Market Uncertainty and Sentiment, and the Post-Earnings Announcement Drift

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Abstract:
The post-earnings announcement drift (PEAD) was first identified over 40 years ago and remains to this day one of the most querulous market anomalies. There have been numerous attempts to explain its continued existence. In this paper we provide evidence to support a new explanation: the PEAD reflects the level of market uncertainty and sentiment that prevails during the post-announcement period. The finding that uncertainty plays a role in explaining how investors respond to information suggests that it should be included as a factor in our pricing models while the fact that market sentiment also has a role is another instance of the importance of human behaviour in explaining prices.

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