Macro News, Micro News, and Stock Prices

Jinfei Sheng†

University of British Columbia

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Abstract

I investigate interactions between macro-announcements and the processing of earnings news. Existing theories suggest that macro-news should crowd out attention to firm-level news, implying less efficient pricing. However, I find the opposite: on macro-news days price reactions to earnings news are 17% stronger and the post-earnings announcement drift is 71% weaker. To explain these results, I show that institutional investor attention is higher on macro-news days. Hence, macro-news appears not to be a distraction from firm-level news, but instead serves to enhance overall attention to financial markets. I suggest extensions of existing theories that could be consistent with these findings.

Keywords: macro news, earnings announcements, market efficiency, investor attention.

JEL Classification: G12, G14, G02

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†Sauder School of Business, University of British Columbia. Email: jinfei.sheng@sauder.ubc.ca, 2053 Main Mall, Vancouver, BC, V6T 1Z2, Canada.