

What Triggers Stock Market Jumps?

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September 2022

Abstract: We examine next-day newspaper accounts of over 8,000 large daily jumps in 19 national stock markets to assess their proximate cause, clarity as to cause, and geographic source. First, we find that policy news triggers a greater share of upward than downward jumps, with the policy share of upward jumps inversely related to stock market performance in the preceding three months. This pattern reflects the role of counter-cyclical monetary policy and government spending, which has strengthened since World War II. Second, market volatility is relatively lower after jumps triggered by monetary policy news, suggesting monetary policy can play a stabilizing role. Third, improved clarity as to jump reason foreshadows lower volatility, consistent with increased agreement and confidence reducing volatility. Finally, leading newspapers globally attribute one-third of jumps in their own national stock markets to developments that originate in the United States, dwarfing the role of Europe and China.

JEL Codes: G12, G17, E58, E62

Keywords: stock market jumps, policy news, market clarity, market volatility, uncertainty, newspapers, human classification

Acknowledgements: We gratefully acknowledge the National Science Foundation, the Sloan Foundation, and Chicago Booth for financial support. We thank Tasaneeya Viratyosin and Jana Obradovic for extensive research support and our team of newspaper coders: Sophie Wang, Alexandra Lee, Naoko Takeda, Abdulla Al-Kuwari, Lucy Duan, Maranna Yoder, Henry Van Straelen, TJ Ram, Riley Burton, May Hliang, Jimmy Apffel, Zach Argo, Alex Liang, Kenar Vyas, Meera Desai, Tyler Staggs, Kyle Kost, Ethan Bernheim, Florentin Zander, Alexandra Farmer, Jason Jiang, Robin Gong, Lindsay Roston, Federico Clerici, AJ Qian, Melina Kompella, Heejin Hahn, Devon Shiff, Edina Lee, Sara Holston, Andrea Clerici, Kristina Kolpkova, Alex Zafran, Nikhil Bhatia, Gabe Alon, Garrett Matsuda, Tammy Qiu, Jack Jaffe, Eddie Dinh, Adam Jorring, and Fernanda Kramer.

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1. Introduction

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 cashflows. Under this view, we expect big daily moves to be accompanied by readily identifiable developments that affect discount rates and anticipated profitability. Moreover, contemporaneous news accounts should contain information about the proximate drivers of these moves. Of course, stock price behavior may not conform to the benchmark view. Keynes (1936), for example, famously argued that investors price stocks based not on their opinions about fundamental values but on their opinions about what others think about stock values. Even when speculative or irrational forces are in play, however, we expect contemporaneous news accounts to discuss the (perceived) drivers of big market moves. Thus, we turn to newspapers to distill information about what triggers big moves in national stock markets.

Specifically, we examine next-day newspaper accounts of big daily moves (“jumps”) since 1900 in the United States, since 1930 in the United Kingdom, and since the 1980s in 17 other national markets. A threshold of 2.5 percent, up or down, for the U.S. stock market yields 1,152 jumps from 1900 to 2020. These jumps account for only 3.5 percent of trading days but nearly 20 percent of total daily variation (sum of absolute returns) and half of daily quadratic variation (sum of squared returns). Our jump thresholds for other countries range from 2 to 4 percent, with larger thresholds for markets with greater volatility. All told, we examine 8,022 daily stock market jumps across 19 national markets plus another 445 jumps in U.S. bond markets from 1970 to 2020.

Jumps of the size we consider typically attract coverage in leading national newspapers. We locate and read next-day articles about each jump to assess its proximate cause(s), clarity as to cause, and the geographic source of the market-moving news. Our objective is to accurately characterize and code the journalist’s explanation and interpretation of the jump. Trained human readers classify the proximate reason for each jump into 17 categories, one of which is “Unknown & No Explanation.” Readers also code the confidence with which the journalist advances an explanation for the jump and the ease or difficulty of coding the article. For the United States, we focus on next-day articles in the *Wall Street Journal*, *New York Times*, *Washington Post*, *Chicago Tribune*, and *Los Angeles Times*. We deploy multiple readers to each paper for each jump so as to obtain many

“reads” per jump.¹ To quantify clarity about the reason for each jump, we combine our data on journalist confidence, ease of coding, pairwise agreement across reads, and whether the journalist advances an explanation for the jump.

Previous studies have also examined news reports to evaluate the drivers of big national stock market moves. Classic studies by Niederhoffer (1971) and Cutler, Poterba, and Summers (1989) considered major jumps to assess whether they could be explained by identifiable news events, reaching mixed conclusions. Our study advances on earlier work in several respects: scale, encompassing more than 8,000 jumps; scope, spanning 19 national markets and more than 90 years for the U.S. and U.K. markets; granularity, detailing the jump reason and geographic origin of market-moving news; novel measurement, quantifying clarity as to jump reason; and volatility dynamics, investigating the relationship of jump reason and jump clarity to future market volatility.

For journalists observing the market in real time, attribution to a clear causal trigger is easy for many jumps and hard for others. To illustrate this point, Figure 1 plots intraday market values at 1-minute intervals on four U.S. jump days. The top panels exhibit large, abrupt intraday moves associated with important pieces of news. In the top left, the market jumped over 3% after the Fed announced a surprise interest rate cut. In the top right, the market plunged 2.5% at the open after an unexpectedly bad employment report. In contrast, the lower panels illustrate two instances that involve large intraday and full-day moves without a clear cause, and for which journalists advanced no explanation. In our U.S. sample reaching back to 1900, 17 percent of jumps occur for no identifiable reason, according to next-day journalistic accounts.

Leveraging our jump-day characterizations, we develop several novel findings. First, upward jumps attributed to policy-related news are more common than downward policy-driven jumps. This pattern holds in 18 of 19 countries.² It has strengthened since 1980 in the United States and the United Kingdom, the two countries in our sample with long-span coverage. Upward policy jumps are twice as common as downward policy jumps from 1980 to 2020 in the United States. Over the same period, downward jumps attributed to non-policy factors are nearly twice as

¹ Given the scale of our data collection efforts, we deployed more than 45 trained human readers comprised of the authors, graduate students, and undergraduate students. Baker et al. (2021) set forth our coding guide and reference manual. Our codings for the *Wall Street Journal* are at <https://stockmarketjumps.com/research/>.

² In Turkey, the only exception, policy news triggers nearly the same number of upward and downward jumps. Turkey’s distinctiveness in this regard reflects its unusually large share of policy-driven jumps due to Elections & Leadership Transitions and Sovereign Military & Security Actions. Many jumps in those two policy categories are in the downward direction, and Turkey has many such jumps.

common as upward non-policy jumps. To put the point another way, policy-related developments trigger 43 percent of upward U.S. jumps since 1980 but only 20 percent of the downward jumps.

Drilling down, we find that news about monetary policy and government spending accounts for the predominance of upward moves among policy-driven stock market jumps. In fact, every country in our sample exhibits more upward than downward jumps for the set of jumps attributed to monetary policy and the set attributed to government spending. A possible explanation is that large positive surprises about monetary policy and government spending occur more often in the wake of bad economic news, perhaps due to deliberate policymaker efforts to engineer countercyclical shocks. Indeed, the share of upward jumps attributed to news about monetary policy and government spending rises as stock market performance worsens over the preceding three months. This type of countercyclicity in policy-drive jumps holds in all sample countries except for Brazil and Turkey, and it became more pronounced for the U.S. and the U.K. in the postwar era.

A skeptic might see these patterns as artifacts of how journalists perceive the world and cover the news. Perhaps journalists are prone to credit government policy for upward jumps and to overlook policy mistakes that trigger downward jumps, and perhaps this type of bias manifests itself more powerfully after a period of falling stock prices. While we cannot rule out the existence of biased coverage, we validate our newspaper-based classifications with reference to FOMC announcements, macroeconomic statistical releases, national election dates, and the distribution of cross-industry jump-day returns. All of our validation exercises support the conclusion that our newspaper-based classifications are informative about the forces that trigger stock market jumps. In addition, we do not find a general tendency for journalists to attribute upward jumps to policy and downward jumps to non-policy matters. The pattern is a feature of jumps attributed to monetary policy and government spending, in particular. Moreover, as we discuss next, our jump classifications have predictive value for future market volatility, which cuts against the view that journalists simply impose their preconceptions when characterizing stock market jumps.

That brings us to our second set of findings: Jumps attributed to monetary policy foreshadow much less volatility than other jumps. This result holds unconditionally and conditional on controls for the size and direction of jump-day returns and market volatility over the day, week, and month preceding the jump. Our conditional forecast of stock market volatility over the two weeks following a jump attributed to Monetary Policy is two percentage points lower than after other jumps. This is a large differential: It equals three-quarters of the time-series standard deviation of two-week

volatility. News about monetary policy triggers about 10 percent of all postwar U.S. jumps and a similar share of jumps across the other 18 national markets covered by our study.

Our third set of findings pertains to clarity about the reasons for stock market jumps. Our clarity measure show an upward secular drift, and its fluctuations are positively autocorrelated. Over the past 90 years, the share of jumps due to unknown causes fell from about 35 percent to 10 percent in both the United States and the United Kingdom. The other components of our clarity index – journalist confidence, pairwise agreement rates, ease of coding – tell the same story. Clarity also matters for volatility. In particular, greater clarity about the reasons for a jump today foreshadows lower market volatility over the next week. This result holds in an unconditional sense and conditional on the size and direction of the current jump and market volatility over the preceding day, week and month. Since clarity is autocorrelated, this result implies that clarity movements contribute to the well-known positive autocorrelation of stock market volatility. As we discuss, the upward drift in clarity about stock market behavior likely reflects a combination of better statistical information about the economy, more transparency about corporate performance, falling communication costs, and professionalization in financial news reporting.

Finally, we find that news about U.S. economic and policy developments exerts an extraordinary influence on equity markets around the world. Excluding the U.S. stock market and focusing on the other 18 national markets covered by our study, news about U.S.-related developments triggers 32 percent of all daily equity market jumps from 1980 to 2020 (41 percent when dropping jumps due to unknown forces and those for which we find no next-day article.). The U.S. role in this regard dwarfs that of Europe as a whole, even though Europe accounts for a greater share of global output. News about economic and policy developments related to European countries and supranational European institutions seldom drives jumps in non-European the countries, with the clear sustained exception of the European sovereign debt crises in the early 2010s. China-related news plays almost no role as a source of jumps in other countries before the mid-2000s, but has since emerged as an important source of market jumps outside China.

Our work builds on and contributes to several literatures. There is a wide-ranging literature on how media coverage affects financial markets – contributions include Tetlock (2007), Engelberg and Parsons (2011), and Carlin et al. (2014). Rather than the effects of media coverage on financial markets, we focus on how newspapers interpret stock market jumps. In this respect, we are closer to the classic studies of Niederhoffer (1979), Cutler, Poterba, and Summers (1989) and to more recent

work by Manela and Moriera (2017) and Baker et al. (2019), who use newspapers to parse the sources of overall stock market volatility. Most recently, Bybee et. al (2021) apply topic models to classify stock market jumps using *Wall Street Journal* articles since 1984. Relative to these works, we show that certain types of policy jumps trigger a highly disproportionate share of upward jumps, that monetary policy jumps foreshadow lower future volatility, that the informativeness and clarity of newspaper accounts have improved over time, that clarity also matters for future market volatility, and that news about U.S. economic and policy developments plays an outsized role in national stock markets around the world, unlike that of any other country or region.

Another literature considers how the clarity of financial writing affects stock returns – prominent works include Li (2008) and Shiller (2017). We contribute to this literature by developing a new approach to measuring clarity about the forces that drive market jumps. Our method is simple and transparent, which facilitates its application to other countries, time periods, and asset markets. We also show that low-clarity jumps are associated with greater post-jump volatility. While we do not pursue it here, our measurement approach opens the door to quantitative studies of how corporate disclosure rules and the accuracy, depth, and timeliness of economic statistics affect clarity about national stock market behavior and thereby influence overall market volatility.

An enormous literature in asset pricing investigates whether, and to what extent, stock market moves can be attributed to news about future cash flows and discount rates. In addition to already-mentioned studies, leading contributions include Shiller (1981) for market-level moves and Roll (1988) for firm-level changes. Many papers study the impact of news releases on market outcomes. Examples include Birz and Lott (2011), Boudoukh et al. (2013), Goldberg and Grisse (2013), Fernandez-Perez et al. (2017), and Fisher et al. (2017). We proceed in the other direction, starting from large market moves and asking what triggers them according to newspaper accounts.

We also contribute to research on the interplay between financial markets and government policy, especially Fed behavior. Building on Bernanke and Gertler (1999), Rigobon and Sack (2003) and Xu and You (2021), Cieslak and Vissing-Jorgensen (2021) show that since “the mid-1990s, *negative stock returns* comove with downgrades to the Fed’s growth expectations and *predict policy accommodations*” (emphasis added). We deepen and extend this result by showing that Fed policy accommodations succeed in driving upward market jumps (on average) in the wake of falling equity prices, that a similar phenomenon holds for news about government spending, and that these patterns extend to 17 of the 19 countries in our sample.

Finally, there is a prominent literature on the outsized role of the U.S. Dollar and Fed monetary policy in the international monetary and financial system. Recent contributions include Obstfeld (2015), Rey (2016), Boz et al. (2017), Gopinath and Stein (2018), and Maggiori et al. (2019). These works highlight the role of the U.S. as a global supplier of safe and liquid debt securities, the Dollar's favored status in foreign exchange reserves, the Dollar's prevalence as the currency of denomination in trade invoicing, offshore bank lending and portfolio holdings, and the spillover effects of U.S. monetary policy. We contribute to this literature by showing that news about U.S. economic and policy developments plays a uniquely large role as a driver of national stock market jumps around the world. In this respect, our results reinforce and deepen the results in Ehrmann et al. (2011), who find that spillovers from U.S. bond, equity and money markets to European financial markets are much larger than the other way around.

Section 2 explains how we use newspapers to characterize stock market jumps, describes our jump classification scheme, and undertakes several investigations to assess the quality of our jump characterizations. Section 3 presents several of our main findings about stock market jumps and their relationship to post-jump volatility. Section 4 explains how we measure clarity about the forces that drive particular jumps, documents empirical properties of our clarity measure, explains why clarity has increased over time, and provides evidence that greater clarity foreshadows lower stock market volatility. Section 5 concludes.

2. Data Creation Process, Quality Control, and Validation

2.1 Selecting Jumps and Locating Newspaper Articles

To assemble our sample of U.S. jumps, we first identify all days on which the CRSP S&P 500 Value-Weighted Index rose or fell by at least 2.5 percent (close to close). Before 1926, we use the Global Financial Data (GFD) extension of the Dow Jones index. Next, for each jump and newspaper, we search for next-day articles about the jump in major US newspapers. During the internet era, these articles often appear online after market close on the jump-day in question. Coders search for articles that mention phrases like 'stock market,' 'wall street,' 'S&P,' or 'Dow Jones' in the title, synopsis, or index of descriptive terms. They avoid summaries, abstracts, digests, and the like (articles <300 words). If the search query yields multiple articles for a particular jump and paper, the coder selects the first one unless it proves uninformative. This process yields at least one article for all U.S. jumps since 1926 and almost all jumps before 1926.

For the US we choose a threshold of a 2.5% daily change in the stock market to define our large jump days to code. This threshold, which covers about 3.5% of trading days from 1900-2020, was chosen to be large enough to ensure the next day newspaper always contained articles discussing the prior day's jump. When we extended to other countries, we usually maintained a 2.5% daily return threshold to classify stock market moves as a significant event. For a subset of countries with more volatile stock-markets we increased the threshold, choosing it to cover approximately 2-3% of trading days.³

Most foreign countries in our sample cover one or two newspapers and about 30-40 years of data. For the UK, however, we conducted a more extensive analysis, with coders searching the Financial Times, The Times of London, The Telegraph and The Guardian the day after any move in the UK stock market larger than 2.5% back to 1930. For the UK, our definition of the aggregate market changed over time: (1) From 1930-1983 we use GFD's "UK Industrials" index (2) From 1984-1993 we use the percent change in the FTSE 100 index level (3) From 1994-2020 we use the FTSE 100 total return index. Coders searched for the following terms: 'FTSE', 'London stock exchange', 'stock market', 'equity market', 'share prices'. 'FTSE' was the most useful keyword in recent years. We mostly use articles longer than 300 words, but for FT articles early in the sample period, shorter articles were more common.

Outside the US and UK coders searched the archive of the newspaper of record for a given country (e.g., the Globe and Mail for Canada). This may take the form of English-language or non-English-language newspaper (e.g., Handelsblatt in Germany or South China Morning Post in Hong Kong). If the newspaper was written in a language other than English, a native speaker of that language was used as a coder. As with the coders for the United States, foreign country coders searched for articles on the day following each jump that mention the stock index in question or the stock market more generally. If the date is a Friday or Saturday, Monday's paper would be searched, as well.

2.2 Classifying Jump Reasons, Geographic Origin, Journalist Confidence and More

Finally, before coders started their first coding assignments, they carefully read the coding guide, underwent two half-day training sessions and then coded 50 training articles over the next three days. The authors had previously coded the training articles had already been coded by the ,

³ Appendix Table A1 reports the sample period, newspapers, and jump threshold for each country.

enabling us to ensure our coders were accurately coding (and to address any issues) before they coded the research sample.

Having selected an article, the coder reviews it carefully and – based on the journalist’s characterization – classifies the jump reason into one or more of the 17 categories reported below in Table 1. The coding guide in Baker et al. (2021) defines each category, includes many examples, explains how to handle jumps attributed to multiple causes, and discusses boundary cases and other challenging cases. We classify the primary reason for each jump into one of our categories and, when warranted by the article’s discussion, list a secondary reason as well. If an article mentions multiple reasons for a given jump but does not clearly identify the most important one, we treat the order of appearance in the article as a tie breaker. Coders can also designate additional reasons beyond the primary and secondary reasons.

The geographic source(s) of each jump is driven by the jump’s causes, again based on the explanation offered by the journalist. For instance, we code the United States as the geographic source for a U.S. jump attributed to a Fed policy announcement, while we code the United Kingdom as the geographic source for a U.S. jump attributed to Britain’s decision to exit the gold standard. The geographic source can consist of multiple countries or a large region of the world for various reasons that include the outbreak of war between two or more countries, economic developments that simultaneously affect several countries, and policy decisions taken by supranational institutions like the European Central Bank.

We record four additional pieces of information for each article: First, ‘Journalist Confidence’ is the assurance or certitude with which the article advances an explanation for the jump, which we score on a three-point scale of 1 for low confidence, 2 for medium confidence, and 3 for high confidence. For example, if an article asserts without qualification that bad news about corporate earnings drove a downward jump, Journalist Confidence is high. Second, ‘Ease of Coding’ reflects the ease or difficulty of discerning and classifying the primary jump reason, also scored on a three-point scale. While Ease of Coding correlates with Journalist Confidence, they are distinct concepts. For example, a journalist may confidently assert an explanation that involves multiple causes that touch on several of our categories. In this case, the primary jump reason may be hard to discern and classify, even though Journalist Confidence is high.⁴ Third and fourth, the coder

⁴ The guide contains many examples that illustrate how to score Journalist Confidence and Ease of Coding.

paraphrases the journalist’s explanation records the key passage that is the basis for the classification of the primary jump reason.⁵ For example, when the primary jump reason is Taxes, the key passage might say, “The completion of a tax deal between the White House and Congress sent stocks soaring Wednesday.”

2.3 Examples

Before describing our data creation process in detail, we return to the examples in Figure 1. The top left panel of Figure 2 displays an excerpt from an article about the upward jump on 18 April 2001. We classify the reason for this jump as “Monetary Policy and Central Banking,” because the article title and first sentence attribute the jump to a “*surprise rate cut*” by the Federal Reserve. Since the Fed is a U.S. policy institution, the geographic source is the United States. Journalist confidence is “high,” because the article forcefully and unambiguously attributes the jump to the Fed’s decision. Ease of coding is “easy,” because the article is easy to comprehend, the jump reason is easy to discern, and the mapping to our classification of jumps by reason is also straightforward. The lower right panel of Figure 2 displays an excerpt from an article about the downward jump on 2 July 2009. This article makes clear in the title and first sentence that an “*unexpectedly gloomy jobs report*” triggered the downward jump, which we classify under “Macroeconomic News & Outlook.” The United States is the geographic origin, journalist confidence is “high,” and coding is “easy.”

Figure 3 displays excerpts from two articles about a 5 percent upward jump on 26 December 2018. We classify the jump reason as “Unknown” for the *Wall Street Journal* article, because the reporter writes, “*investors and traders were left scratching their heads to explain the wild swings.*” This passage appears in the third paragraph, reflecting a common practice of placing less-assured explanations further down the article. Since the article says the jump is due to unknown forces, we leave the geographic origin blank. For the *New York Times* article, we classify the primary jump reason as “Macroeconomic News & Outlook” based on “*early reports of a strong holiday-shopping season helped lift the S&P 500 by nearly 5 percent.*” Other papers offer various explanations for this jump. For example, the *Los Angeles Times* offers three explanations over nine paragraphs, including “*a late report that a U.S. government delegation will travel to China.*” Overall, the jump

⁵ The third and fourth pieces of recorded information are especially useful for ex post evaluation and refinement of our classification of jump reasons. For example, long after we began our work to classify stock market jumps, we used these fields in Baker et al. (2020) to quickly search for U.S. jumps triggered by pandemics and infectious diseases from 1900 to 2020.

on 26 December 2018 is a low-clarity event in that some papers explicitly attribute it to unknown forces, others offer a variety of reasons, and newspapers disagree in how they interpret the jump. Journalists also present their explanations for this jump with less assurance and more qualifications. Section 4 below explains how we integrate these aspects of newspaper coverage to quantify clarity about the reason for this jump and others.

As an example, here is what the coding guide says about how to distinguish ‘Monetary Policy & Central Banking’ from ‘Macroeconomic News & Outlook’:

Some news articles that discuss market reactions to macro developments also discuss the Fed’s normal response to the macro development. Generally, we code an article as Macro News & Outlook if it attributes the market move to news about the macro economy. We code it as Monetary Policy & Central Banking if the article attributes the market move to (a) shifts in how the Fed responds to a given macro development or (b) news about unexpected consequences of Fed actions. Take the following two examples:

1. Macroeconomic News & Outlook example: The market moves because it anticipates or speculates (or sees) that the Fed will respond in its usual manner to news about the macro economy. That is, the market anticipates or speculates that the Fed will respond to macro developments according to a Taylor Rule or other well-defined, well-understood description of the Fed's interest-rate setting behavior.
2. Monetary Policy & Central Banking example: The market moves because of a surprise change in the policy interest rate – i.e., a surprise conditional on the state of the macro economy. From a Taylor Rule perspective, we can think of this change as a new value for the innovation term in the Taylor rule.

Table 1 reports the frequency distribution of primary jump reasons for the United States, the United Kingdom and the “ROTW” (countries other than the United States). We also report the frequency distribution for jumps in the U.S. Treasury bond market. Relative to equity markets, bond market jumps are much more dominated by Macro News & Outlook and news about Monetary Policy & Central Banking.

2.4 Quality Control and Validation

For the United States, we conducted a thorough cross-validation with an average of 8.6 coders across multiple newspapers for each day.⁶ Each coder followed the coding procedure outlined above, as detailed in “Coding Large Daily Financial Market Moves - Data Construction Guide”. After all

⁶ Figure A1 summarizes the number of newspapers consulted and codings per jump.

articles were read, we re-examined days where coders disagreed about the primary and secondary cause of the market movement. This happened more often on days that were also coded as having a lower ease of coding and less confidence by the article's author regarding the driver of the market movement.

To resolve each disagreement, coders re-read the original article and referred to the Data Construction Guide to make sure that the guidelines were being carefully followed. Most disagreements were easily resolved as a coder may have misread an article or misapplied the guidelines from the Data Construction Guide. For articles which still produced disagreement, additional articles in the same newspaper were obtained through the same method as outlined above to seek clarity regarding the primary cause. After these steps were taken, coders still sometimes disagreed. For such days, coders could 'agree to disagree' regarding the causes of the stock move and our final dataset reflects such persistent disagreement.

A potential concern with our data is the reliability and consistency of our classifications by jump reason. We test for consistency across coders who are investigating a given day's large stock movement by (a) reading articles in the same newspapers and (b) reading articles in different newspapers. Table 2 examines various dimensions of cross-coder 'agreement' in categorization. First, we examine the average annual pairwise agreement in primary categorization across all pairs of coders (both within/across newspapers). We find that in the pre-1980, 76% of coders agree on the policy vs. non-policy split, and 46% agree on the 16 granular categories, excluding No Article Found. While this may not seem high, if we randomly assign coders to categories from the unconditional distribution in Table 1, agreement would be only 13%. Computing standard errors⁷ we conclude that our human coders' agreement rate is statistically significantly higher than agreement from this random categorization. Further, agreement increased over time, consistent with an increase in the quality of financial journalism. In the post-1980 sample, 82% of coders agree on the policy vs. non-policy split, and there is a 59% agreement rate on the granular categories.

Agreement also increases when considering only pairs of coders reading the same newspaper. This increase is likely driven by the fact that, for a fraction of the days we study, the

⁷ To compute a standard error for this point estimate, we apply the normal approximation for the standard error of a binomial random variable: $\sqrt{p(1-p)/n}$ where p is the probability of agreement under random assignment and n is the number of *jumps* in each of the indicated periods. This is a conservative approximation, because n is based on the number of jumps, but we have a value for agreement between each pair of coders, which greatly exceeds n .

cause is ambiguous, leading to be significant differences in how different reporters write about the previous day's market movements. Suggestive evidence for this is that days in which the articles have lower reported levels of journalist 'confidence' also have lower rates of cross newspaper coder agreement. For example, an increase in average reporter confidence of 1 point (on a three-point scale) increases the rate of coder agreement by almost 40%. An increase in the reported ease of coding has an even larger magnitude. Disagreement between coders within the same paper can also occur if the paper has more than one article on the jump, which may happen in leading financial newspapers (e.g., the Wall Street Journal or Financial Times) on days after major stock-market jumps.

Among US papers, agreement is highest for coders of the Wall Street Journal, which we feel has the highest quality financial reporting of all newspapers in our sample. For the WSJ, there is an agreement rate on the policy vs. non-policy split of over 90%, and an agreement rate on the granular categories of almost 80%.

For a subset of categories, we expect that regular information releases drive large stock movements and can use this to test our codings. For instance, we would expect days to be categorized as 'Elections & Political Transitions' more often following elections than for the average jump day. Similarly, we would expect a relationship between Federal Reserve announcements and 'Monetary Policy & Central Banking' categorizations and high-profile macroeconomic releases (e.g., unemployment numbers and inflation reports) and 'Macroeconomic News & Outlook' categorizations.

In Table 3, we demonstrate that these relationships hold statistically, despite coders not directly observing the dates of information releases (i.e., they read only the newspaper article in question and did not separately look up whether the Federal Reserve had made a statement during the previous day). In all cases, the expected categorization is substantially more likely to occur following the public information release. In Appendix A, we extend this validation by examining relative industry returns on jump days, finding results that again support the view that our newspaper-based explanations are informative.

Finally, we compare our classifications of the 50 largest daily U.S. stock market jumps from 1946 to 1987 to those of Cutler, Poterba and Summers (1988), who attribute a "cause" to each one based on *New York Times* coverage. For each of these 50 jumps, we map their "cause" to a primary and, sometimes, secondary category, using our classification scheme. As reported in Table A2, the

resulting CPS primary reason matches our primary reason in 62 percent of cases – 75 percent, when we focus on the subset of 32 jumps with positive values of our clarity measure. For these 32 jumps, there is at least partial overlap between their reasons and ours in 81 percent of cases.

3. The Behavior of Daily Stock Market Jumps

3.1 Stock Market Jumps Over Time

Using our human coders, we find a significant amount of variation in the categorical drivers of jumps during the past 120 years. Figure 4 displays the evolution of large daily stock market jumps over time in the United States from 1900 to 2020. Also noted are the fraction of daily jumps that are driven by government policy rather than non-policy causes like news about the economy or corporate earnings, as categorized by coders reading the Wall Street Journal. For a relatively small fraction of articles, the cause of the market’s movement for a given day cannot be determined by coders reading newspaper articles and a categorization of ‘unknown’ is utilized (unshaded bars).⁸

In the figure, we see a number of distinct periods with high jump frequency. For instance, the early 20th century featured a prolonged period of volatility, with numerous banking panics. The Great Depression, from 1929 to the late 1930s, also stands out. In the later years of the sample, we clearly see the Tech boom and bust as well and the Great Recession from 2008-2012 and a spike during the COVID-19 pandemic.

While the years after the Great Recession (2010-2019) saw only 5.8 jumps per year on average in the United States, there were 36 jumps in 2020. In fact, the month from 24 February to 24 March 2020 includes 18 jumps over 22 trading days, more than any other one-month period in our sample back to 1900. The Panic of 1907, World War I, and the early 1990s are also periods of unusually high jump frequency. Perhaps surprisingly, the Korean War, and the Vietnam War did not produce many large daily stock market jumps in the stock market. During the post-war period, there are long periods with few daily moves large enough to cross our jump threshold.

Figure A2 mirrors Figure 4 using data for stock market jumps in the United Kingdom back to 1930. Here, we find striking differences relative to the United States: The United Kingdom has

⁸ For 5 days early in the sample (all pre-1926), we cannot find an article in the Wall Street Journal related to the previous day’s large market movement. This may be due to poor newspaper reporting or could be possibly driven by measurement error in daily market moves on the part of the DOW-extension pre-1926 when the market was composed of many fewer stocks than today.

few jumps in the 1930s but a huge number in the mid-1970s around a severe recession and crisis. The Great Recession and coronavirus pandemic also stand out as periods of high jump frequency.

3.2 Categorical Drivers of Stock Market Jumps

Table 1 displays summary statistics regarding the distribution of the categorical causes of these large stock market movements in the United States, the UK from 1930-2020 and from the 1980s onwards in 17 other national markets.⁹ This shows that not only has the frequency of large stock market movements fluctuated substantially over time, but the causes of these jumps have changed, as well. For instance, in the early years of the sample, agriculture made up a much larger portion of US GDP, so commodities drove a larger share of big stock movements. World Wars I and II contributed to the large number of sovereign military jumps. Finally, the New Deal was responsible for the high share of regulation jumps in the pre-war period. In the post-1980 period, we see that Monetary Policy was relatively more important, which is consistent with the start of regularly scheduled FOMC meetings in 1981.

We take away two important stylized facts from this table. First, policy news drives a large portion of large daily stock market movements. Over 36% of US jumps are attributed to policy: more than macroeconomic news (23%) and corporate earnings (11%) combined. Globally, 28.1% of jumps are attributed to policy. Second, the distribution of jump causes in the US, the UK and the Rest of the World (ROTW) is relatively similar – in both countries macro news is the largest driver, with corporate earnings and monetary policy also playing major roles. In the ROTW, foreign stock markets are the third largest overall mover, reflecting in particular the role of US stock markets in driving global market movements. Third, newspapers fail to advance any explanation for a sizable share of jumps, sometimes explicitly stating that the reasons for the jump are unknown.

The last column of Table 1 provides the categorical attribution for large jumps in US bond markets. These jumps are defined as daily changes in 10-year constant maturity rate Treasury Bills of more than 15 basis points, although we read and code only a 25% random sample of bond market jumps between 1980 and 1982. Yields were very high during this period, so there were a huge number of 15 basis-point daily moves. In bonds, we find a significantly different distribution of categories than with equity jumps. Jumps in bond markets are largely driven by macroeconomic

⁹ Our full sample includes data from the following countries: Australia, Brazil, Canada, China (Hong Kong), France, Germany, Greece, India, Indonesia, Ireland, Japan, New Zealand, Singapore, South Africa, South Korea, Spain, and Turkey.

news and news about monetary policy, which collectively account for 72 percent of bond market jumps.

3.3 The Geography of News that Triggers National Stock Market Jumps

Looking beyond our categorical classification of jump reasons, we now consider the geography of the news that triggers national stock market jumps. Figure 5 plots timelines of the geographic source of large stock market jumps in the US, showing the predominance of US-related news for US jumps.¹⁰ Sixty-nine percent of US jumps reflect US-related developments, according to next-day accounts in leading U.S. newspapers. The only periods in which the US share persistently falls below 50% are during the First and Second World Wars (when news related to Europe and Asia was especially important), and during the European debt crises in the early 2010s. Consistent with the growing global dominance of US financial markets, the UK's share of UK-sourced jumps fell from 76% between the 1930s and the 1960s to around 38% from 2010 onwards. We also see on the top right of Figure 5 that Europe's role in US jumps appears to be falling, while Asia's has recently risen due to the growing influence of China.¹¹ In the "Other" category, the most common region is the Middle East due to the impact of Gulf wars and OPEC oil shocks on US stock markets.

Figure 6 plots the share of jumps attributed to US-related and Europe-related news in all our countries that are not in these regions: Australia, Brazil, Canada, India, Indonesia, Hong Kong, Japan, New Zealand, Singapore, South Africa, and South Korea. Remarkably, leading newspapers in these countries attribute, on average, 40% percent of daily jumps in their own national stock markets to U.S.-related developments. In contrast, they attribute only 7 percent of their jumps to Europe-related developments, even though European countries as a whole account for a larger share of global output than the United States. The outsized role of U.S.-related news as a source of daily stock market jumps continues to hold when we include the European countries, as well.

3.4 Differences between Positive and Negative Stock Market Jumps

Figure 7 reveals the striking fact that policy-driven stock market jumps are disproportionately more likely to be associated with positive stock returns. In the US since 1900, and particularly since

¹⁰ We present an analogous plot for the UK in Figure A3.

¹¹ In Figure A4, we plot fractions of jumps attributed to the United States and to China in non-US, non-China countries. Prior to the mid-2000s, China was rarely cited as a cause of stock market jumps outside its own borders. However, recent years have seen a surge in the frequency with which Chinese news drives large jumps.

1980, a higher share of positive jumps were caused by government policy categories than negative jumps. Figure 7 is a binned scatter plot of daily stock market return plotted against our policy variable. While the slope is positive between 1900 and 1979, the slope becomes much steeper after 1980. This suggests that positive jumps are even more likely to be attributed to policy in recent years than in the past. These findings – that policy jumps are more likely to be positive and that this relationship is becoming steeper over time - also hold for non-US, non-UK countries in our sample back to 1980 (see Appendix Figure A5) and in the UK back to 1930 (see Appendix Figure A6).¹² Both the positive tilt of policy-related news and the increase in positivity over time are driven by the increasing share of jumps driven by monetary policy and government spending.

Examining the individual categories (Table A4) we see that monetary policy and government spending jumps are the most likely categories to drive positive stock market jumps. In contrast, sovereign military policy tends to be associated with negative stock-market jumps. Since none of these major policy categories has become significantly more positive over time, the rise in the positivity of policy is mostly driven by a changing mix of policy categories. In particular, the two policy categories with the most negative stock market responses – sovereign military action and regulation – decreased in frequency substantially after 1980. And the two most positive major policy categories – monetary and government spending – have increased in frequency since 1980. So, policy has become increasingly positive in the US since 1980 due to rising importance of monetary and fiscal policy and the declining importance of military and regulatory policies as drivers of stock market jumps.

In fact, similar patterns are observed across all countries in our sample except one. That is, for 18 of 19 countries, policy-driven jumps are more frequently positive than negative (See Table A5). Turkey is the sole exception to this trend. However, the negative tilt of Turkey’s policy-related news is driven by a much greater frequency of sovereign military and election-related stock market jumps. Strikingly, we find that *all* 19 countries in our sample have much higher fractions of positive than negative jumps when restricting our examination to monetary policy and government spending jumps.

The strength and breadth of these results across countries raises the question as to why monetary and spending shocks are so positively skewed. One explanation is that large monetary and

¹² These patterns are also true looking across jump sizes – since 1980 every size of jump from 2.5% to 3.0%, 3.0% to 4.0%, and above 4% shows a higher share of positive policy jumps than negative jumps (Table A3).

government spending surprises tend to be expansionary in reaction to negative economic news. In particular, major monetary and spending policies are often in response to negative macroeconomic events like the Global Financial Crisis of 2008/09 or the COVID crisis of 2020.

We present evidence for this in Figure 8. In the left panel, we run regressions in 200-jump rolling windows. The left-hand side is the interaction of the jump-day return with the sum of the scores for the government spending, taxation, and monetary policy categories. The right-hand side is the cumulative return in the CRSP Value-Weighted index over the past quarter (i.e., the 66 trading days before each jump). If policy has become more countercyclical, we would expect the coefficient on past returns to become more negative e.g., after bad news, we expect a positive policy response. This is indeed the case, with the coefficient decreasing more than 3x from the start of the sample to 2020. In the right panel we confirm this result also holds when running the regression in 25-year rolling windows instead.¹³

The countercyclical nature of monetary policy and government spending news is highly asymmetric. That is, while we see strong increases in the likelihood of positive market-moving news following substantial negative recent returns, positive recent returns exhibit no such tendency. Results in this vein have been previously discussed in the context of monetary policy (e.g., Cieslak and Vissing-Jorgensen (2021), Bernanke and Gertler (1999) and Rigobon and Sack (2003)).

We find that these patterns are seen in our data in the United States and are also common to a large number of countries around the globe. We plot the relationship between recent returns and the net positivity of monetary policy and government spending jumps in Figure 9 across 17 countries in our sample, finding strong evidence for this asymmetric countercyclical nature.¹⁴

¹³ Figure A7 and Table A6 show evidence that the overall effect is driven primarily by the government responding to bad news and that this tendency has become stronger over time. In Figure A7, the x-axis represents the cumulative return in the CRSP Value-Weighted index over the past quarter. For the y-axis, we construct a ‘net’ policy score, which is equal to the share of codings on a given day attributed to policy categories if the jump is positive, and minus the share of codings attributed to policy categories if the jump is negative. When the cumulative return over the past quarter is negative, the slope is negative and strongly statistically significant (t-statistic over 3.5). When the cumulative return over the past quarter is positive, the slope is slightly positive, but statistically insignificant (t-statistic of about 0.5).

¹⁴ Excluded in this figure are the Brazil and Turkey. These two countries exhibit substantially different patterns than the other 17 countries in our sample. Analogous graphs for these two countries are shown in Figure A8. Monetary policy has been highly politically contentious in Brazil and Turkey, and both countries had extreme values of cumulative returns during hyperinflation episodes. The less technocratic nature of monetary policy actions in Brazil and Turkey may be why they do not exhibit the same pattern as other countries.

3.5 Differences in Post-Jump Volatility by Jump Reason

The distribution of perceived reasons for stock market jumps differs across countries and varies over time, as we have shown. We now ask whether the contemporaneously perceived reason for a given jump has predictive content for post-jump market volatility. We find that it does. This result continues to hold when we condition on the size and direction of current-day market returns and on market volatility in the days and weeks leading up to the current day.

The main pattern in this regard is that jumps triggered by monetary policy news foreshadow much less volatility than other jumps. To show this pattern, we run regressions of the form,

$$\begin{aligned} \sum_{i=1}^n \frac{r_{t+i}^2}{n} = & \mathbf{a} + \mathbf{b} (\mathbf{r}_t \times \mathbf{1}_{r_t > 0}) + \mathbf{c} (|\mathbf{r}_t| \times \mathbf{1}_{r_t \leq 0}) + \mathbf{d} (\mathbf{r}_{t-1}^2) + \mathbf{e} (\sum_{i=1}^5 \mathbf{r}_{t-i}^2) \\ & + \mathbf{f} \left(\sum_{i=1}^{22} \mathbf{r}_{t-i}^2 \right) + \mathbf{g} (\mathbf{monetary}_t) + \mathbf{h} (\mathbf{allother}_t) + \mathbf{e}_t, \end{aligned}$$

where \mathbf{r}_t is the one-day return on the CRSP value-weighted index, and the dependent variable is the average realized volatility over n days after t . $\mathbf{monetary}_t$ equals the fraction of codings attributed to Monetary Policy on day t , if t is a jump day, and zero otherwise. We define $\mathbf{allother}_t$ analogously for the collection of other jump reasons. We control for positive and negative returns on day t (following Black (1976)) and so-called ‘‘HAR’’ variables that let volatility persistence differ by horizon (following Corsi (2009)).

Figure 10 plots the estimated \mathbf{g} and \mathbf{h} coefficients and their 95 percent confidence intervals for $n = 1, 2, \dots, 22$ trading days after a jump day. As the figure shows, jumps triggered by monetary policy foreshadow less volatility over the next month than other jumps. At $n = 10$, for example, the conditional forecast of stock market volatility is about 0.75 standard deviations lower after a jump attributed to Monetary Policy than after other jumps. In the appendix, we break out jumps attributed to Macroeconomic News & Outlook (Figure A8), consider a more granular breakdown of other jump reasons (Table A7), distinguish between positive and negative jumps (Figure A9), and split the sample between recessions and expansions (Figure A10). In all cases, we find lower volatility after jumps attributed to Monetary Policy than after other jumps. Thus, the pattern displayed in Figure 9 is robust in several respects.

A natural interpretation of this pattern is that market-moving news about monetary policy often lessens or resolves uncertainty. For example, the outcome of an FOMC meeting may resolve uncertainty about whether the Fed decides to ease or tighten monetary policy. In contrast, it appears

that other types of market-moving news are often associated with greater uncertainty. For example, a bad labor market report may trigger a large downward jump in the stock market and raise near-term uncertainty about the economic outlook.

4. Jump Clarity

4.1 Quantifying Clarity as to Jump Reason

Early on in our project we realized there was a wide variation in how clear the cause of some jumps was compared to others. As shown in Figures 1 to 3 some jumps have very clear causes while others are hard for financial journalists to explain. So, we expanded the human analysis of jumps to measure not only the category of a jump, but also the clarity regarding the cause. We create four proxies of clarity and combine these into an overall “Clarity Index”:

- i. Agreement Across Coders: Consider all possible coding pairs for a given jump. (For example, if we have codings by persons 1, 2 and 3, then there are three pairwise codings: (1,2), (1,3) and (2,3). For each pairwise coding, set a measure of agreement $A_{ij}=1$ if i and j agree on the coding, and 0 otherwise. Then compute overall mean pairwise agreement = $\text{Sum } A_{ij} / N$, where the sum is over all i and j for i not equal to j , and N is the number of possible pairwise codings on the data.¹⁵ We expect agreement across newspapers to be lower if the cause of the jump is less clear – each paper may have their own narrative.
- ii. Ease of Coding: When reading the newspaper, each coder reports how easy/difficult it was for them to code the article as a particular cause. On days with a clearly defined cause, we expect both the ease of coding to be high. On other days, the journalist may not clearly list a particular cause, or put forth a complex cause which coder might have trouble linking to a particular category. On each day, we measure the average ease of coding score.
- iii. Journalist Confidence: When reading the newspaper, each coder reports how confident the journalist was about the cause of the jump. On days with a clear cause, we expect the journalist confidence to be high. On days driven by narratives, the journalist might list several possible explanations or say that the cause of the movement was uncertain. On each day, we measure the average confidence score.

¹⁵ Codings of Unknown & No Explanation count toward the total number of pairs of coders on a given day, but not toward agreement. Unknown is assumed to ‘disagree’ with every other category, including itself. This is to avoid high clarity scores when all the coders/papers ‘agree’ the jump cause was unknown.

- iv. Share of Known Codings: For each coder j , set $N_j = 1$ if the primary category code is not unknown, zero otherwise. Compute the mean value of N_j over coders to obtain the Known Cause share for the jump. A higher known share is more likely tied to concrete news.

4.2 Clarity over Time: An Upward Drift

Figure 11 plots these four measures over time, showing in all cases a rise in clarity over. We also combine these into a ‘clarity index’. To do so, we normalize each of the four clarity components to have mean zero and standard deviation one, add together these four normalized components, and finally re-normalize the resultant index to have mean zero and standard deviation one. The top left panel of Figure 11 plots this overall clarity index, showing a rise until about 1980 and then an approximately flat index thereafter. This upward trend is not unique to the US, and is mirrored in the UK (see Figure A11).

One plausible reason for an upward drift in the clarity of newspaper articles about stock market jumps are improvements in the quality, scope, and timeliness of statistical information about the U.S. economy. A full account is beyond the scope of our paper, but it is instructive to review developments over time in the Current Employment Statistics (CES) program as an example. Data from the CES and Current Population Survey form the basis for the BLS Monthly Employment Situation Report, a closely watched statistical release about U.S. labor markets that is well known to move stock, bond and currency markets. See, for example, Flannery and Protopapadakis (2002) and Andersen et al. (2007).

The CES program began in 1915 with data from 200 large manufacturing firms.¹⁶ In its early decades, the program lacked a formal sample design and retained a focus on the manufacturing sector. The BLS began to apply formal sample design methods to the CES around 1950, following a series of memos and testing efforts in the late 1940s. There were significant improvements in CES sample design in 1964 and incremental improvements over the next 25 years. Annual CES benchmarking to universe-level employment data began in 1982 and began moving to a probability-based sample design in 1995, completing the process in 2003. Monthly sample sizes grew from about 107,000 establishments in 1964 to about 620,000 business and government worksites in 2016.

In addition, the growth of the stock market, both in dollar terms and as a fraction of US GDP, has provided additional incentives for understanding and reporting on market-relevant events. For

¹⁶ This paragraph draws on Johnson (2016), Kelter (2016) and Mullins (2016).

both market participants as well as journalists who cover business and financial markets, greater resources have been made available over time, enabling timelier and more accurate reporting. Greater scale among media organizations have also led to increases in specialization, greatly improving the ability to impart the often complex drivers of market movements on a given day. The effects of the growth of markets can also be seen in the average quality of reporting across countries which have larger or smaller markets, with larger markets typically demonstrating higher quality, and higher clarity, reporting.

One notable contrast in clarity is seen between the two largest financial crises during our sample period. The Great Depression features some of the lowest levels of clarity of jump cause in our sample, while the Great Recession contains some of the highest levels of clarity. Despite both periods possessing extremely high levels of financial market volatility, most of the largest movements during the Great Recession were clearly attributable to a particular cause, while most of the largest movements in the Great Depression lacked a clear attribution to any particular cause in the next day's newspaper reports. Intriguingly, clarity also fell somewhat in 2016 under the Trump administration.

4.2 Validating our Clarity Measure

As one validation of the concept of clarity we examine the relationship between the clarity of individual jumps and the concentration of the daily returns within any 15-minute window. The idea builds on Figure 1 that obvious drivers of stock market jumps tend to generate large moves in short time windows.

To do this we regress concentration - the largest movement of the S&P500 over any 15-minute window divided by the total movement during the close-to-close window – on our clarity index in Table 4. For each day, we calculate the absolute returns in 15-minute intervals, with the first window being from the previous close to 9:45AM and the final window 3:45PM – 4:00PM. We then divide the largest absolute move by the sum of all the absolute moves to obtain our concentration measure, with 1 being the highest value (the entire days move happened in one 15-minute window) and 1/26 the lowest value (equally spaced movement across each 15-minute window).

In column (1), without any controls, we see that concentration is highly significantly related to clarity with a t-statistic over 4. Given the mean value of concentration of 0.150 and a standard deviation of 0.056, this result implies that a two-standard deviation shock to clarity is associated

with an increase in concentration of 0.0436, or a 0.78 standard deviation increase. In column (2) we add a full set of controls for returns, absolute returns and prior volatility and find the results are similar. In columns (3) to (6) we examine each individual component of the clarity index and find the expected coefficient.

Table 4 shows that the ‘clearest’ days tend to be those with a single sudden burst of trading in a single direction (e.g., the top two days in Figure 1), while days that vacillate back and forth or drift throughout the day tend to have lower clarity according to our approach (e.g., the lower two days in Figure 1). Moreover, as we demonstrate in the following section, these differences in stock market behavior are correlated with clarity not only on the day of a given large stock market jump but are persistently different for weeks after.

We also note that many high clarity jump days are driven by news about government policies. Clarity is significantly higher for jumps attributed to sovereign military action (about 1 standard deviation of clarity), monetary policy and government spending (about half a standard deviation of clarity) than all the non-policy categories.¹⁷

4.4 Jump Clarity and Future Market Volatility

In Table 5, we regress future stock market volatility on our clarity index. The first measure of volatility we use is the average squared returns over the five days following the jump. We see a highly significant result in column (1), the specification without any controls. A two standard deviation drop in clarity is associated with an increase in volatility of 10, or a 0.625 standard deviation increase. This suggests that after days in when the movement in the stock-market was hard for journalists to explain there is greater subsequent stock-market volatility. One natural interpretation is that lower clarity events are more difficult for the market to parse, leading to greater future volatility. This is consistent with Carlin, Longstaff and Matoba (2014) who find that increases in disagreement predict future realized volatility. Indeed, clarity and disagreement are likely related, noting in particular our clarity measure is based in part of the extent of agreement within and across newspapers. This result is robust to controlling for the size of the jump, in column (2), though adding the full set of HAR controls in column (3) reduces the coefficient and loses statistical significance.

Our second measure of volatility is the average cross-sectional standard deviation of individual stock returns over the five days following the jump. Specifically, this is the value-

¹⁷ Figure A12 plots the distribution of clarity for selected policy categories against all non-policy categories, excluding unknown and no article found.

weighted standard deviation of returns across all ordinary common shares in CRSP in a given day. Consistent with the first three columns, cross-sectional standard deviation is lower after higher clarity jumps. This suggests that higher clarity events tend to have a similar effect on all firms, while there are more winners and losers after low clarity events. In unreported results, we find that future aggregate volatility and cross-sectional standard deviation are negatively related to each of our individual clarity index components as well.

Low clarity days are not only associated with higher levels of post-jump-day volatility, but also higher volatility in the period leading up to the day of the jump. This can be seen in Figure A13, where we compare absolute returns around high and low clarity jumps. In the all-years sample, we find that the mean absolute return is significantly higher both in a +/- 3-day and a +/- 22-day window around low clarity jumps than high clarity jumps. Jumps that are harder to explain are both preceded by and followed after by significantly higher stock-market volatility, arguing for the importance of the inclusion of HAR controls.¹⁸ Indeed, this suggests that one reason for the persistence of volatility in financial markets may be the persistence of clarity of the factors driving markets.

5. Concluding Remarks

We examine newspapers the day after major stock-market jumps to catalog the proximate cause, clarity as to cause, and geographic source of the market-moving news since 1900 in the United States, 1930 in the United Kingdom, and the 1980s in 17 other national markets. We find four main results. First, policy causes a significantly higher share of positive than negative stock market jumps. This result holds in 18 of the 19 national markets we cover, and it becomes stronger after World War II in the United States and the United Kingdom. Monetary policy and government spending jumps are the most strongly over-represented in positive jumps, suggesting major policy announcements are usually in response to negative economic news. We also provide direct evidence that policy-induced jumps have become more countercyclical over time – and that this effect is concentrated in jumps attributed to monetary and fiscal policy.

Second, jumps caused by non-policy events lead to higher future stock-volatility, while jumps caused by policy events, monetary policy in particular, lead to lower volatility. This suggests

¹⁸ This is also shown in Figure A14 and Table A8 where we see clarity itself is also persistent, suggesting the markets experience bouts of lower and higher clarity, moving alongside periods of lower and higher volatility. Appendix Table A8 includes more controls to account for the time series trend in clarity, jump categories and the time between jumps, showing the persistence of clarity is robust to including all these controls.

while monetary policy surprises lead to stock-market jumps, they may reduce future volatility. Third, the clarity of the cause of stock market jumps rises substantially over the past 90 years in the United States and the United Kingdom, likely because information sources have deepened and financial markets have become more transparent. Greater clarity is associated with lower levels of post-jump volatility, suggesting that trend increases in clarity have been a force for less market volatility.

Finally, we find the United States exerts an extraordinary influence on national equity markets around the world. From 1980 to 2020, 32 percent of all jumps in non-U.S. 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. The U.S. role in this regard dwarfs that of Europe and China. Jumps in other countries attributed to China-related developments were rare before the mid-1990s but have become much more frequent in recent years. This aspect of our findings highlights another facet of the uniquely large role played by U.S. economic and policy developments in the international monetary and financial system.

Text Fragments

We also develop a novel approach to quantifying clarity about the forces that drive stock market jumps.

One interpretation of these results is that Monetary jumps are often announcements at known dates, for example FOMC meetings, and once these announcements have been made uncertainty about monetary policy diminishes.

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Appendix

A1. Industry-Level Returns Validation

For some daily stock market jumps, the explanation offered in next-day newspaper accounts implies an amplified or dampened response of equity returns in particular industries to the news that moved the overall market. Consider two examples, the first involving bank stocks and the second involving defense-industry stocks

- Example 1, Banks: During the GFC, the stock market responded positively to upward revisions in the likelihood or generosity of bank bailouts. For this type of jump, we expect an even more favorable response for Bank stocks. That is, the response of Banks is *amplified* relative to the overall market response.
- Example 2, Guns: When bad news about the likelihood or duration of the Iraq war generated a negative jump, we expect the response for Guns (defense firms) to be *dampened* relative to the overall market response. While a longer war may be bad for the overall U.S. economy, it is less bad (or even good) for Guns.

These examples suggest that we can test whether newspaper-based explanations are accurate by examining whether their implications for relative industry-level returns hold in the data.

To do so, we proceed as follows. First, we work with the daily industry-level equity returns data constructed by Gene Fama and Ken French, which are available at https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. Let R_{it} = the daily return for industry portfolio i on day t as measured by Fama and French.

Second, we use the detailed explanations offered in next-day newspaper accounts – as recorded by our human coders – to identify instances in which particular industries should have an amplified or dampened return response if the newspaper explanation is accurate. Using these detailed explanations, we construct an industry-level variable Tri_{it} that takes on three possible values for each industry i on each jump date t , as follows:

$$\begin{aligned} Tri_{it} &= 1, \text{ if the detailed description for } t \text{ implies an amplified response of } R_{it}; \\ &= -1, \text{ if the detailed description for } t \text{ implies a dampened response of } R_{it}; \\ &= 0, \text{ otherwise.} \end{aligned}$$

In constructing this variable, we take a conservative approach: We set Tri to 1 or -1 based on the Primary jump reason only. We set Tri to 0 when the detailed explanation for the jump involves an

overly broad industry group. For example, “Manufacturing” maps to at least 15 of the 49 industry groups and is too broad for our purposes.¹⁹

Most jump-day explanations do not map readily to a particular industry. Sometimes, we assign 2 industries to a given jump. Most, but not all, of these dual assignments involve Sovereign Military Jumps, which implicate both Guns and Aerospace. Among our 339 jumps from 1960 to 2016, we obtain 115 Jump-by-Industry observations with nonzero *Tri* values, as follows: 38 nonzero values for Banks, 19 for Guns, and 16 for Aerospace. Several other industries had fewer than 10 nonzero *Tri* values: Oil, Coal, Building Materials, Construction, Autos, Chips, Hardware, Household Goods, Software, and Electrical Equipment.

Third, we test whether the implications of newspaper accuracy for relative industry-level returns hold in the data. In our one-industry-at-time approach, we fit the following regression model by OLS to daily returns data for a given industry *i*,

$$R_{it} = \alpha + \beta MR_t + \delta Tri_{it} + \gamma Tri_{it} MR_t + \epsilon_t,$$

where MR_t = the daily return on the overall market portfolio on day *t*. The chief coefficient of interest is γ , which tells us whether the relative industry-*i* return is amplified or dampened on particular jump days. The null hypothesis is $\gamma = 0$. Newspaper accuracy implies the alternative hypothesis, $\gamma > 0$. The specification includes a control for the market return, because industry *i* may be relatively sensitive or insensitive to market returns for reasons apart from the ones identified in our newspaper explanations on jump days.

We report the estimated γ coefficient in this regression for the Banks industry in columns (1) and (2) of Table A9. We soundly reject the null hypothesis in favor of the alternative, as seen by the positive sign and statistical significance of the γ coefficient. The estimated value for γ in Column (1), for example, says the return for Banks is amplified by 80 percent relative to the average market return on jump days with $Tri_{Banks} = 1$. Thus, the results in Columns (1) and (2) strongly support the view that next-day newspaper explanations are accurate as to the reason for the jump – at least for those jump explanations that imply an amplified response for Banks.

¹⁹ In practice, *Tri* typically takes on only two values (0 and 1, or 0 and -1) for a given industry. However, when pooling over industries to get additional power in the regression test below, we will need the trichotomous variable.

As it turns out, Banks is the only industry with a large enough number of non-zero Tri values to yield reasonably precise estimates of γ . Thus, we also fit a multi-industry regression specification, as follows:

$$R_{it} = \sum_i \alpha_i + \sum_i \beta_i MR_t + \sum_i \delta_i Tri_{it} + \gamma Tri_{it} MR_t + \epsilon_t.$$

When fitting this regression, we pool over all industries with at least one nonzero Tri value. Columns (3) and (4) in Table A9 report the results. Again, we soundly reject the null hypothesis in favor of the alternative, and the estimated value for γ implies a large amplification/dampening effect on returns in those industries that, according to the newspaper-based explanation, should experience an amplification/dampening effect.

In summary, the results in Table A9 provide evidence that next-day newspaper accounts contain meaningful explanations for large daily moves in national stock markets. This evidence about industry-level returns on jump days complements the evidence in Table 3 discussed in the main text. In particular, we stress that Table 3 and Table A9 provide two distinct types of evidence that validate our newspaper-based classifications for jump reasons, and the newspaper explanations themselves.