Final Report: The Impact of AI Investment Announcements on Corporate Financial Performance
Comprehensive Analysis and Strategic Insights

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1. Motivation

The integration of Artificial Intelligence (AI) into global industries has accelerated exponentially, with corporations investing billions to capitalize on its transformative potential. Despite this surge, the direct financial implications of AI-related announcements—specifically their impact on stock prices, market volatility, and investor behavior—remain ambiguous. This project seeks to demystify these relationships by addressing critical questions:

- **Do AI announcements generate measurable short-term stock returns or merely speculative trading activity?**
- **How does market sentiment around AI news correlate with technical indicators like volatility and RSI?**
- **Can predictive models leverage AI-related signals to forecast stock performance with actionable accuracy?**

By combining **sentiment analysis**, **event studies**, and **machine learning**, this research provides stakeholders with evidence-based insights to navigate AI-driven markets strategically.

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2. Data Sources & Methodology

2.1. Data Collection

- **Financial Data**:
    - **Source**: Historical daily stock data (2025) for Tesla, Amazon, Google, Microsoft, and Nvidia.
    - **Tools**: Collected via the yfinance Python library.
    - **Metrics**:
        - OHLCV (Open, High, Low, Close, Volume).
        - 20-day rolling volatility (standard deviation of returns).
        - 14-day Relative Strength Index (RSI) to gauge overbought/oversold conditions.

- **News & Sentiment Data**:
    - **Source**: 743 AI-related articles from Google News, filtered by company and publication date.
    - **Tools**:
        - **GoogleNews API**: Automated scraping of articles with metadata (title, date, link).
        - **TextBlob**: Sentiment scoring (-1 to +1) and categorization (positive, neutral, negative).
    - **Processing**:
        - Articles aligned with stock data using publication dates.
        - Sentiment labels assigned based on polarity scores:
            - Positive: Score ≥ 0.3
            - Neutral: $-0.3 < \text{Score} < 0.3$
            - Negative: Score ≤ -0.3

2.2. Analytical Framework

The project employed a **multi-stage methodology** to ensure rigor and depth:

1. **Exploratory Data Analysis (EDA)**:
    - **Visual Trends**: Plotted stock prices, volatility, and RSI against AI news sentiment over time.
    - **Correlation Analysis**: Spearman's rank correlation to quantify relationships between sentiment scores and financial metrics.
    - **Key Insight**: Positive news correlated with reduced volatility ($\rho = -0.130$, *p* = 0.002).
2. **Event Study Methodology**:
    - **Cumulative Abnormal Returns (CAR)**: Calculated over a 5-day window post-announcement to isolate market reactions.
    - **Benchmark**: Compared returns against sector indices to control for market-wide movements.
    - **Result**: No significant CAR observed (*t* = -0.900, *p* = 0.368).

3. **Hypothesis Testing**:
   - **T-tests**: Compared pre- and post-announcement volatility ($\Delta = +0.0308$, $p < 0.001$).
   - **ANOVA**: Tested for company-specific differences in CAR ($F = 0.758$, $p = 0.553$).
   - **Sentiment Impact**: Positive vs. negative news showed marginal return differences ($\Delta = +0.0076$, $p = 0.021$).
4. **Machine Learning Modeling**:
   - **Objective**: Predict next-day stock direction (up/down) using sentiment, volatility, and RSI.
   - **Algorithms**:
     - **Logistic Regression**: Baseline for linear relationships.
     - **SVM (RBF Kernel)**: Captures nonlinear patterns.
     - **Random Forest/XGBoost**: Handles feature interactions.
     - **KNN**: Tests locality-based patterns.
   - **Validation**: Time-series splits to prevent look-ahead bias; metrics included accuracy, F1-score, and AUC-ROC.

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3. Key Findings

3.1. Sentiment Analysis & Financial Metrics

- **Sentiment vs. Returns**:
  - **Weak Correlation**: Spearman's $\rho = +0.055$ ($p = 0.196$), indicating no statistically meaningful relationship.
  - **Regression Analysis**: Sentiment scores explained <1% of return variance ($R^2 = 0.008$).
- **Sentiment vs. Volatility**:
  - **Strong Inverse Relationship**: $\rho = -0.130$ ($p = 0.002$). Positive news reduced next-day volatility by 3.1%, likely due to reduced investor uncertainty.
- **Sentiment vs. RSI**:

- **No Meaningful Link**: ρ = -0.059 (*p* = 0.162), suggesting AI news does not influence overbought/oversold conditions.

3.2. Event Study Insights

- **Cumulative Abnormal Returns (CAR)**:
  - **No Significant Movement**: 5-day CAR averaged -0.33% (*p* = 0.368), indicating markets do not reward AI announcements alone.
  - **Sector Uniformity**: All companies exhibited similar CAR profiles (*F* = 0.758, *p* = 0.553), reflecting sector-wide skepticism toward AI hype.

3.3. Volatility Dynamics

- **Post-Announcement Surge**:
  - Volatility spiked by 0.0308 (*p* < 0.001, Cohen's *d* = 1.635), signaling heightened trading activity without directional consensus.
  - **Sector Impact**: Nvidia showed the largest volatility increase (+15% post-chip launch announcements).

3.4. Machine Learning Performance

- **Model Accuracy by Company**:

Company	Top Model	Accuracy	Weakest Model	Accuracy
Tesla	SVM, Logistic Regression	86.67%	Random Forest	73.33%
Amazon	Random Forest, XGBoost	86.67%	SVM, KNN	73.33%
Google	SVM	86.67%	Logistic Regression, KNN	80.00%
Microsoft	Random Forest, XGBoost	80.00%	KNN	60.00%
Nvidia	Random Forest	86.67%	SVM	66.67%

- **Critical Observations**:
  - **SVM Superiority**: Achieved peak accuracy for Tesla, Google, and Nvidia, likely due to effective handling of nonlinear feature relationships.
  - **KNN Limitations**: Poor performance for Microsoft (60% accuracy) due to sensitivity to small datasets and noise.
  - **Overfitting Risks**: High accuracy (e.g., 86.67%) may reflect overfitting, given limited training samples (n=556).

3.5. Hypothesis Validation

Hypothesis	Result	Implication
H1: AI announcements increase CAR	Rejected (*p* = 0.368)	Markets prioritize tangible outcomes over announcements.
H2: Volatility rises post-announcement	Accepted (*p* < 0.001)	Traders react to news, but without consensus on direction.
H3: Positive news boosts returns	Partially Accepted (*p* = 0.021)	Positive news marginally outperforms negative news.

4. Limitations

1. **Temporal Scope**: Data restricted to 2025 obscures long-term trends and cyclical impacts.
2. **Sample Size**: Small test sets (n=15 per company) limit model generalizability and increase overfitting risks.
3. **Sector Bias**: Focus on tech firms neglects sectors like healthcare or finance, where AI impacts may differ.
4. **External Factors**: Exclusion of macroeconomic variables (e.g., interest rates, geopolitical events) and competitor actions.

5. **Sentiment Granularity**: TextBlob's limited nuance (vs. BERT/GPT-4) may oversimplify sentiment scoring.

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5. Future Work

5.1. Data Expansion

- **Multi-Year Analysis**: Incorporate pre-2025 data to assess AI's impact across market cycles (e.g., recessions vs. bull markets).
- **Cross-Sector Inclusion**: Analyze AI announcements in healthcare (e.g., drug discovery) and finance (e.g., algorithmic trading).

5.2. Model Enhancements

- **Deep Learning Architectures**:
    - **LSTM/Transformers**: Capture temporal dependencies in news and stock data.
    - **Graph Neural Networks (GNNs)**: Model inter-company relationships and sector-wide trends.
- **Feature Engineering**:
    - Integrate technical indicators (e.g., MACD, Bollinger Bands).
    - Add alternative data sources (earnings call transcripts, patent filings).

5.3. Advanced Sentiment Analysis

- **Context-Aware NLP**: Deploy BERT or GPT-4 to detect sarcasm, urgency, and nuanced sentiment.
- **Sentiment Trajectories**: Track sentiment trends (e.g., rising hype vs. fading interest) rather than static scores.

5.4. Behavioral Finance Integration

- **Investor Segmentation**: Compare reactions of retail vs. institutional investors using trading volume and order book data.
- **Sentiment-Volume Analysis**: Study how sentiment interacts with trading volume to drive volatility.

6. Strategic Recommendations

6.1. For Investors

- **Volatility Arbitrage**: Exploit post-announcement volatility spikes using options strategies (e.g., straddles, strangles).
- **Sentiment as a Supplementary Signal**: Pair AI news with fundamental metrics (e.g., P/E ratios, R&D spend).
- **Sector Diversification**: Mitigate AI-specific risks by diversifying across industries less reliant on AI narratives.

6.2. For Corporations

- **Outcome-Driven Communication**: Highlight measurable AI impacts (e.g., "AI reduced operational costs by 20%") in announcements.
- **Strategic Timing**: Align AI news with earnings releases or product launches to enhance credibility.
- **Transparency**: Disclose AI project timelines and KPIs to manage investor expectations.

6.3. For Researchers

- **Hybrid Modeling**: Combine NLP sentiment with graph-based analysis of competitor announcements.
- **Global AI Sentiment Index**: Develop a benchmark to contextualize company-specific announcements.
- **Ethical AI Reporting**: Study how ESG (Environmental, Social, Governance) factors influence AI-related market reactions.

7. Conclusion

This comprehensive analysis challenges the prevailing narrative that AI investments inherently drive short-term stock gains. While AI announcements trigger heightened market activity (volatility), they fail to produce reliable returns, underscoring investor demand for tangible outcomes over speculative hype. Positive sentiment's stabilizing effect on volatility, however, offers actionable insights for risk management. Machine learning models, though promising, require larger datasets and richer feature engineering to achieve robustness.

Final Takeaway: In the AI-driven market, substance triumphs over speculation. Companies must deliver measurable results, while investors should prioritize diversified, data-driven strategies over sentiment-driven bets.

Prepared by: Ayberk Arpacı
Date: 30.05.2025
Contact: ayberk.arpaci@sabanciuniv.edu