

US Equity Announcement Risk Premia

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Abstract

We analyze the announcement risk premia on the US market. Previous studies have found that a significant portion of the overall risk premia is earned on FOMC meeting days and on days when inflation and employment reports are published. Our evidence suggests that while the announcement risk premium for these days still exists, there is a much wider range of macroeconomic data releases to consider. We find that between September 1987 and March 2023, 99% of the overall cumulative risk premia on the Russell 3000 index is earned on days when data on 17 important macroeconomic variables are released (46% of all trading days). The average return on those days is 6.7 bps compared to 0.9 bps earned on days without any announcements. We show how the premia changes across different industries. A trading strategy which holds long positions in equities on announcement days and long positions in risk-free assets on non-announcement days has more than 2 times higher Sharpe Ratio over a simple buy-and-hold strategy on equities. We also document how the risk premia of well established asset pricing factors, e.g., beta and size, changes between announcement and non-announcement days. These results are robust to the inclusion of several controls and are both economically and statistically significant.

JEL Classification C58, G12, G14

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