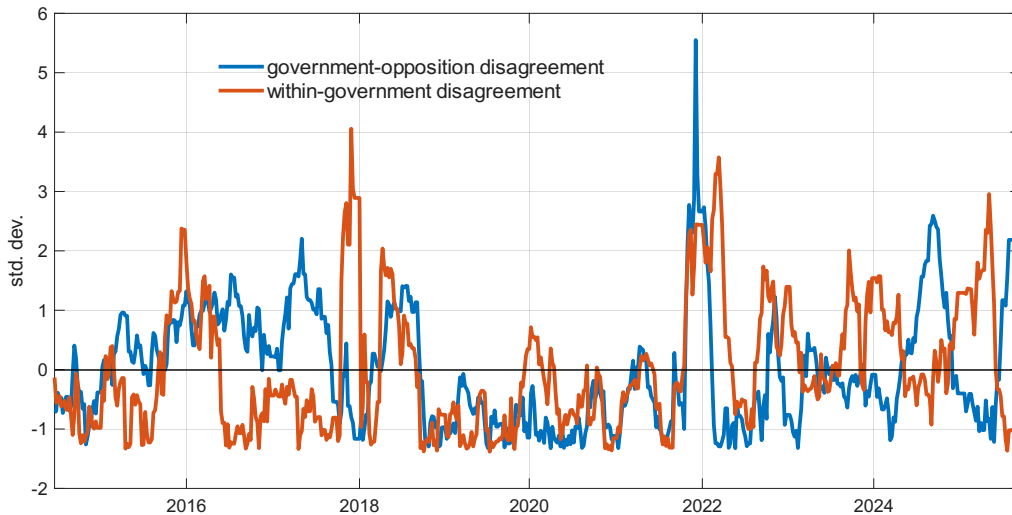
$$\text{Dis}_t^{GovOpp} = |\text{Sentiment}_t^{Gov} - \text{Sentiment}_t^{Opp}|. \quad (1)$$

To account for the nature of the German political system in which coalition governments are the rule, a second indicator is needed that reflects the disagreement within the government. In our sample period, we have two-party (until 2021 and after November 2024) and three-party (2021-2024) coalitions.⁵ Hence, we construct this index as the absolute difference between the governing parties with the highest and the lowest fiscal sentiment in each week

$$\text{Dis}_t^{\text{Gov}} = |\text{Sentiment}_t^{\text{GovMax}} - \text{Sentiment}_t^{\text{GovMin}}|, \quad (2)$$

where $\text{Sentiment}_t^{\text{GovMax}}$ and $\text{Sentiment}_t^{\text{GovMin}}$ is the highest and lowest sentiment in each week t .

Figure 3: Fiscal policy disagreement



Notes: The figure shows the two alternative series of fiscal policy disagreement. Each series is based on the distance between the 24-week moving average of fiscal sentiment between the political parties. Both series are standardized.

The resulting series of disagreement are shown in Figure (3). Disagreement fluctuates over the sample period. We see a peak of government-opposition disagreement at the end of 2021 around the German federal election. Interestingly, the level of within-government disagreement is markedly

⁵We treat the Christian Democrats, CDU and CSU, as one party. The three-party "traffic-light" coalition broke in November 2024 with a minority two-party coalition staying in office until the new government was sworn-in in May 2025.

higher during the recent "traffic-light" coalition between the Social Democrats, the Liberals, and the Greens between 2021 and 2025. The ruling of the German Constitutional Court in November 2023, stating that the second supplementary budget is void, triggers a sharp increase in within-government disagreement. Below, we will use either series as a state variable in our empirical model.

4 Empirical model

In this section, we estimate the impact of changes in global risk appetite on fund flows to Germany conditional on the prevailing level of fiscal disagreement.

4.1 Regression equation

We estimate a straightforward generalization of standard local projections (Jordà, 2005). The dependent variable is the cumulative inflow of capital at time $t + h$, $flows_{t+h}^{cum}$. In the online appendix, we show that the results also hold if we express the cumulative flows in logarithms. Although the cumulative flows are our main focus, we also estimate the model for the non-cumulative flows to check for consistency. We choose the flows in units of USD to get a sense of the quantitative importance of the responses. We regress the dependent variable on the global risk shock, $shock_t$, at time t which in our baseline model will be the change in the VIX index of implied volatility. The coefficients β_h reflect the impact of a shock at time t on the (cumulative) flows after h weeks.

We distinguish between two alternative states, which are indicated by the transition function $F(z_t) \in [0, 1]$. The transition variable is z_t , which is one of the two alternative disagreement indicators introduced before. The set of parameters in state I (II) is α_h^I (α_h^{II}), β_h^I (β_h^{II}), and γ_h^I (γ_h^{II}). The response of the endogenous variables to the global risk shock is state dependent if

$\beta_h^I \neq \beta_h^{II}$. Hence, the model reads

$$\begin{aligned} flows_{t+h}^{cum} &= F(z_{t-1}) (\alpha_h^I + \beta_h^I shock_t + \gamma_h^I X_t) + \\ &\quad (1 - F(z_{t-1})) (\alpha_h^{II} + \beta_h^{II} shock_t + \gamma_h^{II} X_t) + e_{t+h}, \end{aligned} \quad (3)$$

where the vector X_t contains control variables. The error term is e_{t+h} .

The transition variable is the 24-week moving average of one of the two alternative series of fiscal policy disagreement introduced before. To rule out a response of the state variable to the global risk shock, we use the first lag of z_t .⁶ The transition function maps the level of disagreement into the $[0, 1]$ interval. In our baseline specification, we follow [Auerbach and Gorodnichenko \(2013\)](#) and [Tenreyro and Thwaites \(2016\)](#) and adopt the logistic function

$$F(z_t) = \frac{\exp(\theta z_t)}{1 + \exp(\theta z_t)}, \quad (4)$$

where θ controls the speed of the transition between the two states. We set $\theta = 3$, which is a frequent choice in the literature. Alternatively, we will adopt the non-parametric specification of [Born et al. \(2020\)](#),

$$F(z_t) = \frac{1}{N} \sum_{j=1}^N \mathbb{1}_{z_j \leq z_t}, \quad (5)$$

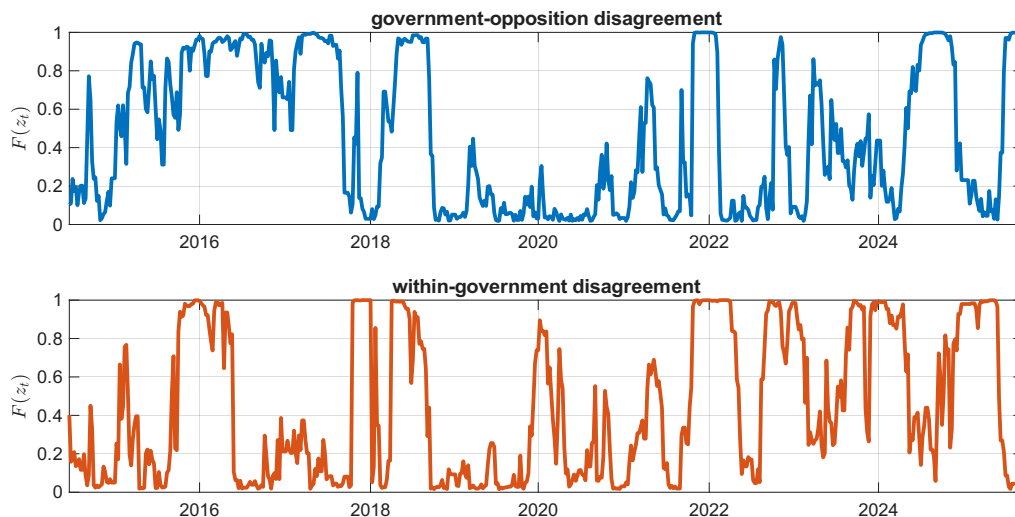
where N is the number of observations and $\mathbb{1}_{z_j \leq z_t}$ is an indicator function. This transition function is based on the cumulative distribution function of the state variable such that $F(z_t)$ equals one for the maximum level of disagreement and zero for the minimum level of disagreement in our sample period.

The vector of X_t includes four lags of the dependent variable as well as the current realization and four lags of the yield differential between U.S. and German government bonds, the dollar-euro exchange rate, the Geopolitical Risk Index of [Caldara and Iacoviello \(2022\)](#), and the ECB monetary policy surprises of [Altavilla et al. \(2025\)](#). We also include three lags of $shock_t$ to

⁶We also use z_{t+h} as the dependent variable in an alternative linear model and do not find any significant response of either series of disagreement to the risk shock.

control for any serial correlation.

Figure 4: Probability of high-disagreement state



Notes: The figure shows the probability of the high disagreement state for the two alternative state variables and the logistic transition function.

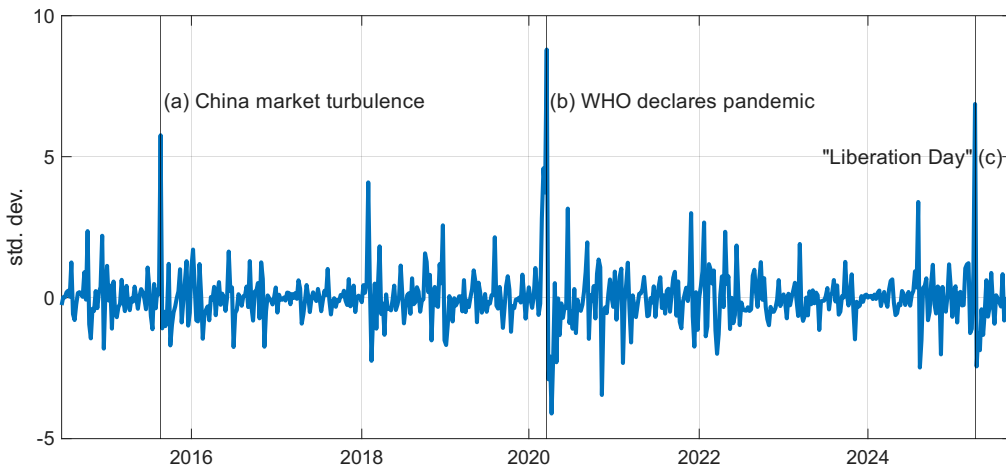
Figure (4) plots the transition functions specified in equation (4) for each of the two state variables. Both functions suggest that the high-disagreement state prevailed in 2016, 2018, and at the beginning of 2022. Remarkably, both suggest that the low-disagreement state prevailed during most of the Covid-19 period between 2020 and 2022. While within-government disagreement is high during the traffic-light coalition after 2021, government-opposition disagreement jumps to the high-disagreement state at the end of 2024 when the coalition broke apart and the early election of February 2025 was looming. The correlation between the two alternative transition functions is 0.09, indicating that the two high-disagreement states genuinely reflect distinct regimes.

4.2 Global risk shock

In our aforementioned specification, fund flows into safe-haven assets are driven by a global risk shock. Such a shock should change the risk appetite of global financial markets and be exogenous with respect to economic, financial,

and political developments in Germany. We use the weekly change in the CBOE Volatility Index (VIX), which reflects the implied volatility of the U.S. equity market. This series is widely considered a reliable measure of global investors’ “fear” and is frequently used as a driving variable of capital flows (Habib and Stracca, 2012; Habib et al., 2020; Goldberg and Krogstrup, 2023) or the Global Financial Cycle (Miranda-Agrippino and Rey, 2020). Figure (5) shows the shock series units of standard deviations around its mean over our sample period.

Figure 5: Global risk shock



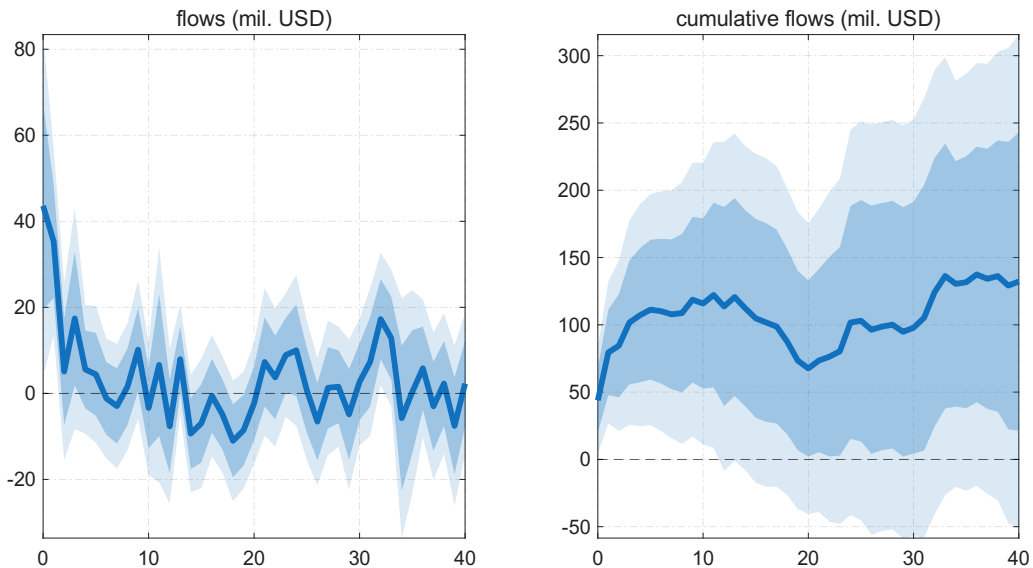
Notes: The figure shows the weekly change of the VIX index. The series is standardized around a mean of zero.

We clearly spot the spikes in risk around the tensions in Chinese financial markets (August 2015), the outbreak of the COVID-19 pandemic (March 2020), the full Russian invasion of Ukraine (February 2022), and the “Liberation Day” tariff announcements of President Trump (April 2025) studied before. In each episode, risk increases by several standard deviations. In the online appendix, we will also use the Risk-On Risk-Off Index of Chari et al. (2024) and the risk aversion index of Bekaert et al. (2021) as alternative shock series.

5 Results

Figure (6) shows the estimated response of flows to a risk shock one standard deviation in size from the linear model. Upon an increase in risk, inflows increase to 40 mil. USD. Within a few weeks, flows converge back to the unconditional mean. As a result, the cumulative flows increase to around 100 mil. USD. This response is highly statistically significant. In the online appendix, we estimate the local projections with the logarithm of the cumulative flows as the dependent variable. We find that the cumulative flows increase by about four percent as a response to the shock.

Figure 6: Responses of fund inflows to a global risk shock



Notes: The figure shows the responses of (cumulative flows) to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors.

If we estimate the state-dependent model with the logistic transition function, we find strong differences in the adjustment of flows to the shock across states. Panel (a) of Figure (7) shows the estimated response if we use the within-government disagreement as a state variable. If disagreement in the coalition is low, a shock causes cumulative inflows of around 300 mil. USD

after 30 weeks. If, in contrast, disagreement is high, the cumulative flows rise to around 100 mil. USD, but quickly return back to zero. This is our key finding: the German sovereign bond market receives strong safe-haven inflows, but only if the government is united.

Interestingly, this state-dependence is absent if we use the government-opposition disagreement as a state variable, see panel (b). The increase in inflows is no longer statistically different across states. Thus, global investors respond to policy disagreement within the governing coalition, but not to the fights between the government and the opposition. One reason could be that high government-opposition disagreement is considered a sign of well-functioning and stable democratic institutions without an immediate effect on government policies, while coalition disagreement could be seen as detrimental to fast and effective decision making, structural reforms, or fiscal consolidation. Adopting the non-parametric alternative to the logistic transition function generates very similar results, see Figure (8).

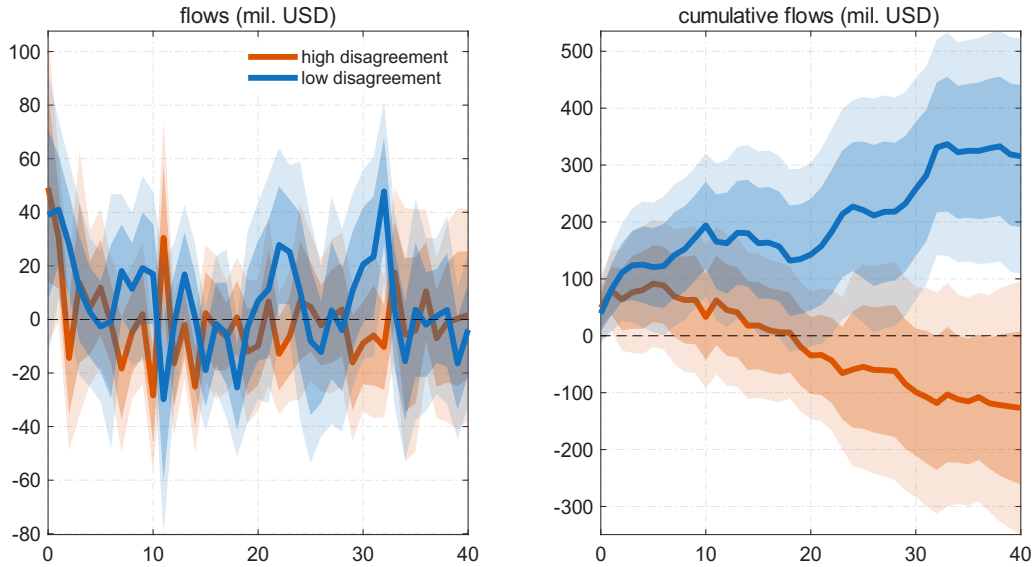
We also estimate the model for the sub-components of funds and show the results in Figure (9). To save space, we report the results for coalition disagreement only. All other results are available upon request. The results show that active funds and funds located abroad respond more strongly to a risk shock. In each of the four figures, the responses of inflows are much stronger and longer-lived if the low-disagreement state prevails. Thus, the main findings are not driven by one specific sub-component of flows. Moreover, the sensitivity with respect to policy disagreement differs between fund types. For actively managed funds, the impulse responses differ strongly between the high- and the low-disagreement state. For passive funds, the responses are less well distinguishable. The same is true for the location of the fund: the difference between the state-dependent responses is more pronounced for foreign funds than domestic funds.

In the online appendix, we show that results remain robust if we use alternative global risk shocks and the level of economic policy uncertainty as an alternative state variable. We also allow for positive and negative risk shocks to have different effects. It turns out that the main results are mostly driven by increases in global risk rather than decreases. We include

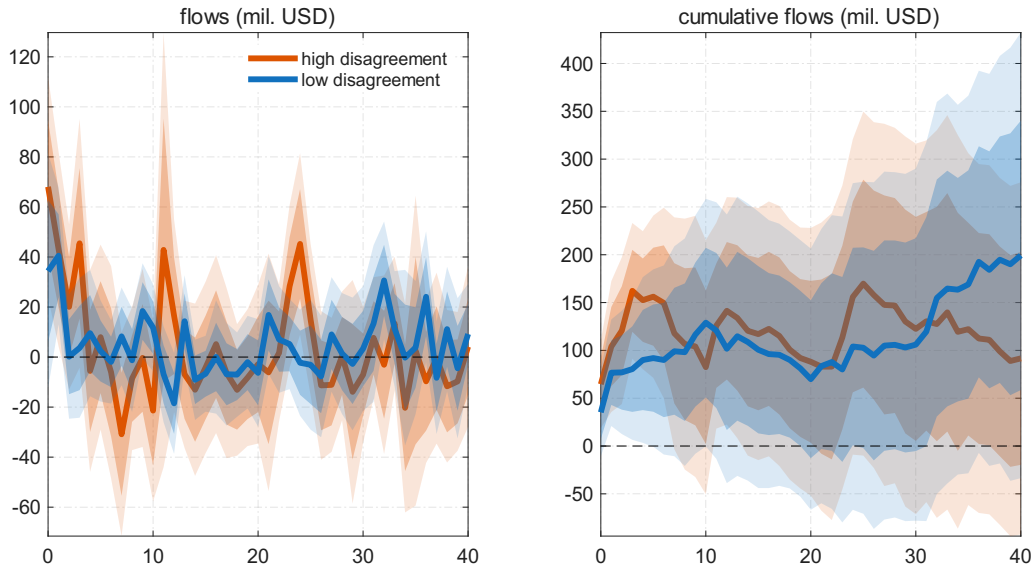
the cumulative flows in logarithms to quantify the response of flows to the shock in percent. Furthermore, we use the budget balance as an alternative state variable. The main purpose of this is to document that fund flows are indeed driven by fiscal disagreement, not by the overall stance of fiscal policy. Finally, we acknowledge that the disagreement between the coalition parties is more important the further away the next election. Likewise, disagreement between the government and the opposition could matter more the closer the next election. We modify the transition function accordingly and re-weight the observations according to their position in the election period. The main findings remain unchanged.

Figure 7: Responses of fund inflows to a global risk shock

(a) Disagreement within the government



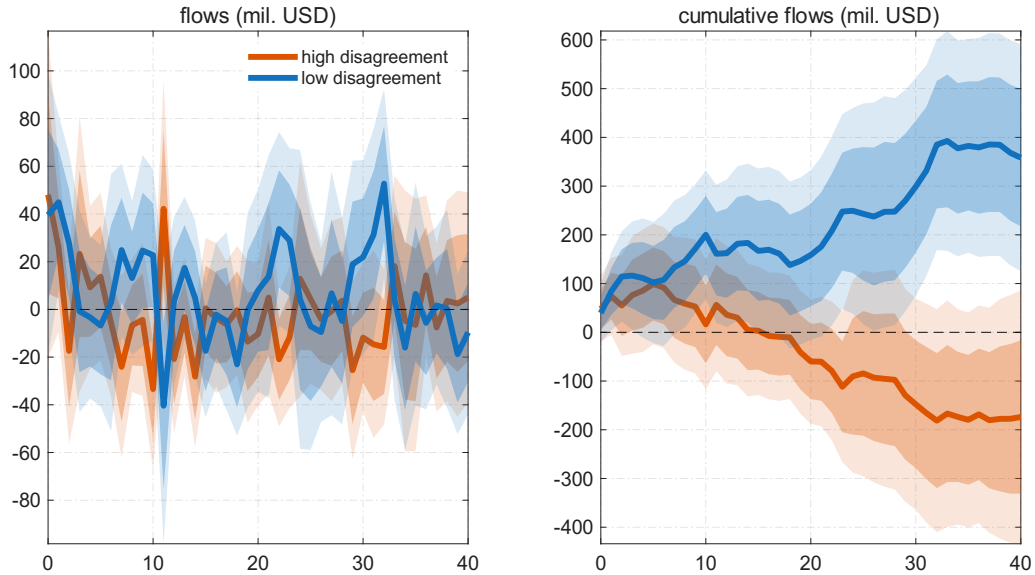
(b) Disagreement between government and opposition



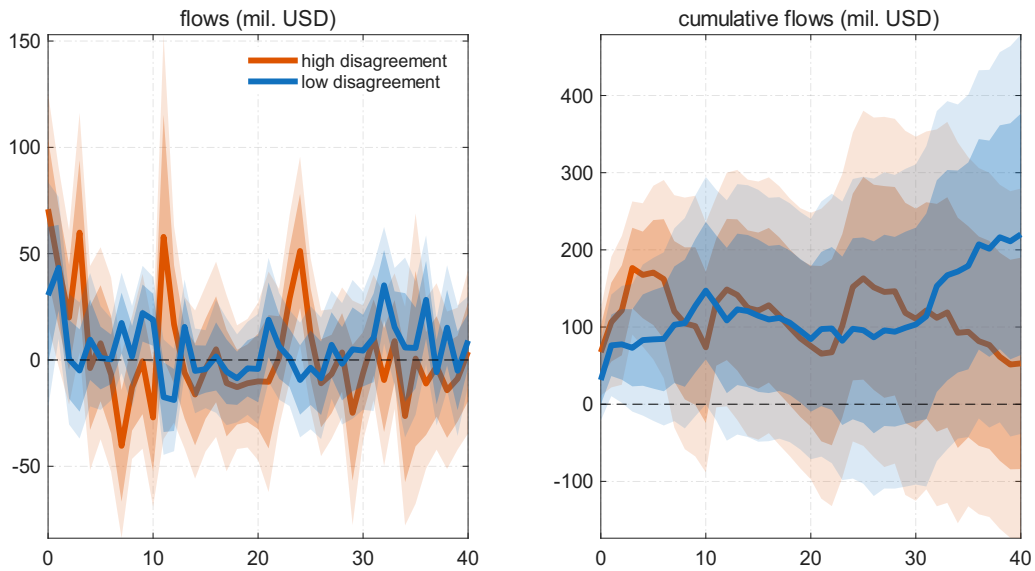
Notes: The figure shows the responses of (cumulative) flows to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-disagreement state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The transition across states is governed by the logistic transition function.

Figure 8: Responses of fund inflows to a global risk shock

(a) Disagreement within the government

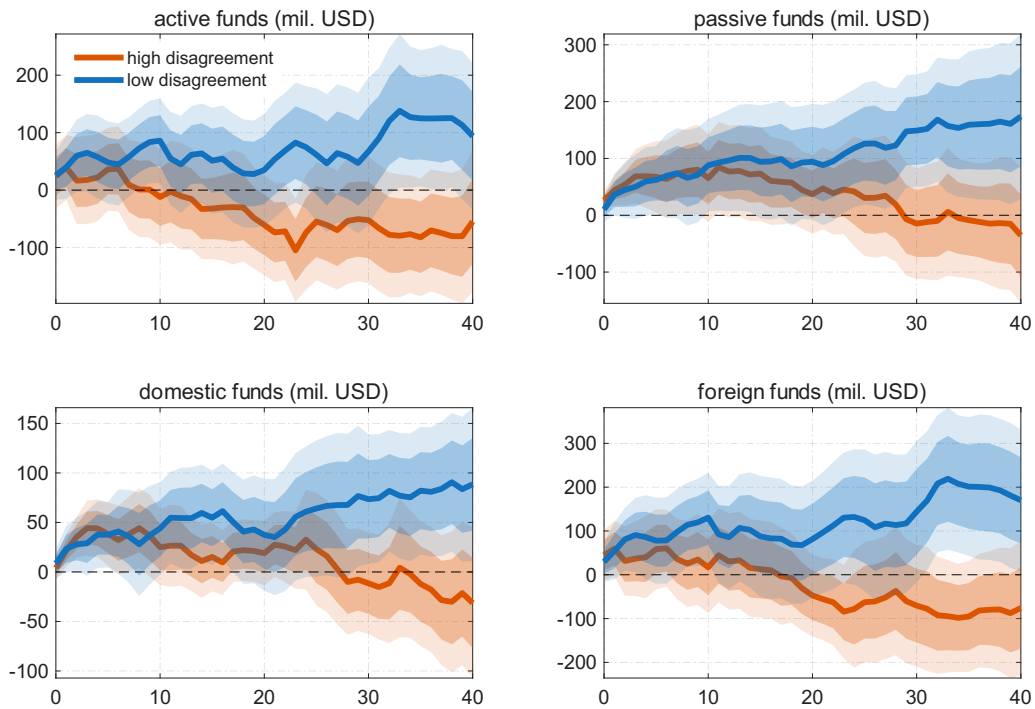


(b) Disagreement between government and opposition



Notes: The figure shows the responses of (cumulative) flows to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-disagreement state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The transition across states is governed non-parametrically.

Figure 9: Responses of fund inflows to a global risk shock



Notes: The figure shows the responses of (cumulative) flows to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-disagreement state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The state variable is the disagreement within the coalition government. The transition across states is governed by the logistic transition function.

6 Conclusions

German government bonds are considered risk-free assets and serve as a safe haven for investors in times of turbulence. We have shown that an increase in global risk does indeed cause strong inflows of mutual funds into German sovereign bonds. Our main finding is that the safe have status of German Bunds is impaired by elevated levels of disagreement about fiscal policy within the governing coalition in Berlin. While an increase in global risk causes strong flows of funds into Germany in times of low fiscal disagreement, the inflows are much smaller and more short-lived in times of fiscal disagreement. When global stress rises, investors are reluctant to invest in Bunds if political conflict raises doubts about the future policy path. This effect holds for disagreement about fiscal policy within the coalition government, but not for disagreement between the coalition government and the opposition.

One policy implication of these findings is that a government speaking with one voice does not only limit the detrimental effects of disagreement on the domestic economy (Latifi et al., 2026), but also increases the attractiveness of bonds for global investors. Our results also offer a new perspective on the nature of German government debt. The fact that the demand for Bunds in times of turbulence depends so much on the level of political disagreement within the government limits the case for Bunds as a true safe asset. An interesting question that could be pursued in a larger sample is whether fiscal rules such as the debt brake adopted in 2009, which constrains discretionary fiscal policy, reduced disagreement and through this channel enhanced the safe haven status of German debt.

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Appendices

These online appendices are not part of the published paper.

Appendix A Sources of the variables

1. U.S. yield: Yield on 10-year U.S. government bonds. We take the average of the week ending on Wednesday. The series is taken from <https://fred.stlouisfed.org/> (DGS10). Transformation: We construct the spread as the difference between U.S. and German yields.
2. German yield: Yield on 10-year German government bonds. We take the average of the week ending on Wednesday. The series is taken from Refinitiv Eikon. Transformation: We construct the spread as the difference between U.S. and German yields.
3. Geopolitical Risk Index: Daily GPR index from taken from <https://www.matteoiacoviello.com/gpr.htm>. We take the average of the week ending on Wednesday. Transformation: none.
4. VIX: CBOE Volatility Index. We take the average of the week ending on Wednesday. The series is taken from <https://fred.stlouisfed.org/> (VIXCLS). Transformation: standardized first differences.
5. ECB surprises: Response of 10-year German government bonds to ECB communication events from [Altavilla et al. \(2025\)](#). We take the sum of the responses for each week ending on Wednesday. The series is taken from <https://www.ecb.europa.eu/press/research-publications/working-papers/html/index.en.html>. Transformation: none.
6. Fund flows: Flows into the German sovereign bond market at a weekly frequency (seven-day week ending Wednesday). The series is taken from the EPFR Global database. Transformation: cumulation.
7. Exchange rate: U.S. dollar to euro spot exchange rate. We take the value on Wednesday. The series is taken from <https://fred.stlouisfed.org/> (DEXUSEU). Transformation: none.
8. Economic Policy Uncertainty: EPU index for Germany. The monthly series is taken from https://www.policyuncertainty.com/europe_monthly.html. Transformation: quadratically detrended and standardized.

9. Risk-On Risk-Off Index: RORO Index from the Federal Reserve Bank of Kansas City. We take the average of the daily index over the week ending on Wednesday. The series is taken from <https://www.kansascityfed.org/data-and-trends/risk-on-risk-off-index/>. Transformation: standardized.
10. Risk aversion index: Index from [Bekaert et al. \(2021\)](#). We take the average of the daily index over the week ending on Wednesday. The series is taken from <https://www.nancyxu.net/risk-aversion-index>. Transformation: standardized.
11. Budget balance: German government deficit or surplus in percent of GDP. The series is taken from <https://data.ecb.europa.eu/>. Transformation: standardized.

Appendix B Additional results

Risk-On Risk-Off Index An alternative to the change in the VIX index is the Risk-On Risk-Off Index provided by the Federal Reserve Bank of Kansas City. This index is designed to reflect shifts in the risk appetite of investors and constructed as the first principal component of daily series of credit risk, stock market volatility, funding conditions as well as exchange rate and commodity price fluctuations ([Chari et al., 2024, 2025](#)). The correlation between the Risk-On Risk-Off index and the change in the VIX index is 0.77. We re-estimate the model using this index as the driving force of fund inflows. Figure (B.1) depicts the estimated impulse response functions. If disagreement within the government is low, an increase in risk causes strong inflows. If disagreement is high, the inflows are much smaller. This is fully consistent with the main results. However, if we estimate the model for disagreement between the government and the opposition, the results flip: capital inflows increase strongly if disagreement is high, but increase only mildly if disagreement is low.

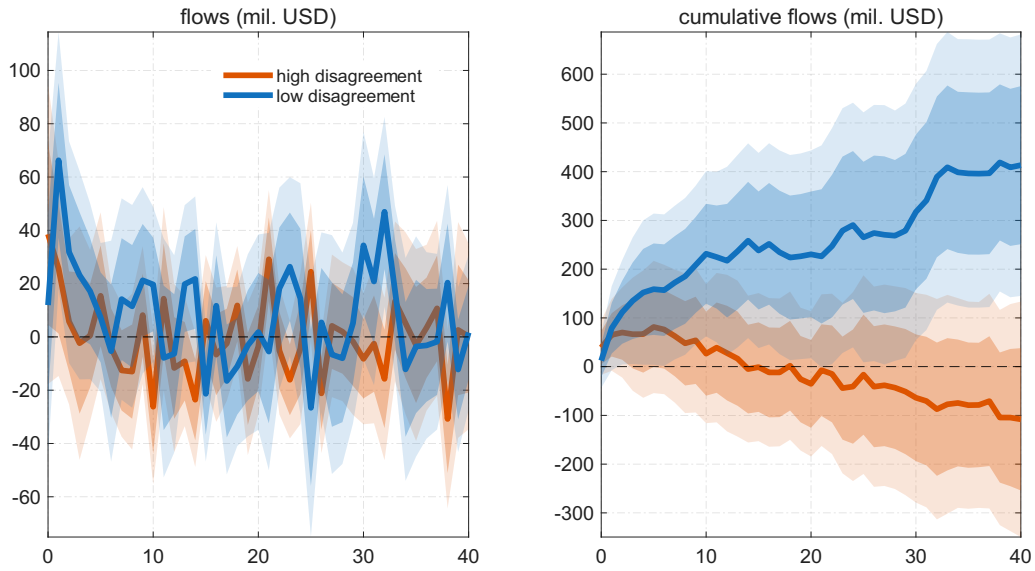
Risk aversion A second alternative to the change of the VIX index is the time-varying index of risk aversion provided by [Bekaert et al. \(2021\)](#). Using this index generates very similar results, see Figure (B.2).

Policy Uncertainty We find that disagreement within the coalition parties strongly dampens safe-haven fund inflows into the German government bond market. How different is the impact of policy uncertainty rather than

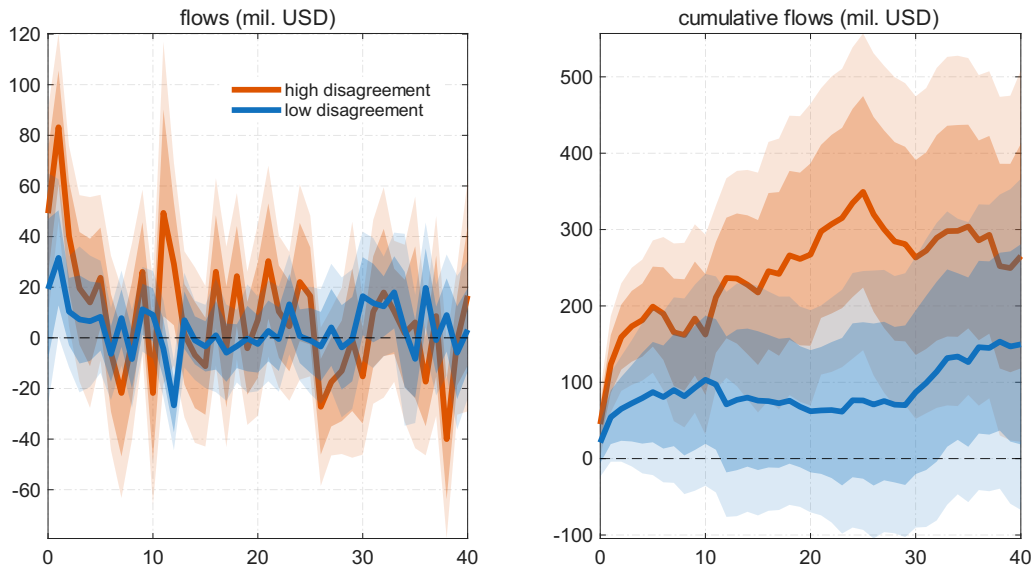
policy disagreement on the dynamics of inflows? We use a popular series of newspaper-based economic policy uncertainty (EPU) for Germany introduced by [Baker et al. \(2016\)](#) as an alternative state variable for our model. Before the estimation, we need to address two problems. First, the EPU series is available at a monthly frequency only. We convert the series to weekly frequency by holding the level of uncertainty constant for each week in a given month. Second, the EPU series exhibits a strong upward trend over our sample period. To use it as a state variable, we quadratically detrend the series.

Figure B.1: Responses of fund inflows to a global risk shock (Risk-On Risk-Off index)

(a) Disagreement within the government



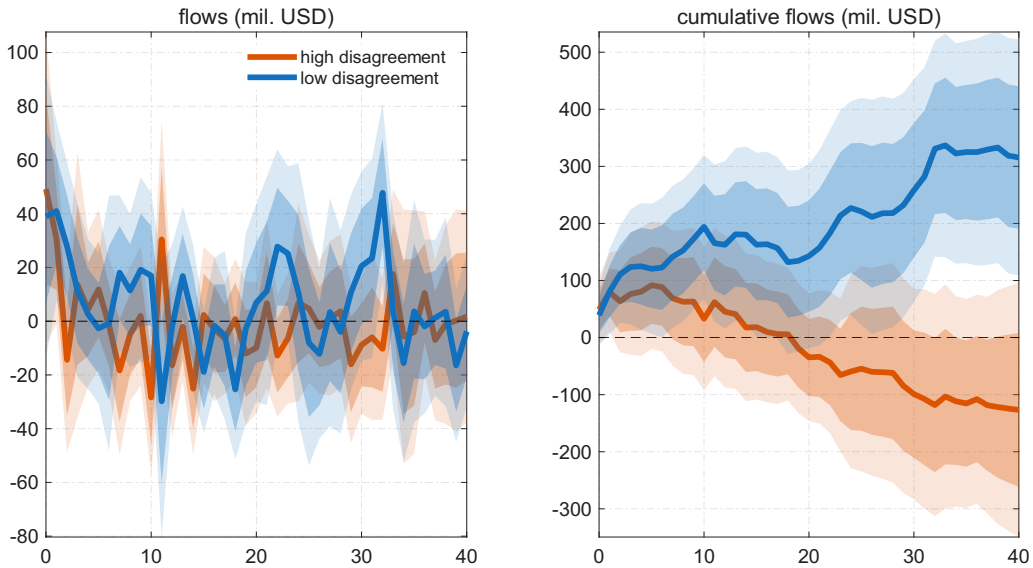
(b) Disagreement between government and opposition



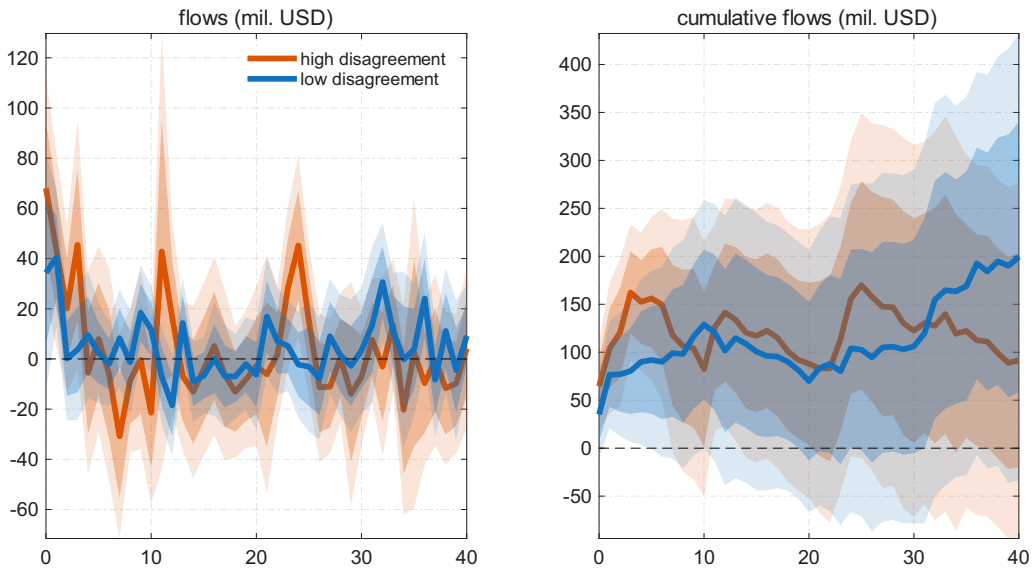
Notes: The figure shows the responses of (cumulative) flows to the Risk-On Risk-Off index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-disagreement state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The transition across states is governed by the logistic transition function.

Figure B.2: Responses of fund inflows to a global risk shock (risk aversion index)

(a) Disagreement within the government

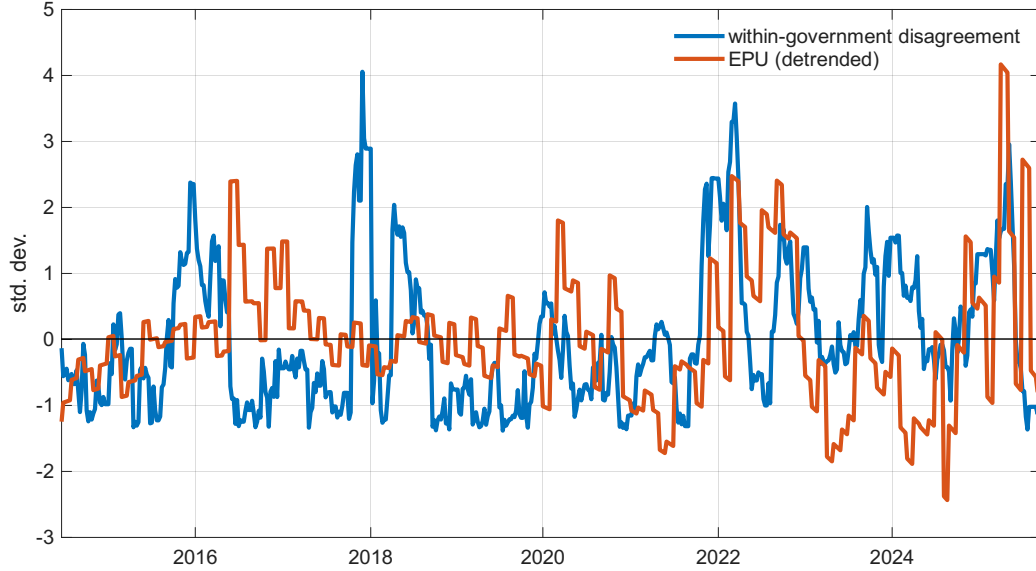


(b) Disagreement between government and opposition



Notes: The figure shows the responses of (cumulative) flows to the risk aversion index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-disagreement state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The transition across states is governed by the logistic transition function.

Figure B.3: Disagreement within the government vs EPU



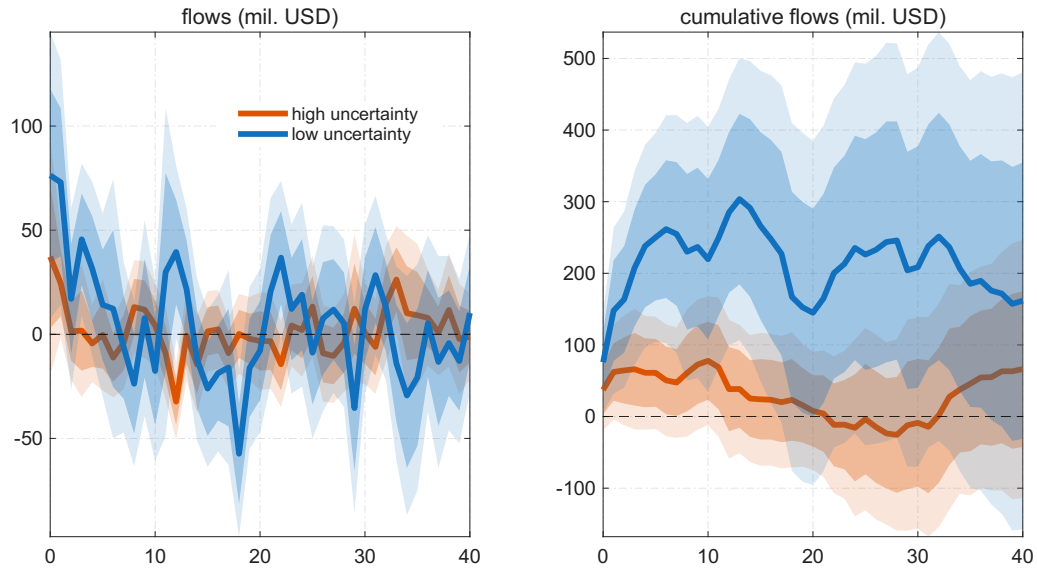
Notes: The figure shows the fiscal policy disagreement within the government and the quadratically detrended series of economic policy uncertainty. Both series are standardized.

Figure (B.3) shows the resulting EPU index against our series of within-government disagreement. While the two series behave differently in the first half of the sample, they exhibit a remarkable co-movement in the latter half.

The resulting impulse response functions are shown in Figure (B.4). An increase in global risk causes large fund inflows into the German bond market if policy uncertainty is low. However, if policy uncertainty is high, the safe-haven inflows are much shorter and the increase is very short-lived. These results are qualitatively very similar to the baseline results presented in the paper.

Budget balance It could be argued that disagreement about fiscal policy primarily reflects the state of government finances. In Figure (B.5), we plot the disagreement within the coalition government against the balance of the federal budget (in % of GDP). The two series appear uncorrelated. Nevertheless, we re-estimate the local projections using the standardized budget balance as a state variable. As shown in Figure (B.6), we find that the response of the cumulative fund flows tends to be stronger if the budget balance is low. However, the difference across the impulse response functions is small and lacks statistical significance. We can conclude that we do not accidentally pick-up periods of high or low budget balances when conditioning the

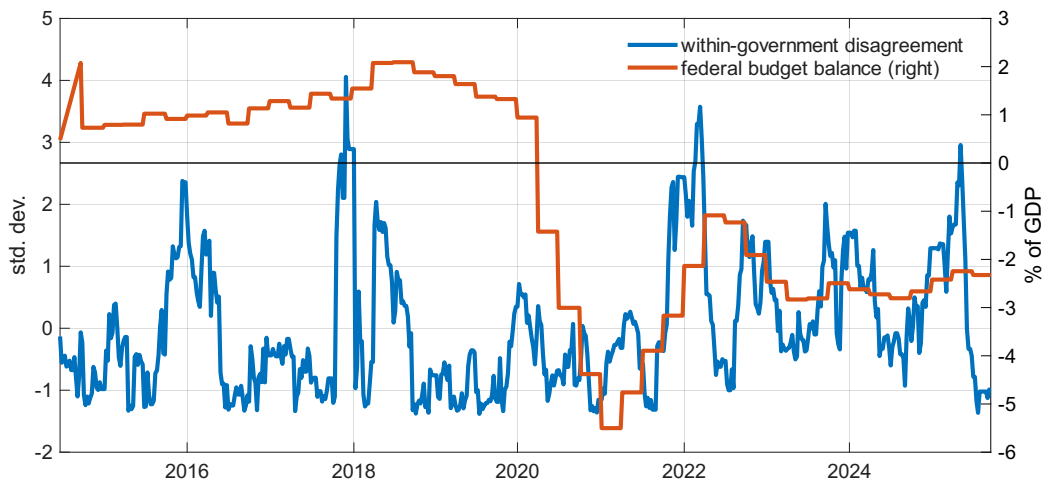
Figure B.4: Responses of fund inflows to a global risk shock (EPU as a state variable)



Notes: The figure shows the responses of cumulative flows to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-uncertainty state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The transition across states is governed by the logistic transition function.

responses on the level of fiscal policy disagreement.

Figure B.5: Disagreement within the government vs budget balance

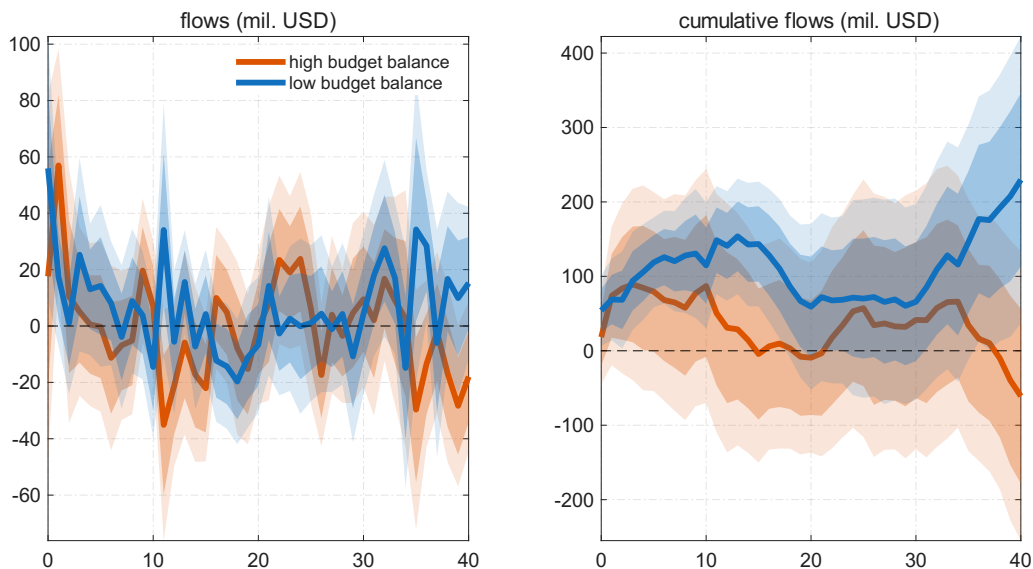


Notes: The figure shows the fiscal policy disagreement within the government and the budget balance in percent of GDP (right axis). The disagreement series is standardized.

Positive vs negative risk shocks Investors wanting to buy German debt might be reluctant to do so if political disagreement is high. In contrast, investors wanting to sell debt might ignore the current level of disagreement. Hence, the moderating effect of disagreement on flows should depend on the sign of the risk shock. Our conjecture is that disagreement moderates flows after an increase in risk, but does not affect flows after a fall in risk. We distinguish increases in risk, i.e. $\max[0, shock_t]$, and decreases in risk, i.e. $\min[shock_t, 0]$, and include them as separate drivers in the local projections. This provides us with estimates of $\beta_h^{I,+}$ and $\beta_h^{I,-}$ for state *I* and analogous estimates for state *II*. The sign of the risk shock is irrelevant for the dynamics of flows if $\beta_h^{I,+} = \beta_h^{I,-}$ and analogously for state *II*. Figure (B.7) shows the results for the disagreement within the government. The estimates are consistent with our conjecture: a positive shock raises inflows if disagreement is low, but has only a small effect if disagreement is high. For a negative shock, the estimated coefficients are indistinguishable. Hence, the results in the main part of the paper are driven by increases in global risk causing safe-haven inflows rather than decreases in risk causing outflows from safe-haven assets.

Log of cumulative flows We estimate the baseline model with the cumulative flows in USD as the dependent variable. In an alternative model,

Figure B.6: Responses of fund inflows to a global risk shock (budget balance as a state variable)



Notes: The figure shows the responses of cumulative flows to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-uncertainty state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The transition across states is governed by the logistic transition function.

we include the logarithm (multiplied by 100) of the cumulative flows as the dependent variable. A shock of one standard deviation causes cumulative inflows to increase by about four percent, see [Figure \(B.8\)](#).

Disagreement and elections Fiscal policy disagreement might not be equally important at each moment of the election period. It could be argued that disagreement between the coalition parties is more important the further away the next election is. Likewise, disagreement between the government and the opposition could matter more the closer the next election. We want to modify our empirical model to address this concern. For that purpose, we change the transition function $F(z_t)$, which describes the probability of the high-disagreement state as a function of the level of disagreement. The new transition function $F^*(z_t)$ equals the conventional transition function multiplied by a factor $\sigma^i \in (0, 1)$ for each of the two alternative definitions

of disagreement i

$$F^*(z_t) = \sigma_t^i F(z_t), \quad (\text{B.1})$$

with

$$\sigma_t^{GovGov} = 1 - \frac{1}{\exp(-\kappa(m_t - m))} \quad (\text{B.2})$$

and

$$\sigma_t^{GovOpp} = \frac{1}{\exp(-\kappa(m_t - m))}. \quad (\text{B.3})$$

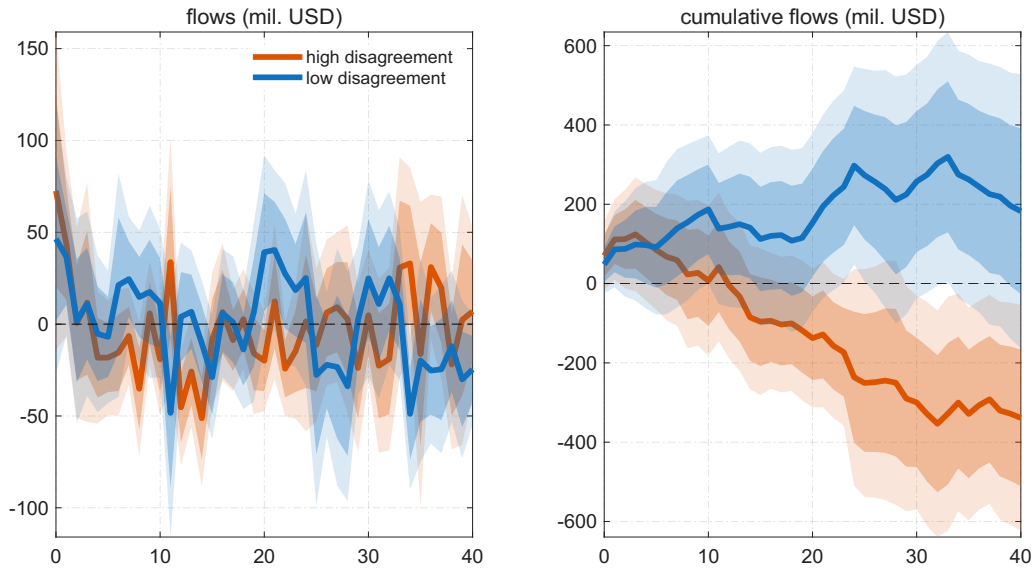
The σ_t^i factor is a logistic transformation of the month m_t of the election period. We set the turning point to $m = 36$ and the steepness to $\kappa = 0.3$. The results do not hinge on these specific values.

Figure (B.9) illustrates the logistic transformation. Consider the transition function for disagreement within the government. Early in the election period, the probability of the high-disagreement state gets a weight close to one. Towards the end of the election period, the high-disagreement state gets a weight close to zero. The opposite logic applies to government-opposition disagreement. Figure (B.10) compares this modified probability of the high-disagreement state with the probability in the baseline model, $F(z_t)$. We clearly see that the weighting scheme changes the state probabilities.

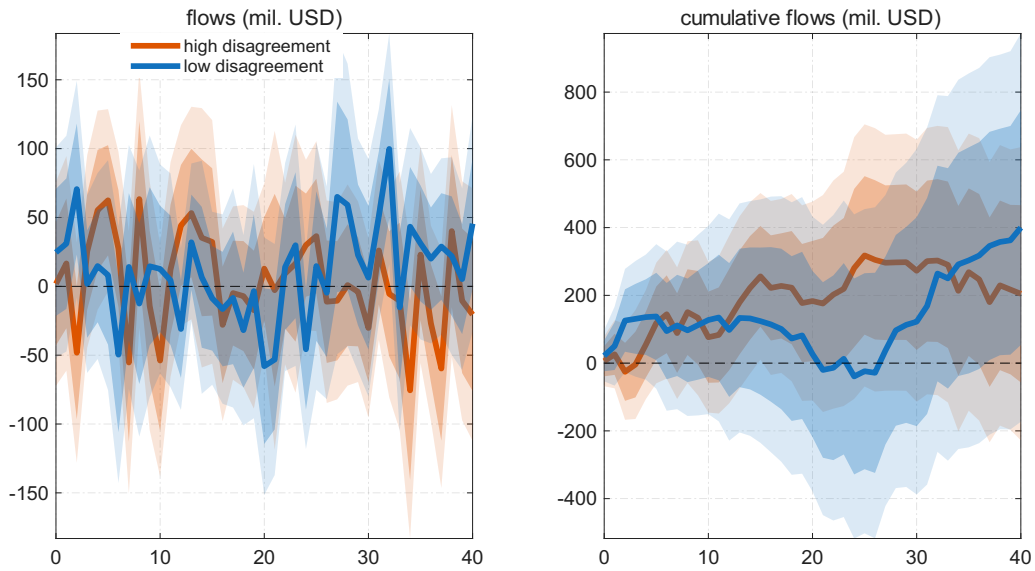
We re-estimate the local projections with the modified probabilities of the high-disagreement state. Figure (B.11) reports the estimated impulse response functions. The results become even more clear-cut than in the baseline model.

Figure B.7: Responses of fund inflows to positive and negative global risk shocks

(a) Positive shocks

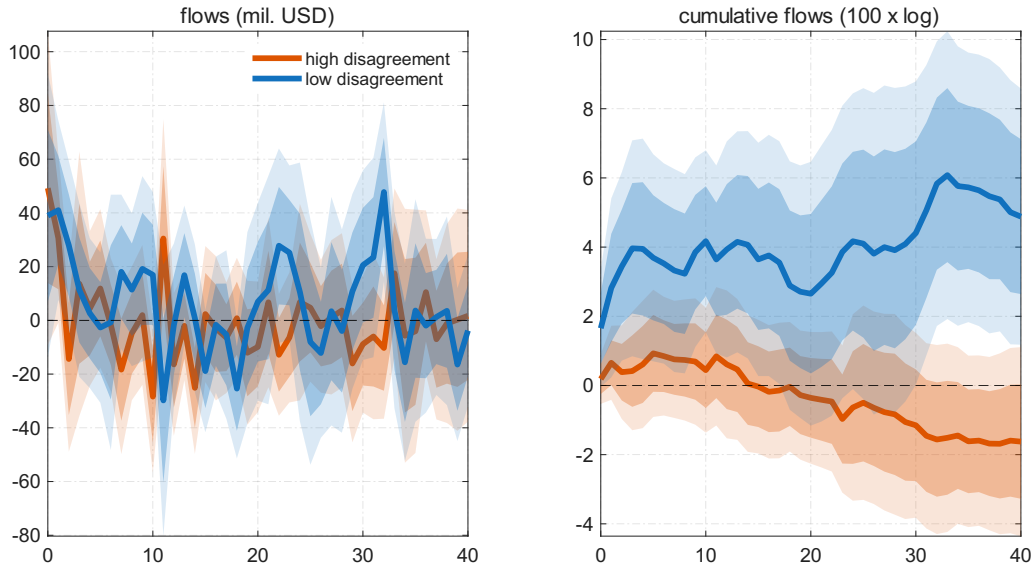


(b) Negative shocks



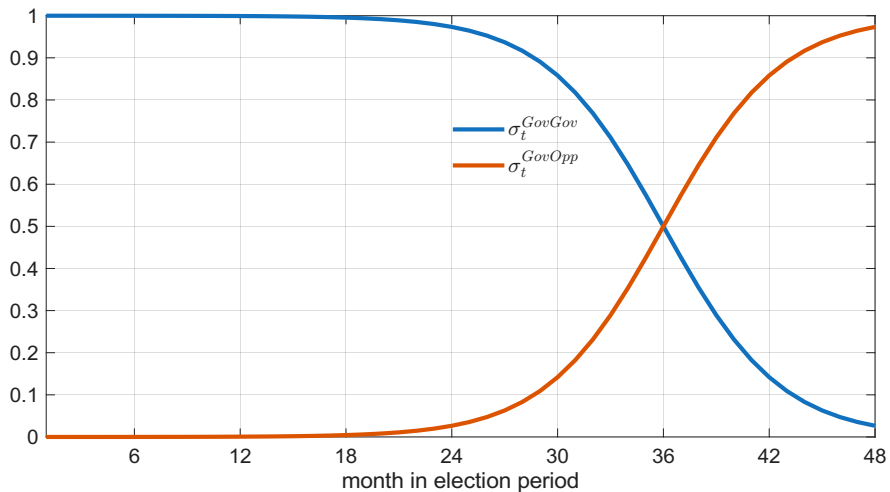
Notes: The figure shows the responses of (cumulative) flows to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-disagreement state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The state variable is the disagreement within the coalition government. The transition across states is governed by the logistic transition function.

Figure B.8: Responses of fund inflows to a global risk shock (log of cumulative flows)



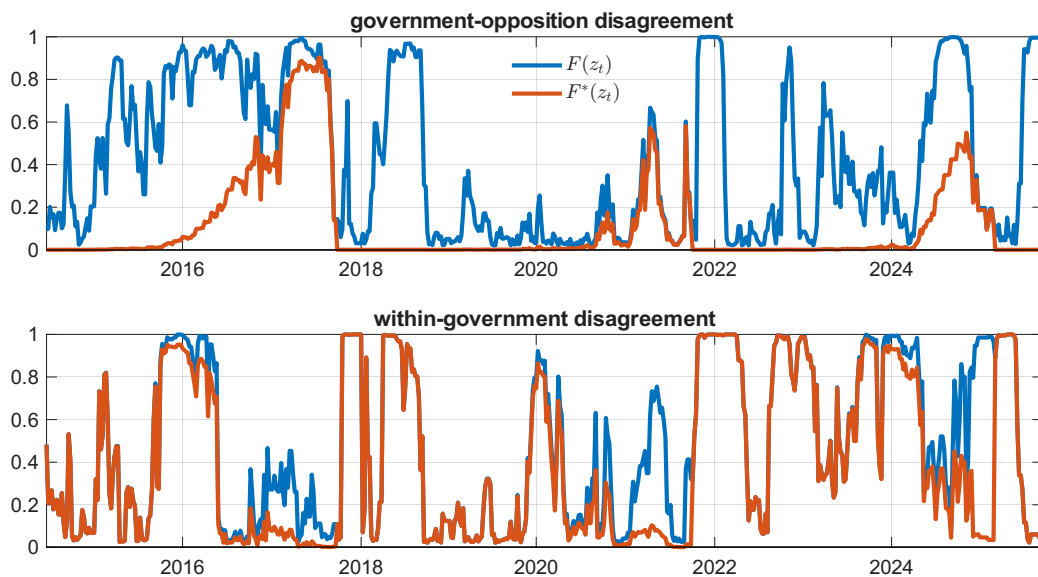
Notes: The figure shows the responses of (cumulative) flows to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-disagreement state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The transition across states is governed by the logistic transition function.

Figure B.9: Logistic transformation of the month m_t



Notes: The figure shows the σ_t^i factor for $\kappa = 0.3$ and $m = 36$.

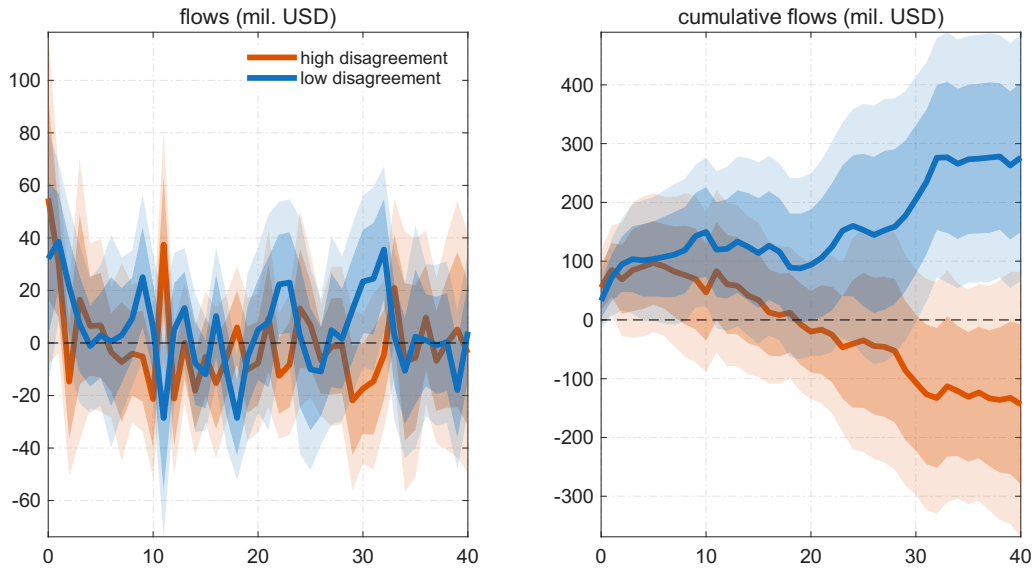
Figure B.10: Transformed probability of high-disagreement state



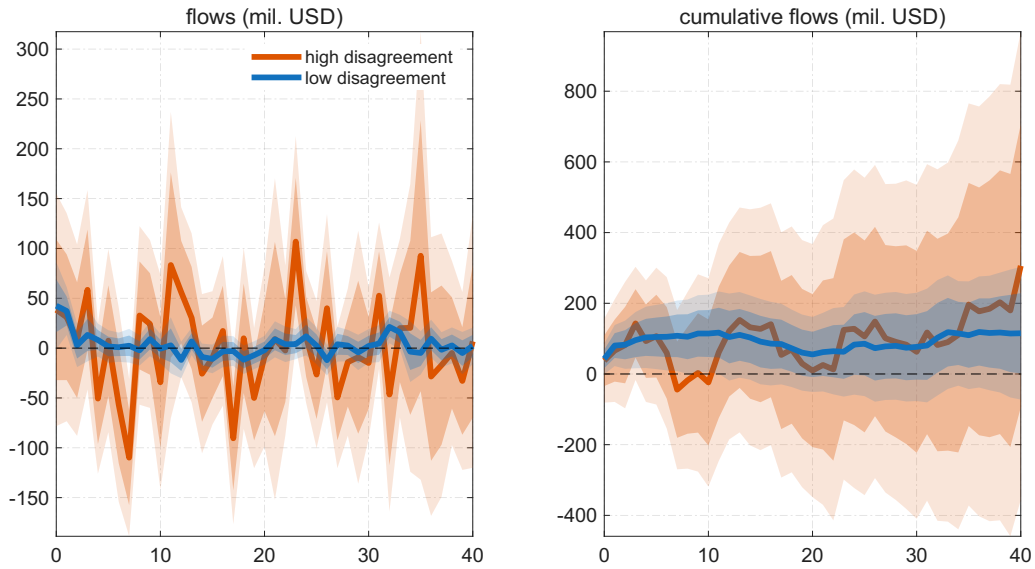
Notes: The figure shows the probability of the high disagreement state for the two alternative state variables and the logistic transition function after the multiplication with σ_t^i .

Figure B.11: Responses of fund inflows to a global risk shock (weighted transition function)

(a) Disagreement within the government



(b) Disagreement between government and opposition



Notes: The figure shows the responses of (cumulative) flows to the change in the VIX index of one standard deviation, i.e. the estimated β_h coefficients in the high- and low-disagreement state as a function of h as well as 68% and 90% confidence bands constructed from [Driscoll and Kraay \(1998\)](#) standard errors. The transition across states is governed by the logistic transition function.

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