

Attention allocation and underreaction to earnings announcements when macro news is released.

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While limited attention literature predicts that investors prioritize macro news to firms' earnings announcements, it is observed that price underreaction is weaker on the macro news release dates. We study how investors allocate their attention among micro news when macro news is released. We hypothesize that investors pay attention to firms that are less dependent to macro-economic factor when macro news is released. This is because their uncertainty is not reduced when the macro factor uncertainty decreases. By the regression with firms' exposure to macro factor, we find that firms with lower exposure have stronger price responses to earnings surprises on macro news dates. Our results suggest that the impact of macro news on PEAD varies with firm characteristics because they alter the investors' attention allocation.

Keyword: Macro news; Earnings announcements; Investor attention; PEAD

JEL classification: G14; G12; E44