

Abstract

This study investigates herding behaviour exhibited by Dutch pension funds in the sovereign bond market. It uses a unique dataset on sovereign bond holdings of pension funds, mutations and transactions between December 2008 and December 2014. It covers 67 large Dutch pension funds that invest in 109 countries. We find evidence of intensive herding behaviour of Dutch pension funds in sovereign bonds. Our findings also show that institutional factors, the macroeconomic environment and the financial market environment are among the determinants of herding behaviour in sovereign bonds. Our results also indicate that high diversification is not without costs as it intensifies herding behaviour. We find mixed evidence on whether pension funds are stabilising actors. The destabilising effect is most pronounced on the sell side, while stabilisation is most prominent under more extreme price shocks. The distinction between developing and emerging economies and developed economies does not change these results.