Macro Announcement Disagreement Observed in the Cross Section of Stocks

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Abstract

We use intraday price and volume data from the cross section of stocks in the S&P500 to determine whether investors disagree when they process relevant macro-news announcements. If investors do disagree, we investigate the systematic components that drive disagreement. The high frequency data on stocks price and trade enable us to precisely isolate the news impact, and we follow the volume-volatility elasticity framework to interpret our estimation. Following the literature, we consider a set of stock characteristics that might contribute to investor disagreement: idiosyncratic volatility, market size, value, and percent of institutional ownership. Our findings suggest that investors do disagree whenever there is more uncertainty about future payoffs, in which case idiosyncratic volatility has the greatest explanatory power. Furthermore, the different stock characteristics explain, to a large extent, the deviation from the case of no disagreement. Finally, we explore how the direction of stock misprice affects the elasticity and verify that the overall investor disagreement may not be entirely observed due to arbitrage constraints.

Keywords: Differences-of-opinion; high-frequency data; jumps; macroeconomic news announcements; event studies; market efficiency; trading volume; stochastic volatility; economic uncertainty; large data sets.

JEL classification: C55, C58, D89, G14.

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