

Inflation News and Stock Returns: a Sectorial Analysis in the Spanish Case

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Abstract

We study the short run response of daily stock prices in the Spanish market to the announcements of inflation news on a sectorial level. We also control for the direction of the news and the state of the economy. In general, we find that a different combination for each sector of the “behavioural finance” hypothesis (BFH) (Veronesi, 1999) and the “flow-through” hypothesis (Estep and Hanson, 1980) can explain the observed behaviour relatively well. Abnormal returns of sectors with low “flow-through” capability react to the unexpected component of the inflation rate according to the BFH. In the case of sectors with a high ability to transfer inflationist shocks to prices, abnormal returns are independent of the unexpected inflation rates or even, in certain scenarios, react in the opposite direction to that expected by the BFH.

Keywords: Inflation announcement; Stock return; “Flow-through” capability, “Behavioural finance” hypothesis

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