Aggregate earnings surprises, monetary policy, and stock returns
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Abstract

This paper examines whether the negative association between aggregate earnings and returns is explained by the monetary policy news in aggregate earnings. Using Federal funds futures data to construct a measure of policy news, we find that aggregate earnings convey information about the Fed’s policy actions. Additionally, the negative aggregate earnings-returns association is muted when we control for policy surprises. This result is more pronounced in periods with negative policy surprises, which tend to trigger a more significant market reaction. Taken together, these results suggest that aggregate earnings convey policy news and the market reacts negatively to policy surprises, which drives the negative aggregate earnings-returns association.