

Macro Roundup Article

Headline: [What Hundreds of Economic News Events Say About Belief Overreaction in the Stock Market](#)

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Tweet: Investor overreaction to news events may reduce market volatility: “the sum total of different individual overreactions to multiple simultaneous shocks can dampen rather than amplify their combined market impact.” @Francesco_Bia @LudvigsonSydney

Summary: [We study] a variety of belief distortions in market reactions to hundreds of economic news events using a new methodology that synthesizes estimation of a structural asset pricing model with algorithmic machine learning to quantify bias. Human bias is [seen as] a genuine ex ante expectational error, and bias in expectations is measured relative to the machine forecast, not relative to the ex post outcome. We estimate that investors systematically overreact to perceptions about multiple fundamental shocks in a macro-dynamic system, generating asymmetric compositional effects when several counteracting shocks occur simultaneously in real-world events. News is overreacted to because investors systematically overstate its implications for payout-relevant factors (while understating in relative terms its implications for discount rates). Related: Long-Term Shareholder Returns: Evidence From 64,000 Global Stocks and Stocks For The Long Run? Sometimes Yes, Sometimes No and Equity Risk Premiums: Determinants, Estimation, and Implications

Primary Topic: Financial Markets

Topics: Academic paper, Database, Financial Markets, GDP

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