

Uncertainty, expectation dispersion, and the reaction to news*

Benjamin Born, Jonas Dovern, Zeno Enders

November 2, 2018

Abstract

Releases of key macroeconomic indicators are closely watched by financial markets. At the same time, expectations about an indicator prior to its release can be quite dispersed. We analyze whether the degree of dispersion affects how financial markets react to the release of the indicator. We find that the strength of the financial market response decreases with dispersion. This is in contrast to the general level of uncertainty, which has been found in the literature to increase the reaction of financial markets. We rationalize our empirical findings in a model of imperfect information in which dispersion results from a weak link between macroeconomic indicators and fundamentals. Higher fundamental uncertainty, on the other hand, makes the informational content of indicators more valuable.

Keywords: Forecast dispersion, uncertainty, macroeconomic news, stock and bond markets

JEL-Codes: G10, E32

*Born: Frankfurt School of Finance & Management, CEPR, and CESifo, b.born@fs.de, Dovern: University of Heidelberg and CESifo, jonas.dovern@awi.uni-heidelberg.de, Enders: University of Heidelberg and CESifo, zeno.enders@uni-heidelberg.de