Risky Talk? Assessing the Effect of Macroeconomic Announcements on Stock Markets

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This paper takes a fresh look at how macroeconomic announcements affect stock markets. The existing literature proves both a risk-free premium when trading on announcement days and increased volatility. It is this contradiction which leads the author to determine a valid relationship between the release of key macroeconomic information like inflation data, and market volatility and returns. Furthermore, as the existing literature focusses predominantly on 80s-90s US markets, wider data are analysed to determine whether either of the previously mentioned relationships can be replicated in differing timeperiods and markets.

By matching publically available trading data for the 1997-2017 period to archived government announcement dates for labour, consumer price, output and trade data, this paper computes the divergence in average daily variance and returns between announcement and non-announcement days. Analysing two decades which exhibited almost all conceivable points of the business cycle across a range of markets, the S&P500, Dow Jones, FTSE100, Hang Sen and ASX200, the scope of this project makes the author confident of external validity and robustness. Consequently, this paper provides evidence which contradicts the current literature in other advanced economies. The results of this paper highlight how it is vital to address unnecessary market frictions in order to lower trading risk, particularly in the setting of financial intermediation. This implies key policy implications, such as a rethinking of how macroeconomic data is announced. Among the benefits, one extremely significant effect of lowering undue trading risk would be to lower the risk and severity of future financial crises.