

What Triggers Stock Market Jumps?

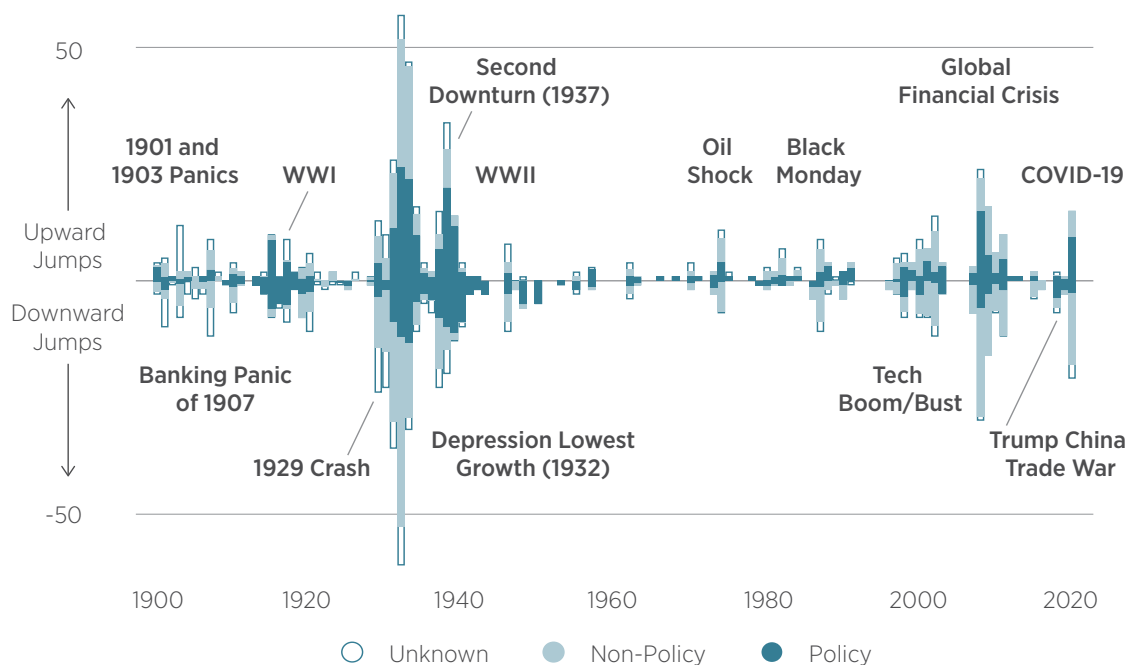
Scott R. Baker, Northwestern University; Nicholas Bloom, Stanford University; Steven J. Davis, William H. Abbott Distinguished Service Professor of International Business and Economics, Chicago Booth; and Marco Sammon, Northwestern University.

News associated with monetary policy and government spending triggers a greater share of upward than downward jumps in the stock markets of 16 countries, with lower market volatility after jumps triggered by monetary policy news, among other key findings.

What drives big moves in national stock markets? The benchmark view in economics and finance holds that stock price changes reflect rational responses to news about discount rates and corporate earnings, which suggests that big daily moves are accompanied by readily identifiable developments that affect discount rates and anticipated profitability. Another view, first introduced by Keynes in 1936, suggests that investors price stocks based not on their opinions about fundamental values but on their opinions about what others think about stock values.

In either case, though, these forces are described in contemporaneous news accounts, according to the authors, and they employ such accounts to distill information about what triggers big moves in national stock markets. The authors examine next-day newspaper accounts of large daily jumps in 16 national stock markets to assess their proximate cause, clarity as to cause, and the geographic source of the market-moving news. Their sample of 6,200 market jumps yields several findings:

Figure 1 • Jumps Per Year Vary Greatly but the Policy Share Is Fairly Stable (1900-2020)

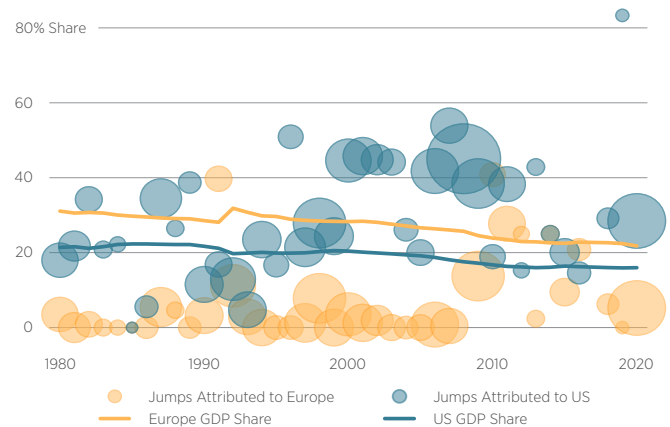


Notes: Each bar is the number of positive or negative jumps in that year. Dark blue and light blue shadings indicate jumps triggered by "Policy" and "Non-Policy," respectively. The unshaded parts of each bar indicate jumps attributed to "Unknown or No Explanation Offered" plus five instances of "no article found" before 1926.

- Policy news, mainly that associated with monetary policy and government spending, triggers a greater share of upward than downward jumps in all countries.
- The policy share of upward jumps is inversely related to stock market performance in the preceding three months. This pattern strengthens in the postwar period.
- Market volatility is much lower after jumps triggered by monetary policy news than after other jumps, unconditionally and conditional on past volatility and other controls.
- Greater clarity as to jump reason also foreshadows lower volatility. Clarity in this sense has trended upwards over the past century.
- Finally, and excluding US jumps, leading newspapers attribute one-third of jumps in their own national stock markets to developments that originate in or relate to the United States. The US role in this regard dwarfs that of Europe and China.

Regarding their final finding, the authors note that from 1980 to 2020, 32 percent of all jumps in non-US stock markets were triggered by news emanating from or about the United States. This assessment reflects the reportage in leading own-country newspapers about their national stock markets. Also, jumps in other countries attributed to China-related developments were rare before the mid 1990s but have become much more frequent in recent years.

Figure 2 • News about the United States Triggers a Large Share of National Stock Market Jumps in Other Countries, a Pattern that Does Not Hold for Europe



Notes: This figure shows the yearly share of daily stock market jumps in Australia, Canada, China (HK), China (Shanghai), Japan, New Zealand, Saudi Arabia, Singapore, South Africa, and South Korea that leading own-country newspapers attribute to news about the United States and to news about Europe (or individual European countries). The sample runs from 1980 to 2020 but does not cover all countries in all years. Dot size is proportional to the average number of jumps per country in that year. GDP shares are 5-year moving averages of global GDP, evaluated at PPP, in IMF data.