Presidential Cycles in PEAD*

Zhi Da† Liyao Wang‡ Ming Zeng§

June 2026

Abstract

Post-earnings announcement drift (PEAD) displays presidential cycles: it earns 4.1% per year during Democratic presidencies but its profitability increases significantly to 15.3% during Republican presidencies. The tax component of firm earnings is significantly more volatile during Republican periods, suggesting larger tax policy uncertainty that amplifies information uncertainty and hence investor underreaction. Evidence from analyst forecasts, corporate filings, option implied volatilities and event studies helps to "rule-in" this novel tax channel. In addition, presidential cycles in PEAD are concentrated among firms with high tax policy exposures. The cycles are not driven by time-varying risk aversion or microcap firms.

JEL Classification: G12, G14, G40, G41

Keywords: post-earnings announcement drift, presidential cycles, Republicans, Democrats, underreaction, earnings surprises, subjective expectation, textual analysis, tax policy uncertainty

*We thank Pedro Barroso (discussant), Andrew Fuller, Claire Yurong Hong (discussant), Paolo Zaffaroni (discussant), Christina Zhu, and participants at the Annual Conference of Asia-Pacific Association of Derivatives 2025, CICF 2025, Stockholm Business School, RAPS/RCFS Europe Conference in Cambridge 2025, EUROFIDAI-ESSEC Paris December Finance Meeting 2025, University of Gothenburg, Wharton Accounting Brownbag, Xiamen University, and Zhejiang University for helpful comments and discussions. Liyao Wang acknowledges financial support from the National Natural Science Foundation of China [Grant No. 72402193] and Research Grant Council of Hong Kong [Project No. 12501425]. Ming Zeng acknowledges financial support from the Foundation for Economic Research in West Sweden, and Jan Wallanders och Tom Hedelius stiftelse samt Tore Browaldhs stiftelse (grant numbers P25-0184).

†Mendoza College of Business, University of Notre Dame, Notre Dame, IN 46556, U.S.A, email: zda@nd.edu

‡Department of Accountancy, Economics and Finance, School of Business, Hong Kong Baptist University. 34 Renfrew Road, Kowloon Tong, Kowloon, Hong Kong. E-mail: lywang@hkbu.edu.hk.

§Department of Economics and the Centre for Finance, University of Gothenburg, P.O. Box 640, SE 40530 Gothenburg. E-mail: ming.zeng@cff.gu.se.

1 Introduction

Post-earnings announcement drift (PEAD) is arguably one of the most puzzling anomalies in the stock market. The efficient market theory suggests that stock prices should quickly incorporate all relevant information, including earnings surprises at the time of an earnings announcement. However, extensive evidence shows that prices often continue to drift in the direction of earnings surprise for one or two months after the announcement, meaning that the unexpected earnings information is gradually incorporated into stock prices. Risk-based explanations appear inconsistent with this phenomenon, and the prevailing explanations attribute it to the market's underreaction to earnings news. Indeed, Fama (1998) refers to PEAD as the "granddaddy" of underreaction-related anomalies. Similarly, Daniel et al. (2020) find that as a short-horizon behavioral factor, the PEAD factor subsumes many short-term stock market anomalies.

Underreaction, however, is far from uniform: its strength varies across firms, over time, and with features of the environment in which earnings news arrives, including investor attention, information complexity, and uncertainty about the policy backdrop. This naturally raises a question that has received little attention in the PEAD literature: can the political environment systematically shape how investors react to earnings news? An especially salient feature of the U.S. political environment is the party of the incumbent president. The two major parties differ markedly in their economic priorities and policy agendas (see, e.g., Alesina, 1987). In particular, they hold contrasting views on corporate taxation, with Democrats generally favoring higher taxes and Republicans favoring lower taxes (see, e.g., Pástor and Veronesi, 2020). Because such policies affect firms' expected after-tax profitability, they may also influence how investors interpret and respond to earnings news.

In this paper, we document a striking difference in PEAD across U.S. presidential administrations. Investors' announcement-date reactions to earnings news weaken sub-

stantially under Republican presidents: the inter-quantile spread of two-day abnormal returns between firms with the highest and lowest earnings surprises is 5.15% during Democratic terms but only 4.74% during Republican terms, a difference of -0.41% ($t = -3.86$) that is both statistically and economically significant. Consistent with these muted immediate reactions, post-earnings announcement drift is markedly stronger under Republican presidencies. The inter-quantile spread of 30-day cumulative abnormal returns between firms with the highest and lowest earnings surprises is 1.66% during Republican terms, compared with 1.01% during Democratic terms. The 0.65% difference ($t = 4.04$) represents a nearly 65% proportional increase. These patterns persist in multivariate regressions controlling for limited attention, limits to arbitrage, firm characteristics, and calendar effects: announcement-date return remains significantly less sensitive to earnings news, while post-announcement drift remains significantly stronger, during Republican administrations.

We also examine the presidential cycles in PEAD by using the standard calendar-time portfolio approach, which invests in stocks the day after their earnings announcements. Across ten presidential terms from January 1984 to December 2023, the PEAD strategy is weak and statistically insignificant under Democratic presidents: a spread portfolio that goes long the highest earnings-surprise quintile and short the lowest only earns a value-weighted return of 4.1% per year. Under Republican administrations, by contrast, the PEAD effect is pronounced, with the spread portfolio earning 15.3% per year. The cross-regime difference of 11.2% is both economically meaningful and statistically significant ($t = 2.40$). These presidential cycles in PEAD are robust to factor-based risk adjustments.

We observe consistent patterns in analysts' beliefs. Security analysts' earnings forecasts exhibit larger biases under Republican presidents, suggesting they fail to anticipate the shift in earnings dynamics between Democratic and Republican regimes. Applying the test developed by Coibion and Gorodnichenko (2015), we find stronger underreaction to earnings news during Republican periods: when revising their earnings forecasts

following recent earnings announcements, analysts underreact by more than twice as much as during Democratic periods.[1]

Stronger underreaction to earnings news may arise because the market fails to anticipate presidential differences in the dynamics of key earnings components. Among the systematic components driving cross-sectional variation in realized earnings, we find that only the tax component exhibits a significant presidential difference in volatility. This pattern likely reflects the contrasting tax policies of the two major parties: Republicans are generally viewed as favoring lower corporate taxes, while Democrats tend to support higher taxes (see, e.g., Pástor and Veronesi, 2020). Although tax cuts may appear favorable to the economy, their implementation is often complex and subject to considerable uncertainty. Consistently, the tax policy uncertainty is higher during Republican periods in the data.

While we do not rule out alternative explanations, this novel tax-based channel offers a plausible account of presidential cycles in PEAD. When investors face substantial uncertainty about the tax component of a firm's earnings, particularly under Republican administrations, they may become excessively uncertain about after-tax income, leading to stronger underreaction to earnings news.

We conduct four analyses to support this mechanism. First, analyzing corporate 10-Q and 10-K filings, we find that firms reference Republican tax laws more frequently than Democratic ones, especially during Republican presidencies. This pattern suggests that firms are significantly more concerned about tax policy under Republican administrations. Second, we construct firm-level measures of tax policy exposure from textual analysis of corporate filings. We find that option-implied volatility increases more sharply prior to earnings announcements during Republican periods, especially for firms with greater tax policy exposure. This suggests that Republican tax policy may cre-

[1] Bouchaud et al. (2019) document unconditional underreaction by sell-side analysts when revising short-term earnings forecasts. We show that this underreaction is significantly stronger during Republican terms.

ate heightened information uncertainty and hence stronger underreaction, particularly among high-exposure firms. Third, the stronger PEAD under Republican presidents is concentrated among these high-exposure firms; the presidential cyclicality is generally weaker elsewhere. We find similar results using an accounting- or auditing-based measure of tax exposure. Fourth, we make our mechanism visible through an event study of the 2018 Tax Cuts and Jobs Act, which substantially reduced corporate taxes. We find that analysts underreact to the policy's impact on high-exposure firms, overestimating their tax expenses and thereby generating positive earnings surprises and subsequent price drift following earnings announcements.

Our results resurrect the PEAD, particularly in the short term. Recent studies have documented a substantial weakening of PEAD since the late 2000s (see, e.g., Martineau, 2021; Kettell et al., 2022). Our findings suggest that part of this attenuation may be attributable to the disproportionate representation of Democratic presidencies in samples covering the post-2008 period. In addition, recent studies typically measure post-earnings-announcement drift over relatively long horizons, such as from the earnings announcement date through the subsequent sixty days or even until the next earnings announcement. While this approach is standard in the literature, the frictions that impede arbitrage of earnings news have declined markedly over time. Consequently, although PEAD may no longer be statistically significant over longer horizons, economically meaningful drift may still persist over shorter windows following earnings announcements. Consistent with this interpretation, the presidential-cycle effects we document are concentrated in the drift that occurs within approximately 45 days after earnings announcements.

We show that the presidential cycle in PEAD is related to, but unlikely to be driven by, previously documented political influences on stock returns. Although the cycle is most pronounced during the third and fourth years of a presidential term — potentially reflecting heightened uncertainty ahead of elections — it is not confined to these years.

The cycle also persists both during and outside post-midterm election periods, suggesting it is not driven by uncertainty surrounding midterm elections, as studied by Chan and Marsh (2021). Similarly, extending studies linking partisan conflict and divided government to aggregate asset prices (Azzimonti, 2018; Papamichalis et al., 2024), we examine how the political environment affects the incorporation of firm-level earnings news into stock prices, and we find that the presidential cycle in PEAD is strongest under unified government and during periods of lower partisan conflict, when tax policy changes are more likely to be enacted. Finally, the pattern is not tied to any particular presidency, indicating that it reflects a systematic feature of the presidential cycle rather than idiosyncratic presidential effects.

We perform several additional analyses. First, Pástor and Veronesi (2020) establish that the well-known presidential gap in aggregate stock returns can be explained by time-varying risk aversion. However, we find that commonly used proxies for risk aversion fail to predict returns to the PEAD strategy, suggesting that the presidential variation in PEAD cannot be attributed to this channel. Second, prior literature documents that PEAD is stronger for microcap stocks, potentially due to their less favorable information environments or higher trading costs (see, e.g., Chordia et al., 2014). We show that the presidential cycles are also significant among non-microcap stocks, so our findings generalize to a broader and more economically significant segment of the market. Third, although prior work emphasizes limited attention as a key explanation for PEAD, we find that the low-frequency, presidential-cycle variation in PEAD is not driven by investor inattention on Fridays (DellaVigna and Pollet, 2009) or by distraction from extraneous news events (Hirshleifer et al., 2009). Finally, we control for a comprehensive set of explanatory variables, including measures of limited attention, limits to arbitrage, common firm characteristics, industry and weekday dummies, and key macroeconomic variables. Even after accounting for these factors, which cover most existing explanations for PEAD, the influence of presidential cycles remains both economically large and

statistically significant.

This article contributes to the long-standing and still expanding literature on post-earnings announcement drift. Since the seminal studies by e.g., Ball and Brown (1968); Bernard and Thomas (1989, 1990); Abarbanell and Bernard (1992), considerable research has focused on deepening our understanding of PEAD. For instance, Frazzini (2006); DellaVigna and Pollet (2009); Hirshleifer et al. (2009, 2011) examine mechanisms that may induce underreaction to earnings news. Mendenhall (2004); Zhang (2006); Narayanamoorthy (2006); Cao and Narayanamoorthy (2012); Chordia et al. (2014); Martineau (2021); Hansen and Siggaard (2023) explore how the PEAD effect varies across different stocks and over time. Additionally, Foster et al. (1984); Livnat and Mendenhall (2006); Kishore et al. (2008); Meursault et al. (2023) investigate how different measurements of information from earnings announcements affect subsequent price drift. Chordia and Shivakumar (2006); Daniel et al. (2020) relate PEAD with other stock return anomalies. Hung et al. (2015); Nozawa et al. (2022) study PEAD in other asset markets. Fink (2021) provides a review of the extensive PEAD literature. Our contribution is to offer a novel explanation for PEAD that differs from the existing literature, with a focus on its strong connection to political cycles in the U.S.

Our paper also relates to the literature on the interaction between political forces and financial markets (see, e.g., Santa-Clara and Valkanov, 2003; Pastor and Veronesi, 2012; Pástor and Veronesi, 2013; Belo et al., 2013; Addoum and Kumar, 2016; Chan and Marsh, 2021; Chen et al., 2023; Papamichalis et al., 2024). However, existing research primarily examines the implications of political cycles for topics such as risk aversion, aggregate stock returns, and industry performance, without addressing PEAD, one of the most puzzling anomalies that challenge market efficiency.

2 Data

2.1 Standardized unexpected earnings

Following prior literature on PEAD (see, e.g., DellaVigna and Pollet, 2009; Hirshleifer et al., 2009), we analyze quarterly earnings announcements for U.S. firms. Our main variable of interest is the standardized unexpected earnings (SUE), defined as the scaled difference between the realized quarterly EPS and the consensus forecasts for firm i and fiscal quarter t:

$$SUE_{i,t} = \frac{EPS_{i,t} - FEPS_{i,t}}{P_{i,t-5}}. \tag{1}$$

Here $EPS_{i,t}$ is the actual earnings per share of quarterly earnings for firm i-fiscal quarter t, and $FEPS_{i,t}$ is the expected earnings per share, measured by the consensus analyst forecast. We scale the surprise by the stock price ($P_{i,t-5}$) five trading days before the quarterly announcement (following, e.g., Martineau, 2021).

To calculate the consensus forecasts, for each firm–fiscal quarter, we extract individual analysts' earnings per share (EPS) forecasts from the I/B/E/S Unadjusted Detail file. We only include forecasts issued or reviewed within the last 90 calendar days before the quarterly earnings announcement to mitigate the impact of stale forecasts, similar to e.g., Hirshleifer et al. (2009). If the same analyst issued multiple forecasts within the 90-day window, we retain only the most recent forecast. The consensus forecast is then defined as the median of all individual forecasts. For realized values, we collect the actual EPS for the same fiscal quarter from the I/B/E/S actual files. Stock prices, earnings, and forecasts are split-adjusted using the split factor from CRSP. Our sample period spans from January 1984 to December 2023.

2.2 Presidential dummy, financial and accounting data

Our main empirical analysis focuses on the impact of the political party affiliation of U.S. presidents. Following Santa-Clara and Valkanov (2003), we set the presidential cycle dummy variable RD_t to 1 if a Republican president is in office at the end of month t, and zero otherwise. Note that while presidential elections occur every four years on the first Tuesday of November, the presidential term begins on the following January 20th. Consequently, even if a president affiliated with the other party is elected in November, we maintain the existing value for the presidential dummy until January.[2]

We obtain monthly stock returns from the Center for Research in Security Prices (CRSP) and quarterly and annual accounting data from Compustat. An important variable for our study is the quarterly earnings announcement date (Compustat quarterly item RDQ), which is the date when the *Wall Street Journal* publishes quarterly earnings releases. Our data sample includes all common stocks listed on the NYSE, Amex, and Nasdaq exchanges with share codes of 10 or 11.

2.3 Corporate filings

Our analysis uses all electronically available 10-Q and 10-K fillings by publicly listed U.S. companies from 1994 to 2023. Under Regulation S-K, the U.S. Securities and Exchange Commission (SEC) requires public firms to disclose audited financial statements along with detailed narrative discussions of their business operations, financial condition, and risk factors in these periodic filings. As such, 10-Q and 10-K filings provide a rich and standardized source of textual and financial information for examining policy exposure and disclosure practices over time. We obtain the cleaned versions of the 10-Q and 10-K filings from the Software Repository for Accounting and Finance compiled by Bill McDonald and Tim Loughran.[3] This repository applies consistent parsing and pre-

[2]Our results remain very similar if we adjust the dummy to reflect the election month (November).
[3]The files can be downloaded from https://sraf.nd.edu/

processing procedures, which facilitates large-scale textual analysis while preserving the original filing content. The sample consists of 879,823 filings submitted by 41,552 unique firms from 1994 to 2023.

3 Presidential Cycles in Underreaction to Earnings News

3.1 PEAD strongly depends on the party in the White House

This subsection examines how prices react to earnings news under different presidential regimes. Following DellaVigna and Pollet (2009); Hirshleifer et al. (2009), we compute cumulative abnormal returns (CARs) over the announcement and post-announcement windows. For each earnings announcement of stock i, we compute the difference between its buy-and-hold return and the return of a matched size, book-to-market, and momentum portfolio, following Daniel et al. (1997). Specifically, for each fiscal quarter announcement of firm i, we calculate

$$\text{CAR}_{i,t}[T_0, T_1] = \prod_{j=T_0}^{T_1}(1 + r_{i,t+j}) - \prod_{j=T_0}^{T_1}(1 + r_{DGTW,t+j}), \tag{2}$$

where $r_{i,t+j}$ and $r_{DGTW,t+j}$ are the daily returns for firm i and the matched portfolio. The return is accumulated from trading day T_0 to T_1 following the announcement.

By assigning different values to T_0 and T_1, we can assess both the immediate and delayed price responses to earnings news. For instance, CAR[0,1] is the return from the close on the trading day before the earnings announcement to the close on the trading day after the earnings announcement (DellaVigna and Pollet, 2009). Hence, CAR[0,1] reflects the initial price reaction immediately after the earnings release and typically shows positive (negative) returns if the earnings surprise is favorable (unfavorable). Additionally, if the PEAD effect exists, the subsequent cumulative abnormal returns will continue to drift in the direction of the initial response.

For each month t, we rank all stocks with earnings announcements into quintiles based on their SUEs. We then evaluate whether the stock-level SUE rank is associated with its price response by running regressions after pooling all earnings announcements in the top and the bottom quintiles (similar to, e.g., DellaVigna and Pollet, 2009; Hirshleifer et al., 2009)

$$\begin{aligned} \text{CAR}_{i,t}[0,1] &= \alpha_0 + \beta_0 SUE5_{i,t} + \epsilon_{i,t}, \\ \text{CAR}_{i,t}[2,31] &= \alpha_1 + \beta_1 SUE5_{i,t} + \nu_{i,t}, \end{aligned} \tag{3}$$

where $SUE5_{i,t}$ is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile.[4] Our analysis primarily focuses on the 30-day price drift following the announcement window (CAR[2,31]).[5]

Columns (1) and (3) of Table 1 report the results. If PEAD reflects an incomplete reaction to earnings news, we would expect both an immediate price response and subsequent drift in the same direction. The data confirm this pattern. The two-day announcement return is on average 4.95% higher when moving from the lowest to the highest SUE quintile. The subsequent 30-day drift (CAR[2,31]) is also substantial: stocks in the highest SUE quintile outperform those in the lowest quintile by 1.31% on average (t = 16.16). Both differences are statistically significant at the 1% level, with standard errors clustered by announcement date.

[Table 1 about here]

We then examine whether the party in office influences price responses to earnings

[4] All dependent variables are cross-sectionally trimmed at the 0.5% and 99.5% levels to mitigate the impact of outliers.

[5] Although the literature typically tracks price drift until the next earnings announcement, the cross-regime difference in PEAD appears to persist over a shorter but still meaningful window. As discussed in Section 6.3, this difference remains statistically significant even around 45 days after the announcement and gradually levels off afterwards.

announcements by running the following regressions

$$\begin{aligned} \text{CAR}_{i,t}[0,1] &= \alpha_0 + \beta_0 SUE5_{i,t} + \gamma_0 RD_t + \theta_0 SUE5_{i,t} \times RD_t + \epsilon_{i,t}, \\ \text{CAR}_{i,t}[2,31] &= \alpha_1 + \beta_1 SUE5_{i,t} + \gamma_1 RD_t + \theta_1 SUE5_{i,t} \times RD_t + \nu_{i,t}, \end{aligned} \tag{4}$$

where the presidential dummy RD_t equals 1 when the U.S. president is Republican at the end of month t (and zero otherwise). Column (2) in Table 1 shows that the initial response CAR[0,1] weakens significantly during Republican eras: the inter-quantile spread of announcement date two-day abnormal returns between firms with highest and lowest earnings surprises is 5.15% for Democratic terms and 4.74% for Republican terms. This translates to an economically and statistically significant difference of -0.41% ($t = -3.86$).[6] Consistent with the weakened immediate price responses, Column (4) shows that the post-announcement drift is stronger. The inter-quantile spread of the post-announcement 30-day cumulative abnormal returns between firms with highest and lowest earnings surprises is 1.66% for Republican terms. In sharp contrast, the spread is 1.01% during Democratic periods. This translate to an economically and statistically significant difference of 0.65% ($t = 4.04$), which is nearly a 65% proportional difference.

In Columns (5) and (6), we report results from regressions by pooling observations from all quintiles, after replacing $SUE5$ in (4) with the earnings surprise quintile rank for stock i in month t (SUE_{Rank}). Following prior literature (e.g., Kothari, 2001; DellaVigna and Pollet, 2009; Hirshleifer et al., 2009), we use the cross-sectional rank of SUE rather than its raw values, since the relationship between earnings surprises and price responses may be nonlinear. The results are similar in this pooled specification: the initial response CAR[0,1] significantly weakens during Republican presidencies while

[6] As will be discussed in Section 3.4, the weaker immediate response is not due to smaller magnitude of SUE. In fact, we find that the magnitude of SUE is even larger during Republican presidencies. Hence the weaker response is more likely attributable to stronger market underreaction to earnings news.

post-announcement drift CAR[2,31] is significantly stronger.

The upper plot of Figure 1 graphically compares post-announcement cumulative abnormal returns at various horizons for the highest and lowest SUE portfolios across presidential administrations. Following DellaVigna and Pollet (2009), the average cumulative abnormal return for each portfolio is computed from day 2 through day h after the earnings announcement, with h extending up to 35 days. The lower plot shows the corresponding cross-regime difference in drift between the highest and lowest SUE portfolios. Together, the two plots reveal large presidential differences in drift for both the highest and lowest SUE portfolios.

[Figure 1 about here]

3.2 Calendar-time portfolio analysis

As an alternative way to visualize presidential cycles in PEAD, we examine returns to a standard calendar-time portfolio strategy. Following prior work (e.g., Barber et al., 2007; Cohen et al., 2010; Birru et al., 2022), we construct daily calendar-time portfolios as follows. At each earnings announcement date t, we calculate the quintile breakpoints based on all stocks with available SUEs from trading day $t-30$ to $t-1$. Then, we sort stocks with earnings announcement on day t into quintile portfolios and include them in the calender-time portfolio at the end of trading day $t+1$ to ensure that the portfolio is formed with only publicly available information. We rebalance the calendar-time portfolio daily with an investment horizon of 30 trading days. For instance, if a stock j makes announcement on date t and belongs to the top (bottom) SUE portfolio, we add stock j to the trading buy (sell) at the end of trading day $t+1$ and keep this stock in the calendar-time portfolio until trading day $t+31$.

We also compute risk-adjusted returns using the Fama and French (2015) five-factor model and report value-weighted annualized returns for the bottom (L) and top (H)

quintile portfolios, as well as for the spread portfolio that goes long the top quintile and short the bottom. Over the full 1984–2023 sample, we find a strong PEAD effect. The daily-rebalanced spread portfolio earns an average value-weighted return of 9.98% per year (t=4.50). Panel A of Table 2 shows that returns increase monotonically from the lowest to the highest SUE quintile, and risk adjustment leaves the results essentially unchanged. These findings align with the long-standing literature documenting a robust PEAD effect.

[Table 2 about here]

We evaluate the performance of PEAD under different presidential administrations. In our sample, there have been ten presidential terms, with five of these served by Republican presidents. We divide the full time-series of monthly PEAD returns into two subsamples based on whether a Democratic or Republican president was in office when the spread portfolios were formed. Panel B and C of Table 2 highlight sharp differences between these two subsamples. During Democratic presidencies, the PEAD effect is weak and statistically insignificant (around 4% per year). In contrast, under Republican presidencies, the PEAD effect is much more pronounced. The spread portfolio generates an average annual return of 15.26% per year ($t = 4.81$). The cross-regime difference is 11.14%, which is both economically large and statistically significant. The risk-adjusted returns display a similar pattern with cross-regime difference of 10.39%.[7]

Figure 2 plots the cumulative returns and FF5 alphas of the SUE spread portfolio from January 1984 to December 2023. The payoff is scaled using the natural logarithm, with separate highlights for performance during Democratic and Republican administrations. Under Republican presidencies, the returns and alphas of the spread portfolio exhibit a steady upward trend. In contrast, the PEAD effect is generally weak during Democratic

[7]These alphas are obtained from regressions of portfolio returns on presidential dummy together with Fama and French (2015) five factors. And our results remain robust when the alphas are derived from the same regressions but estimated within Democratic and Republican samples separately.

terms. Overall, Figure 2 clearly depicts the contrasting performance of the PEAD effect across Republican and Democratic presidencies.

[Figure 2 about here]

3.3 Impact of time-varying risk-aversion

Although prior research (see, e.g., Fama, 1998) suggests that PEAD is unlikely to be explained by risk-based asset pricing models, we nonetheless examine the role of time-varying risk aversion in the presidential cycles we document. Pástor and Veronesi (2020) show that the well-known presidential gap in aggregate stock returns can be attributed to an endogenous relationship between presidential party changes and aggregate risk aversion, which may have direct implications for our findings. Specifically, the presidential cycles we observe may simply reflect time variation in risk aversion if Republican presidencies are associated with rising risk aversion and PEAD returns are positively related to risk aversion.

To assess this possibility, we construct several commonly used proxies for risk aversion following Pástor and Veronesi (2020). These include the unemployment rate (UNPR); the risk aversion measure of Bekaert et al. (2022) (BEX); the risk appetite measure of Pflueger et al. (2020), referred to as the "price of volatile stocks" (PVS); and the surplus consumption ratio (Surplus) from Campbell and Cochrane (1999). We use the negative of PVS and Surplus so that higher values correspond to higher risk aversion. Panel A of Table 3 reports predictive regressions of future returns to the calendar-time PEAD portfolio on the Republican dummy alongside these risk aversion proxies. Across all specifications, the Republican dummy remains a statistically significant predictor of future PEAD returns, whereas none of the risk aversion proxies exhibits significant predictive power. Moreover, the estimated coefficients on the risk aversion measures are economically small in magnitude.

[Table 3 about here]

We further examine whether the presidential cycle can be explained by broader determinants of the equity risk premium. We consider the set of well-established return predictors compiled by Goyal et al. (2024) and test whether the predictive power of the Republican dummy for PEAD spread portfolio returns is absorbed by any of them. Panel B of Table 3 shows that the Republican dummy alone significantly predicts future PEAD returns, generating an in-sample R^2 of 1.58% and an out-of-sample R^2 of 1.77%, both statistically significant at the 1% level. Importantly, the predictive power of the Republican dummy remains robust after controlling for the full set of equity premium predictors.[8] Overall, the results suggest that the presidential cycle in PEAD is unlikely to be explained by time-varying risk aversion.

3.4 Presidential cycles in belief underreaction to earnings news

The price reaction is solely one aspect of market response to earnings news. An equally important dimension is investor *beliefs*. If the stronger PEAD we document under Republican presidents reflects underreaction, we should also see stronger belief underreaction during these periods. We test this using analyst earnings forecasts.

We begin by examining the magnitude of forecast errors across regimes. Within the top and bottom SUE quintiles, we compute the average forecast error (the SUE from the sorting month) and decompose it into its actual earnings and forecast components. Table 4 reports equal-weighted portfolio averages. By construction, average forecast errors rise from –2.05 in the bottom SUE quintile to 1.13 in the top. The cross-regime comparison further reveals two patterns. First, the absolute magnitude of forecast errors is larger in both tails under Republican presidents, suggesting that earnings may be harder to predict during Republican periods. Second, cross-regime changes in earnings

[8] For this exercise we do not compute out-of-sample R^2, as additional control variables typically deteriorate out-of-sample performance by introducing estimation noise through the estimation of extra coefficients (Welch and Goyal, 2008).

forecasts are smaller than, and sometimes opposite in sign to the corresponding changes in actual earnings. Taken together, if analysts' beliefs serve as reliable proxies for market expectations (e.g., Kothari et al., 2016), the result suggests potentially greater forecasting difficulty and stronger underreaction to earnings news during Republican periods.

[Table 4 about here]

To formally test whether market belief underreaction exhibits presidential cycles, we extend the regression used in e.g., Coibion and Gorodnichenko (2015); Bordalo et al. (2019); Bouchaud et al. (2019) to:

$$\begin{aligned} e_{i,t+1} - E_t e_{i,t+1} = \alpha + \beta(E_t e_{i,t+1} - E_{t-1} e_{i,t+1}) + \gamma RD_t \\ + \theta(E_t e_{i,t+1} - E_{t-1} e_{i,t+1}) \times RD_t + \epsilon_{i,t+1}. \end{aligned} \tag{5}$$

Here, the dependent variable is the forecast error for firm i that announce its outcome for the fiscal period $t+1$. $E_t e_{i,t+1}$ represents the consensus forecast for earnings e_{t+1} conditional on announced outcome for the fiscal period t. To obtain $E_t e_{i,t+1}$, we follow Bouchaud et al. (2019) and calculate the median of all individual earnings forecasts for $e_{i,t+1}$ that are issued between the end of firm i's fiscal quarter t and the end of fiscal quarter $t+1$. Similarly, $E_{t-1} e_{i,t+1}$ is computed using forecasts issued between fiscal quarter $t-1$ and t. We add the interaction term $(E_t e_{i,t+1} - E_{t-1} e_{i,t+1}) \times RD_t$ to test if the relationship between forecast errors and past revisions is stronger during Republican presidencies. We also include the lagged forecast error and its interaction with presidential dummy to control for autocorrelation in forecast errors.[9]

Regression (5) utilizes revisions in consensus earnings forecasts to predict subsequent forecast errors. Under rational expectation, forecast errors should not be predictable. However, if the market underreacts to earnings news, forecast errors will be predictable.

[9] Although Coibion and Gorodnichenko (2015) show that lagged forecast errors are theoretically unnecessary once forecast revisions are controlled for, we include them as an empirical safeguard. Our results are unchanged when these terms are excluded.

Following good (or bad) earnings news in fiscal quarter t, investors will revise their future earnings forecasts upward (or downward), but these revisions will be insufficient. As a result, subsequent forecast errors will positively (negatively) surprise the investors, leading to a positive β. Furthermore, if investors underreact more to earnings news during Republican periods, we would expect $\theta > 0$.[10]

Following Bouchaud et al. (2019), we pool firm-level quarterly earnings announcements in the lowest and highest SUE quintiles to estimate regression (5). To ensure comparability across firms, we scale both forecast errors and revisions by the stock price at the end of fiscal quarter $t-1$. Column (1) in Table 5 presents the estimation results. First, consistent with Bouchaud et al. (2019), we find that forecast revisions independently have significant predictive power for subsequent forecast errors—higher forecast revisions are strongly associated with higher forecast errors. Second, the degree to which forecast errors are predictable based on revisions varies significantly by presidential regime. During Republican presidencies, underreaction to earnings news is more than twice as strong as during Democratic presidencies.[11] In Column (2), we find similar results after including standard control variables and their interactions with the Republican dummy.[12] Third, Column (3) and (4) show that the relationship robustly holds under the full-sample that includes all SUE quintiles.

[Table 5 about here]

[10] Coibion and Gorodnichenko (2015) document that the slope coefficient is linked to structural parameters that capture information stickiness or noise. Higher β or θ can reflect either channel, both of which generate stronger underreaction to news. An advantage of analyzing (5) is that it lets us quantify the degree of underreaction without taking a stand on its underlying source.

[11] Coibion and Gorodnichenko (2015) show that the slope coefficient equals to $\frac{\lambda}{1-\lambda}$, where higher λ reflects higher information stickiness or noisiness, and thus more underreaction. Our estimates imply $\lambda = 0.12$ (0.29) when the U.S. president is Democrat (Republican).

[12] The same set of control variables will be used in regression (10), and their detailed definitions are provided in Table A.1.

4 Political Uncertainty and Presidential Cycles in PEAD

4.1 Presidential differences in important earnings components

The return- and survey-based evidence echo each other and implies stronger underreaction and PEAD effect during Republican presidencies. The existing explanations such as those based on investor inattention to earnings news (DellaVigna and Pollet, 2009; Hirshleifer et al., 2009) or disposition effect (Frazzini, 2006), are unlikely to account for the low-frequency variation in PEAD that aligns with the presidential party affiliation.

Stronger underreaction to earnings news may indicate that the market fails to anticipate presidential differences in the dynamics of key earnings components. Thus we first explore which systematic components drive the cross-sectional variation in realized earnings. Consider the following accounting identity for actual earnings:

$$\text{Earnings} = \text{OIADP} + \text{SPI} - \text{XINT} + \text{NOPI} - \text{TAX} + \text{Others}, \tag{6}$$

where OIADP refers to operating income after depreciation, SPI is special item, XINT is interest expense, NOPI is non-operating income, and TAX refers to tax expense. *Others* represents all residual and potentially minor components, such as extraordinary item (XI), minority interests (MII) and dividend payout (DVP). Using firm-level quarterly accounting data for each component, scaled by market capitalization five trading days before quarterly announcement, we conduct a full-sample cross-sectional variance decomposition of earnings based on the above identity. The results are presented in the first column of Table 6. As expected, a firm's operating income is the dominant contributor to actual earnings. However, the special items and tax components also account for a substantial portion of the cross-sectional variation in actual or after-tax earnings. Other components, such as interest (XINT) and minority items including extraordinary items (XI), minority interests (MII) and dividend payout (DVP) account for much smaller

portions (below 5%) of actual earnings. We perform similar variance decompositions separately for Democratic and Republican periods. The second and third column of Table 6 indicate that OIADP, SPI, and TAX remain the three most important components driving cross-sectional variations in earnings.[13]

[Table 6 about here]

Do these earnings components display pronounced presidential differences? We calculate the volatility of each firm's earnings components separately for Democratic and Republican periods. We measure the volatility as the standard deviation or the mean absolute value, with the latter more robust to outliers. We decompose actual earnings into the three most important components, while all remaining terms are aggregated into a residual (RES) category. All of the components are scaled by market capitalization five trading days before quarterly announcement. To test the significance of presidential differences, we regress firm-level volatilities on a Republican dummy. To make coefficients comparable across components, we pool all firm-by-regime volatility and standardize them to zero mean and unit variance, for each component. In Table 7, we find that while most earnings components seem to display higher volatilities during Republican periods, only the tax component shows large and statistically significant presidential difference in its volatility. The magnitude of the difference is more than twice that of OIADP (4.73% vs. 2.07%), and is much higher than those of other components.

[Table 7 about here]

[13]The notable contribution of special items is likely due to their frequent zero values and occasional large, infrequent entries on firms' balance sheets. Table OA.2 reports the variance decomposition of earnings components for the subsample of firms with zero quarterly special items, which on average represent more than 60% of our full sample. Within this sizable group, the tax component accounts for the second largest share of total earnings after OIADP. Table OA.3 repeats the tests on presidential cycles in PEAD and belief underreaction over this subsample. The results are similar to those in Table 1.

4.2 Linkage to presidential difference in tax policy

The evidence that only the tax component of earnings exhibits a significant volatility difference may reflect the tax policy difference of two major political parties. Taxes constitute a significant portion of firms' pretax income and are pervasive across U.S. firms, yet there are sharp differences in desired tax policies between the two parties. Republicans are generally viewed as favoring lower corporate taxes, while Democrats tend to support higher taxes (see, e.g., Reed, 2006; Wright, 2012; Pástor and Veronesi, 2020).[14] Although tax cuts may appear politically popular, their implementation is often complex and fraught with uncertainty. Concerns such as fiscal deficits or political conflicts may cast doubt on their enactment and sustainability.

We consider two empirical measures to evaluate whether aggregate tax policy uncertainty indeed increases during Republican administrations. The first is the average of firm-level tax volatility, which is calculated as the within-regime standard deviation of pooled firm tax expenses (scaled by absolute pretax income). The second is the Tax Policy Uncertainty (TPU) index of Baker et al. (2016).[15] The two measures draw on different data sources and thus provide complementary views of aggregate tax policy uncertainty. Figure 3 plots each measure's within-regime mean relative to its unconditional mean. For both measures, the average level under Republican administrations is consistently higher than under Democratic ones.

[Figure 3 about here]

Does higher aggregate tax policy uncertainty translate into meaningful firm-level effects? One direct way to examine this question is to quantify how individual firms perceive tax policies enacted by the two parties. We search for the legal names of major national tax laws referenced in corporate 10-Q and 10-K filings from 1993 to 2023. Our

[14] Wright (2012) show that Republican politicians have consistently advocated for tax cuts since 1980.

[15] The TPU index is a sub-index constructed from news data covering the Access World News database of over 2,000 U.S. newspapers. Articles must contain terms relating to the economy, uncertainty, and policy, along with a set of tax-specific terms.

sample includes 12 acts, of which seven were signed by Democratic presidents and five by Republican presidents (the full list appears in Table OA.1). For each filing, we count the number of sentences mentioning any of these 12 tax laws, scaled by the total number of sentences in the filing. Figure 4 plots the value-weighted average of firm-level references to laws signed under each party.[16] Because many firms do not mention any tax laws, the aggregate measure is close to zero in many periods. When firms do reference specific tax laws, however, these mentions are likely informative about the laws' firm-level impact.

[Figure 4 about here]

We document a striking asymmetry across political parties: Republican tax policies are cited significantly more frequently on average (see the first column of Table 8), and this intensity of policy discussion rises further under Republican presidencies, consistent with generally higher tax policy uncertainty during such periods. We then test whether the differences in discussion between Democratic and Republican tax policies are statistically significant. The second and third columns of Table 8 show that, while each party's tax policies are mentioned more frequently under same-party presidents, the asymmetry is far more pronounced during Republican administrations. Discussions of Republican tax policy are over six times as intense under Republican presidencies as under Democratic ones, suggesting that firms are substantially more concerned about Republican tax policy during these periods.[17]

[Table 8 about here]

We next test whether rising concerns about Republican tax policy translate into greater firm-level information uncertainty and, consequently, stronger underreaction to

[16] Equal-weighted averages yield a similar plot; we prefer the value-weighted measure to mitigate the influence of small firms.

[17] We also search for tax policy names from earnings conference call transcripts. Figure OA.1 shows a similar pattern (though over a shorter sample), with greater discussion intensity of Republican tax policies during Republican presidencies.

earnings news (see, e.g., Daniel et al., 1997, 2001; Zhang, 2006). To do so, we exploit information from option prices: short-maturity at-the-money options are known to embed market expectations about forthcoming earnings releases (see, e.g., Dubinsky et al., 2019). When investors anticipate a larger price reaction or face greater uncertainty about the earnings information, implied volatility rises more sharply ahead of the announcement. Under our hypothesis, this rise should be steeper during Republican presidencies, particularly for firms with greater tax policy exposure.

The daily option-implied volatility data come from OptionMetrics. We focus on at-the-money options with maturities between one week and six months, weight each contract's implied volatility by its open interest, and compute the one-week change in implied volatility preceding each earnings announcement. The first two columns of Table 9 regress this change on the Republican dummy. We find that implied volatility does rise more sharply ahead of announcements during Republican periods, with or without controls; the increase is roughly 17% (0.35/2.08) larger than during Democratic periods, consistent with greater ex-ante valuation uncertainty under Republican administrations.

We further test whether this effect is stronger among firms more exposed to tax policy. To measure exposure, we follow Loughran and McDonald (2011) and apply a bag-of-words approach to corporate filings.[18] Specifically, for each firm i's 10-Q or 10-K filing for the fiscal quarter t, we count the total number of sentences mentioning tax keywords ($N_{i,t}^{Tax}$). The keyword set is {*tax, taxes, deferred, net operating loss, net operating losses*}.[19] We scale this count by the total number of sentences in each filing ($N_{i,t}^{Total}$) to account for variation in filing length. We drop extremely short and long corporate filings by trimming the sample at the 0.5% and 99.5% of filing length in each month. Finally,

[18] In principle, we could use the firm-level law-reference frequency from Table 8. However, many firms have zero mentions, making it infeasible to distinguish low- and high-exposure firms.

[19] We obtain this set as follows. For each mention of the 12 national tax laws in corporate filings, we extract a three-sentence window centered on the mention. We then rank all n-grams of length one to five in these windows by frequency, select the top 50, and retain the distinct words appearing in them. In total, 93,249 filings contain at least one mention of the 12 national tax laws.

we define the firm-level tax policy exposure as:

$$TaxExposure_{i,t} = \frac{N_{i,t}^{Tax}}{N_{i,t}^{Total}}. \tag{7}$$

To mitigate concerns that tax discussions may be concentrated in a particular fiscal quarter, we compute this measure as a moving average of the ratio over the past four fiscal quarters.

At the end of each month, we sort the announcing firms into two groups based on the cross-sectional median of tax policy exposures. The final four columns of Table 9 show that the increase in option implied volatility during Republican periods is more pronounced among high-exposure firms. Both the magnitude and statistical significance of the effect are larger than those observed for low-exposure firms. Hence the option-based evidence implies that the information uncertainty is indeed higher when the U.S. president is Republican, and this effect is particularly pronounced for firms with high tax policy exposures.

[Table 9 about here]

4.3 Event Study of the Tax Cuts and Jobs Act

The information uncertainty created by Republican tax policy may induce underreaction to firm-level earnings announcements, contributing to a stronger PEAD. To visualize this mechanism, we conduct an event study around a major tax reform enacted under President Donald Trump. The Tax Cuts and Jobs Act (TCJA), signed into law in December 2017, represents one of the most significant overhaul of the U.S. tax code in the past three decades.[20] The TCJA took effect on January 1, 2018.

[20]The reform permanently lowered the corporate income tax rate from 35% to 21%, moved the United States toward a quasi-territorial system by largely exempting foreign earnings from domestic taxation, and levied a one-time transition tax on U.S. multinationals' previously accumulated foreign profits.

We begin with a representative firm affected by the reform: Procter & Gamble (P&G). The firm historically carried a sizable tax burden and discussed TCJA's effects extensively in its filings following enactment.[21] Indeed, its effective tax rate declined substantially thereafter. If analysts underreact to the impact of this policy change, we expect their forecasts of tax expenses for fiscal periods beginning after January 1, 2018 to be higher than the corresponding ex post realizations. To measure analysts' tax forecasts, we adopt a standard approach in accounting literature (e.g., Bratten et al., 2017; Burd, 2024). Specifically, we obtain the consensus forecasts for EBITDA per share (EBS) from I/B/E/S for each quarterly earnings. We then use the difference between EBS and EPS forecasts as a proxy for expected tax expense per share. Ex-post realizations are obtained similarly from the I/B/E/S Actual file.

The upper panel of Figure 5 plots the forecast errors for EBS, EPS, and tax expenses for the four quarters following the policy enactment. We find that analysts consistently overestimated P&G's tax expenses in all four quarters, as indicated by the uniformly negative tax forecast errors.[22] Moreover, the magnitudes of these negative tax forecast errors in some quarters are comparable to those of after-tax earnings (EPS), suggesting that analysts' underreaction to the tax policy change contributes meaningfully to a persistent pessimism in their earnings forecasts.

To further justify the importance of tax forecast errors, from LSEG we manually search for analysts' commentary on earnings surprises for these quarters. In the upper panel of Figure 5, we list the explicit explanations provided by some analysts. These statements clearly indicate that a substantial portion of the reported earnings surprises can be attributed to tax forecast errors. The lower panel of Figure 5 plots the price

[21] For example, in its filings P&G writes: *...the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act. The changes included in the U.S. Tax Act are broad and complex...our financial results could be materially impacted*" (2018 Q2); *the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act. The U.S. Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering the U.S. corporate income tax rates and implementing a hybrid territorial tax system*" (2019 Q1).

[22] Tax forecast error for 2018 Q3 is still negative, though very close to zero.

drifts measured via CAR[2,31]. In line with the underreaction to the impact of tax policy change and hence positive earnings forecast errors, the price drifts following each earnings announcement are mostly positive.

[Figure 5 about here]

Finally, we extend this single-firm example to all firms with high tax policy exposure, as classified by our text-based measure (7). To aggregate across firms, we scale their earnings forecast errors by the stock price five trading days before the quarterly earnings announcement and then compute the value-weighted average of forecast errors within each quarter. The upper panel in Figure 6 plots the average firm-level forecast errors and the 90% confidence interval from bootstrapping exercises. These patterns mirror the outcome from the P&G example: for all quarters, tax (EPS) forecast errors are negative (positive). Consistently, the lower panel shows mostly positive price drifts after the policy becomes effective.[23] Overall, the event study suggests that the underreaction to Republican tax policy contributes to both belief and price underreaction to earnings news.

[Figure 6 about here]

4.4 Implications for presidential cycles in PEAD

If the tax channel drives presidential cycles in PEAD, we can test whether these cycles are particularly pronounced among firms with high tax policy exposures. A potential concern, however, is that our text-based exposure measure is only available from 1994 onward, whereas the full PEAD results begin in 1984. To extend the analysis back to

[23] In Figure OA.2, we repeat the calculation for firms with low tax policy exposure. The patterns for earnings surprises or price drifts are considerably noisier.

1984, we construct the following accounting-based tax policy exposures:

$$TaxExposure = \frac{|Tax|}{|PretaxIncome|}. \tag{8}$$

This measure captures the notion that firms are more exposed to tax policy when taxes constitute a large share of pretax income, regardless of whether taxes represent a burden or a benefit (i.e., whether Tax is positive or negative). For each firm and fiscal quarter, we measure tax policy exposure using the total tax expense and total pre-tax income over a rolling window of the previous 16 fiscal quarters.[24]

At the end of each month, we independently double-sort all stocks on SUE and tax policy exposure, using either the text- or accounting-based measure, into 5×2 portfolios. Panel A of Table 10 replicates the analysis from Table 1, but restricted to high-exposure firms. Presidential cycles in PEAD are markedly stronger in this subsample, and the pattern holds robustly across both exposure measures. For example, using the accounting-based measure, which extends the sample back to 1984, the inter-quintile spread in 30-day post-announcement cumulative abnormal returns is 1.82% under Republican presidencies, compared to just 0.59% under Democratic presidencies. This translates to an economically and statistically significant difference of 1.23% (t=5.07). Meanwhile, Panel B shows that presidential cycles are much weaker among low-exposure firms, with the interaction term $SUE5_{i,t} \times RD_t$ shrinking to near zero and becoming statistically insignificant.

[Table 10 about here]

Finally, Panel C of Table 10 tests whether presidential cycles in PEAD are significantly stronger among high-exposure firms relative to low-exposure firms. We estimate the

[24]We exclude observations with absolute pretax income below the 0.5% cross-sectional percentile to mitigate the influence of extremely small denominators. Our subsequent results remain quantitatively similar when we instead use rolling windows of 12 or 20 fiscal quarters to estimate exposures.

following regression pooling firms in the highest and lowest SUE quintiles:

$$\begin{aligned}\text{CAR}_{i,t}[2,31] = \alpha + \beta_0 SUE5_{i,t} + \beta_1 RD_t + \beta_2 HTAX_{i,t} + \gamma_0 SUE5_{i,t} \times RD_t + \gamma_1 RD_t \times HTAX_{i,t} \\ + \gamma_2 SUE5_{i,t} \times HTAX_{i,t} + \theta RD_t \times SUE5_{i,t} \times HTAX_{i,t} + \nu_{i,t}, \end{aligned} \tag{9}$$

where $HTAX_{i,t}$ is a firm-level dummy variable indicating high tax policy exposure. We find that the triple interaction term, which captures whether the presidential cycle in PEAD is stronger for high-exposure firms, is large and statistically significant. Moreover, the $SUE5_{i,t} \times RD_t$ coefficient becomes insignificant and substantially smaller relative to Column (4) of Table 1, suggesting that presidential cycles in PEAD are largely due to firms with high tax policy exposures.[25]

5 Alternative political dimensions

5.1 Years within a presidential term

We examine whether the presidential cycles in PEAD are concentrated in particular years of a president's term. We split the sample by year-within-term (years 1 through 4, with the fifth year of any extended tenure counted as year 1) and compare the PEAD effect under Republican and Democratic administrations. As shown in Panel A of Table OA.5, the weaker immediate response (CAR[0,1]) under Republican presidencies is significant across all four years. The stronger post-announcement drift (CAR[2,31]), however, is concentrated in the third and fourth years. The presidential cycle in drift is therefore

[25] We also analyze data from Audit Analytics on firms' annual payments to auditors for tax-related services. For each firm-year, we compute the share of total auditor fees paid for tax services. A higher share plausibly reflects greater tax-related complexity and thus greater tax exposure. As shown in Table OA.4, the presidential cycles in PEAD are again concentrated among firms with higher tax exposure. We note some caveats in using these data: Audit Analytics fee data are available only from fiscal year 2000 onward, which truncates the early part of our sample; The Sarbanes-Oxley Act of 2002 and subsequent SEC/PCAOB independence rules substantially restricted auditor-provided tax services to audit clients, leading many firms to reduce tax fees for reasons at least partly unrelated to underlying tax complexity or exposure.

most pronounced in the latter half of a president's term, possibly reflecting heightened uncertainty ahead of elections.

5.2 Mid-term elections

Chan and Marsh (2021) highlight the significant role of U.S. midterm elections in asset pricing, showing that post-midterm election months are characterized by higher equity premiums. To investigate whether the impact of presidential cycles on PEAD is due to mid-term election effects on equity premiums, we follow Chan and Marsh (2021) by defining post-midterm election periods as December through the following April. Then, we divide the sample into post-midterm election periods (50 months) and other months (430 months) and analyze the PEAD effect during Republican and Democratic presidencies. Panel B of Table OA.5 shows that the post-announcement drift (CAR[2,31]) are statistically stronger under Republican presidencies than Democratic ones for both post mid-term election periods and other months. Hence, the impact is not driven by the mid-term elections.

5.3 Partisan conflict

Recent years have seen rising partisan conflict and increasingly divided government, both of which have been shown to affect aggregate stock returns (Azzimonti, 2018; Papamichalis et al., 2024). We examine whether partisan conflict drives the presidential cycles in PEAD along two dimensions. First, we split the sample by whether the Senate and House are controlled by the same party. As shown in Panel C of Table OA.5, the presidential cycles in PEAD are stronger under unified control and weaker under divided control. Second, using the partisan conflict index of Azzimonti (2018), we classify months as high or low conflict relative to the median. The presidential cycles in PEAD persist in low-conflict periods but become insignificant in high-conflict periods.

These patterns indicate that the presidential cycle strengthens when policy implementation is more feasible — under unified government and during low-conflict periods — rather than when partisan tension is greatest. This is consistent with our tax-based channel: lower partisan conflict may raise the likelihood of major tax reform, thereby generating greater uncertainty about firms' after-tax earnings.

5.4 Does any single president drive the results?

Our full sample, spanning from 1984 to 2023, includes ten presidential terms across seven presidents. To examine whether the documented patterns are disproportionately driven by any particular administration, we repeat the pooled regression analysis by excluding one president at a time. For Bill Clinton, George W. Bush and Barack Obama, we separate their tenure into the first and second terms and examine the impact separately. Table OA.6 presents the findings, showing that from Ronald Reagan to Joe Biden, no single president uniquely drives the variation in PEAD performance across political regimes. The cross-regime difference in the post-announcement drift are all economically meaningful and statistically significant at the 1% level. These results indicate that the presidential cycles in PEAD are a broad phenomenon, not driven by any single president.

6 Additional Results and Robustness

6.1 Impact of microcap firms

Previous literature documents that the PEAD effect is stronger for microcap stocks, potentially due to their less favorable information environments or higher trading costs (see, e.g., Martineau, 2021). Similarly, Hou et al. (2020) show that the high returns observed among microcap stocks in many anomalies likely reflect high transaction costs or

illiquidity. Beyond concerns about tradability, Fama and French (2008) note that microcap stocks collectively account for only about 3% of total market capitalization.

We thus evaluate whether the presidential cycles are robust among non-microcap stocks. This is important to ensure that our findings generalize to a broader and more economically significant segment of the market. Following e.g., Hou et al. (2020), we identify non-microcaps as those with stock market capitalizations higher than the 20th percentile of NYSE breakpoints in each month. Restricting the analysis in Table 1 on this subset, we continue to find strong presidential cycles. Column (1) and (2) in Table OA.7 show that the initial response CAR[0,1] again weakens, with a presidential difference of -0.59% ($t = -5.12$). The post-announcement drift is also stronger during Republican presidencies, with a difference of 0.48% ($t = 2.43$). Hence our results are robust and unlikely driven by microcap stocks.

6.2 Investor inattention and other explanations for PEAD

6.2.1 Friday vs. Non-Friday

DellaVigna and Pollet (2009) find that due to reduced attention on Fridays, earnings announcements experience a lower immediate response and a higher delayed response, which supports that PEAD is driven by underreaction caused by limited attention. In this part, we further address this "Friday effect" through a subsample analysis. Panel A of Table OA.8 shows that no matter for Friday or non-Friday announcements, the immediate response (CAR[0,1]) is significantly weaker while post-announcement drift (CAR[2,31]) is significantly stronger under Republican presidencies compared with Democratic ones. Therefore, the impact of the presidential cycles on the PEAD effect is not attributable to investors' inattention on Fridays.

6.2.2 High vs. Low number of announcements

Hirshleifer et al. (2009) find that when a greater number of same-day earnings announcements are made by other firms, the immediate price and volume reactions to a firm's earnings surprise are much weaker, while the post-announcement drift is much stronger. This supports the investor distraction hypothesis, which suggests that extraneous news inhibits market reactions to relevant information. To further distinguish with such distraction hypothesis, we divide the sample into subsamples based on the number of earnings announcements made on the same day and examine the impact of the presidential cycles within each subsample. Panel B of Table OA.8 shows that presidential cycles in PEAD are present in both subsamples, with immediate response (CAR[0,1]) being significantly weaker while post-announcement drift (CAR[2,31]) being significantly stronger for Republican presidents than Democratic ones. Hence, the presidential cycles in PEAD are not driven by investor distraction due to extraneous news.

6.2.3 Controlling for other explanations of PEAD

In this subsection, we analyze whether the presidential-cycle in PEAD can be accounted for by other existing explanations. We conduct multivariate tests using pooled regressions controlling for a wide range of firm and industry characteristics. Our controls can be grouped into four categories. The first category includes measures of limited attention, such as the number of announcement quintile rank ($NRank$) following Hirshleifer et al. (2009), stock market return on the announcement date (MKT_{Ann}) (Kottimukkalur, 2019), weekday dummy controlling for reduced attention on Friday (DellaVigna and Pollet, 2009), and price delay ($PDelay$) from (Hou and Moskowitz, 2005). The second category focuses on limits to arbitrage, such as the number of analysts following the firm ($\#Analyst$) in Bhushan (1994), expected risk, abnormal risk (Mendenhall, 2004), idiosyncratic volatility (Ang et al., 2006) and illiquidity Amihud (2002). The third category includes other firm characteristics such as size, book-to-market ratio, momentum and

industry dummy variables. The last group includes some aggregate-level or macroeconomic variables such as unemployment rate, industrial production, inflation, dividend price ratio, dividend yield, earnings price ratio, dividend payout ratio, term spread, long-term government bond return, and default yield spread from Goyal et al. (2024). Table A.1 details the construction of these variables.

We re-run regressions as eq. (4) with control variables and their interactions with SUE:

$$\begin{aligned} \text{CAR}_{i,t}[0,1] =& \alpha_0 + \beta_0 SUE_{i,t} + \gamma_0 RD_t + \theta_0 SUE_{i,t} \times RD_t \\ &+ \sum_{i=1}^{n} c_i X_i + \sum_{i=1}^{n} b_i (SUE_{i,t} \times X_i) + \epsilon_{i,t}, \\ \text{CAR}_{i,t}[2,31] =& \alpha_1 + \beta_1 SUE_{i,t} + \gamma_1 RD_t + \theta_1 SUE_{i,t} \times RD_t \\ &+ \sum_{i=1}^{n} c_i X_i + \sum_{i=1}^{n} b_i (SUE_{i,t} \times X_i) + \nu_{i,t}. \end{aligned} \tag{10}$$

Table OA.9 presents the results. Although we include a comprehensive set of control variables which cover a majority of the existing explanations for PEAD, the influences of presidential cycles on PEAD remain economically meaningful and statistically significant. Specifically, the initial response CAR[0,1] weakens significantly during Republican presidency periods ($\theta_0 = -0.31$, $t = -3.10$). Consistent with the dampened immediate price responses, the post-announcement drift is stronger, with the interaction term's coefficient being both economically meaningful and statistically significant ($\theta_1 = 0.67$, $t = 4.08$). Hence the presidential cycles on PEAD cannot be attributed to any existing explanations.

6.3 Presidential cycles over longer horizons

Although investors exhibit stronger underreaction to earnings news during Republican presidencies, any resulting mispricing should gradually correct as new information is

incorporated into prices. To assess the persistence of the presidential difference in PEAD, we extend the analysis to horizons ranging from 15 to 91 trading days after earnings announcements. Table OA.10 shows that the presidential difference in drift is already statistically significant 15 trading days after the announcement and remains significant through 60 days. The difference attenuates at longer horizons and becomes insignificant by 91 days. We note that the attenuation does not imply price reversal: the drift remains economically sizable and larger under Republican presidencies even at longer horizons, as reflected in the positive coefficients on the interaction terms.

6.4 Alternative standardization of earnings surprises

Following the previous literature (e.g., Foster et al., 1984; Chordia and Shivakumar, 2006; Avramov et al., 2013), we scale the forecast error by its volatility over the past eight quarters. Specifically, the standardized unexpected earnings (SUE) is defined as:

$$SUE_{i,t} = \frac{EPS_{i,t} - FEPS_{i,t}}{Vol_{t-8,t}}. \tag{11}$$

Here $EPS_{i,t}$ is the actual earnings per share of quarterly earnings for firm i-fiscal quarter t, and $FEPS_{i,t}$ is the expected earnings per share, measured by the consensus analyst forecast. We scale the surprise by the volatility ($Vol_{t-8,t}$) over the past eight quarters and repeat the pooled regression as Eq. (10). Table OA.11 shows that the results are similar, though quantitatively weaker than those obtained when forecast errors are scaled by prices.

7 Conclusion

We document novel presidential cycles in post-earnings announcement drift (PEAD): the spread portfolio earns an average annualized return of 4.1% under Democratic presiden-

cies but rises to 15.3% under Republican ones. Decomposing this pattern, we find that investors' announcement-date reactions to earnings news weaken substantially under Republican presidents, while post-announcement drift is much stronger. The presidential cycles are not driven by time-varying risk aversion, existing PEAD explanations such as limited attention, or microcap firms, and remain significant across an extensive set of robustness tests. Survey evidence further points to stronger belief underreaction under Republican administrations.

The stronger underreaction likely reflects greater tax policy uncertainty during Republican periods. Consistently, the tax component of firm earnings is significantly more volatile under Republican presidents. Firms also reference Republican tax laws more frequently in their corporate filings during these periods. Option-implied volatility rises more sharply ahead of earnings announcements for firms with greater tax policy exposure, and the presidential cycles in PEAD are concentrated among these firms.

Appendix

Table A.1: Variable definitions

Variable	Definition
Main variables	
Standardized unexpected earnings (SUE)	Realized quarterly EPS minus the consensus forecast, divided by stock price five trading day before the announcement. Consensus forecasts are the median of individual analysts' earnings per share (EPS) forecast from the I/B/E/S Unadjusted Detail file (FPI: 6, 7). Realized values are the actual EPS for the same fiscal quarter from the I/B/E/S actual files.
Cumulative abnormal returns ($CAR[T_0, T_1]$)	Difference between the buy-and-hold return of the announcing firm and that of a size, book-to-market (B/M) and momentum matching portfolio over the window T_0 to T_1 in trading days relative to the announcement date.
Firm characteristics control	
Number of announcement quintile rank ($NRank$)	Monthly sorts of the earnings announcement observations by the number of announcements on the announcement day (Compustat: rdq). (Hirshleifer et al., 2009)
Market return (MKT_{Ann})	Stock market return on the announcement date. (Kottimukkalur, 2019)
Price delay ($PDelay$)	Difference in R^2 between regressions of daily stock returns on lagged market returns and without lagged market returns. (Hou and Moskowitz, 2005)
Number of analyst ($\#Analyst$)	Number of analyst following the firm. (Bhushan, 1994) I/B/E/S Unadjusted Summary file (numest).
Expected risk ($ERisk$)	Explained variance from a market model regression estimated over the last 200 trading days ending 30 days prior to the earnings announcement month. (Mendenhall, 2004)
Abnormal risk ($ARisk$)	Residual variance from a market model regression estimated over the last 200 trading days ending 30 days prior to the earnings announcement month. (Mendenhall, 2004)
Idiosyncratic volatility ($IVol$)	Standard deviation of the stock's daily idiosyncratic returns relative to the Fama-French three-factor model. (Ang et al., 2006)

Illiquidity ($Illiq$)	Ratio of the daily absolute stock return to the daily dollar trading volume averaged in each month. Amihud (2002)
Size	Product of price and the number of shares outstanding.
Book-to-market (BM)	Book value of shareholder equity plus deferred taxes and investment tax credit (if available) minus the book value of preferred stocks at the end of the last fiscal year, scaled by the market value at the end of December of last year. (Fama and Franch, 1992)
Momentum (MOM)	Cumulative return of a stock over an 11-month window ending one month before the portfolio formation.
Macro controls	
Dividend price ratio (DP)	Difference between the log of dividends and the log of prices. Goyal et al. (2024)
Dividend yield (DY)	Difference between the log of dividends and the log of lagged prices. Goyal et al. (2024)
Earnings price ratio (EP)	Difference between log of earnings and log of prices. Goyal et al. (2024)
Dividend payout ratio (DE)	Difference between log of dividends and log of earnings. Goyal et al. (2024)
Term spread (TMS)	Difference between the long term yield on government bonds and the T-bill. Goyal et al. (2024)
Long term rate of return (LTY)	Long term government bond yields. Goyal et al. (2024)
Default yield spread (DFS)	Difference between BAA- and AAA- rated corporate bond yields. Goyal et al. (2024)
Inflation ($INFL$)	Consumer Price Index (All Urban Consumers) from the Bureau of Labor Statistics. Goyal et al. (2024)
Unemployment ($UNPR$)	Unemployment rate from the Bureau of Labor Statistics.
Industrial production (IP)	Log growth in Industrial Production index.
Earnings component	
Operating income after depreciation ($OIADP$)	Compustat item oiadpq scale by market capitalization five trading days before the quarterly announcement.
Interest expense ($XINT$)	Compustat item xintq scale by market capitalization five trading days before the quarterly announcement.
Special item (SPI)	Compustat item spiq scale by market capitalization five trading days before the quarterly announcement.
Non-operating income ($NOPI$)	Compustat item nopiq scale by market capitalization five trading days before the quarterly announcement.
Tax expense (TAX)	Compustat item txtq scale by market capitalization five trading days before the quarterly announcement.
Minority interest (MII)	Compustat item miiq scale by market capitalization five trading days before the quarterly announcement.
Dividend payout (DVP)	Compustat item dvpq scale by market capitalization five trading days before the quarterly announcement.
Extraordinary item (XI)	Compustat item xiq scale by market capitalization five trading days before the quarterly announcement.

References

Abarbanell, J. S. and Bernard, V. L. (1992). Tests of analysts' overreaction/underreaction to earnings information as an explanation for anomalous stock price behavior. *The journal of finance*, 47(3):1181–1207.

Addoum, J. M. and Kumar, A. (2016). Political sentiment and predictable returns. *The Review of Financial Studies*, 29(12):3471–3518.

Alesina, A. (1987). Macroeconomic policy in a two-party system as a repeated game. *The Quarterly journal of Economics*, 102(3):651–678.

Amihud, Y. (2002). Illiquidity and stock returns: Cross-section and time-series effects. *Journal of Financial Markets*, 5:31–56.

Ang, A., Hodrick, R. J., Xing, Y., and Zhang, X. (2006). The cross-section of volatility and expected returns. *The Journal of Finance*, 61(1):259–299.

Avramov, D., Chordia, T., Jostova, G., and Philipov, A. (2013). Anomalies and financial distress. *Journal of Financial Economics*, 108(1):139–159.

Azzimonti, M. (2018). Partisan conflict and private investment. *Journal of Monetary Economics*, 93:114–131.

Baker, S. R., Bloom, N., and Davis, S. J. (2016). Measuring economic policy uncertainty. *Quarterly Journal of Economics*, 131:1593–1636.

Ball, R. and Brown, P. (1968). Empirical evaluation of accounting income numbers. *Journal of Accounting Research*, 6(2):159–178.

Barber, B. M., Lehavy, R., and Trueman, B. (2007). Comparing the stock recommendation performance of investment banks and independent research firms. *Journal of Financial Economics*, 85(2):490–517.

Bekaert, G., Engstrom, E. C., and Xu, N. R. (2022). The time variation in risk appetite and uncertainty. *Management Science*, 68(6):3975–4004.

Belo, F., Gala, V. D., and Li, J. (2013). Government spending, political cycles, and the cross section of stock returns. *Journal of financial economics*, 107(2):305–324.

Bernard, V. L. and Thomas, J. K. (1989). Post-earnings-announcement drift: delayed price response or risk premium? *Journal of Accounting Research*, 27:1–36.

Bernard, V. L. and Thomas, J. K. (1990). Evidence that stock prices do not fully reflect the implications of current earnings for future earnings. *Journal of accounting and economics*, 13(4):305–340.

Bhushan, R. (1994). An informational efficiency perspective on the post-earnings announcement drift. *Journal of Accounting and Economics*, 18(1):45–65.

Birru, J., Gokkaya, S., Liu, X., and Stulz, R. M. (2022). Are analyst short-term trade ideas valuable? *The Journal of Finance*, 77(3):1829–1875.

Bordalo, P., Gennaioli, N., Porta, R. L., and Shleifer, A. (2019). Diagnostic expectations and stock returns. *The Journal of Finance*, 74(6):2839–2874.

Bouchaud, J.-P., Krueger, P., Landier, A., and Thesmar, D. (2019). Sticky expectations and the profitability anomaly. *The Journal of Finance*, 74(2):639–674.

Bratten, B., Gleason, C. A., Larocque, S. A., and Mills, L. F. (2017). Forecasting taxes: New evidence from analysts. *The Accounting Review*, 92(3):1–29.

Burd, C. (2024). Tax numbers and etr forecasting. *Available at SSRN 3876754*.

Campbell, J. Y. and Cochrane, J. H. (1999). By force of habit: A consumption-based explanation of aggregate stock market behavior. *Journal of Political Economy*, 107(2):205–251.

Cao, S. S. and Narayanamoorthy, G. S. (2012). Earnings volatility, post–earnings announcement drift, and trading frictions. *Journal of Accounting Research*, 50(1):41–74.

Chan, K. F. and Marsh, T. (2021). Asset prices, midterm elections, and political uncertainty. *Journal of Financial Economics*, 141(1):276–296.

Chen, Z., Da, Z., Huang, D., and Wang, L. (2023). Presidential economic approval rating and the cross-section of stock returns. *Journal of Financial Economics*, 147(1):106–131.

Chordia, T. and Shivakumar, L. (2006). Earnings and price momentum. *Journal of Financial Economics*, 80(3):627–656.

Chordia, T., Subrahmanyam, A., and Tong, Q. (2014). Have capital market anomalies attenuated in the recent era of high liquidity and trading activity? *Journal of Accounting and Economics*, 58(1):41–58.

Clark, T. E. and West, K. D. (2007). Approximately normal tests for equal predictive accuracy in nested models. *Journal of Econometrics*, 138:291–311.

Cohen, L., Frazzini, A., and Malloy, C. (2010). Sell-side school ties. *The Journal of Finance*, 65(4):1409–1437.

Coibion, O. and Gorodnichenko, Y. (2015). Information rigidity and the expectations formation process: A simple framework and new facts. *American Economic Review*, 105(8):2644–2678.

Daniel, K., Grinblatt, M., Titman, S., and Wermers, R. (1997). Measuring mutual fund performance with characteristic-based benchmarks. *The Journal of finance*, 52(3):1035–1058.

Daniel, K., Hirshleifer, D., and Sun, L. (2020). Short-and long-horizon behavioral factors. *The Review of Financial Studies*, 33(4):1673–1736.

Daniel, K. D., Hirshleifer, D., and Subrahmanyam, A. (2001). Overconfidence, arbitrage, and equilibrium asset pricing. *The Journal of Finance*, 56(3):921–965.

DellaVigna, S. and Pollet, J. M. (2009). Investor inattention and friday earnings announcements. *The Journal of Finance*, 64(2):709–749.

Dubinsky, A., Johannes, M., Kaeck, A., and Seeger, N. J. (2019). Option pricing of earnings announcement risks. *The Review of Financial Studies*, 32(2):646–687.

Fama, E. F. (1998). Market efficiency, long-term returns, and behavioral finance. *Journal of Financial Economics*, 49(3):283–306.

Fama, E. F. and Franch, K. R. (1992). The cross-section of expected stock returns. *The Journal of Finance*, 47(2):427–465.

Fama, E. F. and French, K. R. (2008). Dissecting anomalies. *The journal of finance*, 63(4):1653–1678.

Fama, E. F. and French, K. R. (2015). A five-factor asset pricing model. *Journal of Financial Economics*, 116(1):1–22.

Fink, J. (2021). A review of the post-earnings-announcement drift. *Journal of Behavioral and Experimental Finance*, 29:100446.

Foster, G., Olsen, C., and Shevlin, T. (1984). Earnings releases, anomalies, and the behavior of security returns. *Accounting Review*, pages 574–603.

Frazzini, A. (2006). The disposition effect and underreaction to news. *The Journal of Finance*, 61(4):2017–2046.

Goyal, A., Welch, I., and Zafirov, A. (2024). A comprehensive 2022 look at the empirical performance of equity premium prediction. *Review of Financial Studies*.

Hansen, J. H. and Siggaard, M. V. (2023). Double machine learning: Explaining the post-earnings announcement drift. *Journal of Financial and Quantitative Analysis*, pages 1–28.

Hirshleifer, D., Lim, S. S., and Teoh, S. H. (2009). Driven to distraction: Extraneous events and underreaction to earnings news. *The Journal of Finance*, 64(5):2289–2325.

Hirshleifer, D., Lim, S. S., and Teoh, S. H. (2011). Limited investor attention and stock market misreactions to accounting information. *The Review of Asset Pricing Studies*, 1(1):35–73.

Hou, K. and Moskowitz, T. J. (2005). Market Frictions, Price Delay, and the Cross-Section of Expected Returns. *The Review of Financial Studies*, 18(3):981–1020.

Hou, K., Xue, C., and Zhang, L. (2020). Replicating anomalies. *The Review of Financial Studies*, 33(5):2019–2133.

Hung, M., Li, X., and Wang, S. (2015). Post-earnings-announcement drift in global markets: Evidence from an information shock. *The Review of Financial Studies*, 28(4):1242–1283.

Kettell, L., McInnis, J., and Zhao, W. (2022). Why has pead declined over time? the role of earnings news persistence. *Columbia Business School Research Paper*.

Kishore, R., Brandt, M. W., Santa-Clara, P., and Venkatachalam, M. (2008). Earnings announcements are full of surprises. *Available at SSRN 909563*.

Kothari, S. P. (2001). Capital markets research in accounting. *Journal of accounting and economics*, 31(1-3):105–231.

Kothari, S. P., So, E., and Verdi, R. (2016). Analysts' forecasts and asset pricing: A survey. *Annual Review of Financial Economics*, 8(1):197–219.

Kottimukkalur, B. (2019). Attention to market information and underreaction to earnings on market moving days. *Journal of Financial and Quantitative Analysis*, 54(6):2493–2516.

Livnat, J. and Mendenhall, R. R. (2006). Comparing the post–earnings announcement drift for surprises calculated from analyst and time series forecasts. *Journal of Accounting Research*, 44(1):177–205.

Loughran, T. and McDonald, B. (2011). When is a liability not a liability? textual analysis, dictionaries, and 10-ks. *The Journal of finance*, 66(1):35–65.

Martineau, C. (2021). Rest in peace post-earnings announcement drift. *Critical Finance Review*.

Mendenhall, R. R. (2004). Arbitrage risk and post-earnings-announcement drift. *The Journal of Business*, 77(4):875–894.

Meursault, V., Liang, P. J., Routledge, B. R., and Scanlon, M. M. (2023). Pead. txt: Post-earnings-announcement drift using text. *Journal of Financial and Quantitative Analysis*, 58(6):2299–2326.

Narayanamoorthy, G. (2006). Conservatism and cross-sectional variation in the post–earnings announcement drift. *Journal of Accounting Research*, 44(4):763–789.

Nozawa, Y., Qiu, Y., and Xiong, Y. (2022). Disagreement and bond pead. *Available at SSRN 3990000*.

Papamichalis, T., Ryu, D., and Wilson, M. I. (2024). Divided government and stock returns. *Available at SSRN 4287033*.

Pastor, L. and Veronesi, P. (2012). Uncertainty about government policy and stock prices. *The Journal of Finance*, 67(4):1219–1264.

Pástor, L. and Veronesi, P. (2013). Political uncertainty and risk premia. *Journal of Financial Economics*, 110(3):520–545.

Pástor, L. and Veronesi, P. (2020). Political cycles and stock returns. *Journal of Political Economy*, 128(11):4011–4045.

Pflueger, C., Siriwardane, E., and Sunderam, A. (2020). Financial market risk perceptions and the macroeconomy*. *The Quarterly Journal of Economics*, 135(3):1443–1491.

Reed, W. R. (2006). Democrats, republicans, and taxes: Evidence that political parties matter. *Journal of Public Economics*, 90(4-5):725–750.

Santa-Clara, P. and Valkanov, R. (2003). The presidential puzzle: Political cycles and the stock market. *The Journal of Finance*, 58(5):1841–1872.

Welch, I. and Goyal, A. (2008). A comprehensive look at the empirical performance of equity premium prediction. *The Review of Financial Studies*, 21(4):1455–1508.

Wright, J. R. (2012). Unemployment and the democratic electoral advantage. *American Political Science Review*, 106(4):685–702.

Zhang, X. F. (2006). Information uncertainty and stock returns. *The Journal of Finance*, 61(1):105–137.

Table 1: Presidential cycles in PEAD: Regression analysis

This table reports the effects of the presidential cycles on the relation between earnings surprises and announcement or post-announcement returns. Dependent variables are the average announcement cumulative abnormal return (CAR[0,1]) and post-announcement cumulative abnormal return (CAR[2,31]). SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile and SUE_{Rank} is the earnings surprise rank (SUE_{Rank}=1: lowest, 5: highest). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. Dependent variables are truncated at 0.5% and 99.5% level. All regressions include industry dummy and weekday dummy. Standard errors are clustered by the day of announcement and *t*-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	CAR[0,1]	CAR[0,1]	CAR[2,31]	CAR[2,31]	CAR[0,1]	CAR[2,31]
	(1)	(2)	(3)	(4)	(5)	(6)
SUE_5	4.95	5.15	1.31	1.01		
	(92.85)	(71.68)	(16.16)	(8.81)		
$SUE_5 \times$RD		-0.41		0.65		
		(-3.86)		(4.04)		
SUE_{Rank}					1.28	0.26
					(75.44)	(10.26)
$SUE_{Rank} \times$RD					-0.09	0.13
					(-3.44)	(3.63)
RD		0.24		-0.24	0.26	-0.28
		(3.51)		(-2.01)	(3.29)	(-2.36)
Constant	-2.42	-2.43	-0.67	-0.56	-3.74	-0.95
	(-33.51)	(-31.59)	(-4.77)	(-3.67)	(-55.21)	(-8.10)
Adjusted R^2	0.11	0.11	0.01	0.01	0.07	0.01
Obs.	114,360	114,360	113,887	113,887	289,737	288,484

Table 2: Presidential cycles in PEAD: Calendar-time portfolio

This table reports returns of the calendar-time daily portfolio sorted on earnings surprise, where Low (High) refers to the portfolio with lowest (highest) earnings surprise, and High – Low refers to the strategy that buys High and sells Low. We report daily portfolio average excess returns and abnormal returns adjusted by Fama and French (2015) five-factor model (all in annualized terms). Democratic and Republican refer to the samples that are split in time series into Democratic and Republican presidency periods. REP – DEM refers to the difference between Democratic and Republican presidency periods. Bootstrapped *t*-values are reported in parentheses. All portfolios are value weighted and rebalanced at a daily frequency. The sample period is 1984:01 – 2023:12.

	Low	P2	P3	P4	High	High – Low
Panel A: Full sample						
Excess	4.83	7.12	8.65	11.27	14.81	9.98
	(1.30)	(2.35)	(3.03)	(3.74)	(4.01)	(4.50)
α_{FF5}	-4.31	-1.95	0.51	2.47	4.68	8.99
	(-2.53)	(-1.76)	(0.44)	(1.99)	(2.89)	(4.11)
Panel B: Democratic						
Excess	12.14	11.10	10.77	13.56	16.26	4.13
	(2.36)	(2.66)	(2.46)	(3.20)	(3.34)	(1.22)
α_{FF5}	-2.44	-1.93	-1.14	0.58	1.09	3.53
	(-0.96)	(-1.18)	(-0.71)	(0.31)	(0.49)	(1.02)
Panel C: Republican						
Excess	-1.76	3.53	6.73	9.21	13.51	15.26
	(-0.33)	(0.82)	(1.55)	(2.03)	(2.64)	(4.81)
α_{FF5}	-6.01	-1.97	2.01	4.17	7.91	13.92
	(-2.69)	(-1.31)	(1.42)	(2.45)	(3.38)	(4.70)
Panel D: Republican – Democratic						
Excess	-13.89	-7.56	-4.04	-4.35	-2.76	11.14
	(-1.92)	(-1.29)	(-0.70)	(-0.68)	(-0.39)	(2.40)
α_{FF5}	-3.57	-0.05	3.14	3.59	6.82	10.39
	(-1.01)	(-0.02)	(1.39)	(1.50)	(2.13)	(2.28)

Table 3: Presidential cycles in PEAD: Time-varying risk aversion

This table reports the results of predicting the returns of PEAD spread portfolio using Republican dummy controlling for risk aversion and stock return predictors. Panel A reports the results of controlling for time-varying risk aversion as:

$$R_{t+1} = \alpha + \beta RD_t + \theta RA_t + \epsilon_{t+1}$$

Risk aversion proxies include unemployment rate (UNPR), seasonally adjusted and obtained from Federal Reserve Economic Data; risk aversion from Bekaert et al. (2022) (BEX); risk appetite measure of Pflueger et al. (2020), which the authors call the "price of volatile stocks" (PVS); and surplus consumption ratio (Surplus) from Campbell and Cochrane (1999). Following Pástor and Veronesi (2020), we use the negative of PVS and Surplus as the risk aversion proxy. Reported are regression slope, t-value, and R^2. The sample period is from 1984:01 – 2023:12 for UNPR, PVS and Surplus, and 1986:06 – 2023:12 for BEX. Panel B reports the results of controlling for other stock return predictors as:

$$R_{t+1} = \alpha + \beta RD_t + \theta Predictors_t + \epsilon_{t+1}$$

Predictors include the robust stock return predictors in Goyal et al. (2024), which are the technical indicator (TCHI), the short stock interest holdings (SHTINT), the output gap (OGAP), the cross-section based tail risk (TAIL), the average correlation of stock returns (AVGCOR). Reported are regression slope, t-value, in-sample R^2, and out-of-sample R^2_{OS}. Statistical significance for R^2_{OS} is based on the p-value of the Clark and West (2007) MSFE-adjusted statistic for testing: $H_0 : R^2_{OS} \leqslant 0$ against $H_A : R^2_{OS} > 0$. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The sample period is 1984:01 – 2023:12 and the out-of-sample period is 2000:01 – 2023:12. For both panels, RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. Portfolio returns are calculated as the monthly (quarterly) cumulative of calendar portfolio daily returns.

Panel A: Risk aversion				
	UNPR	BEX	PVS	Surplus
β	0.87	0.99	3.23	3.25
t-value	(2.62)	(3.09)	(3.16)	(3.07)
θ	-0.17	-0.02	0.26	0.12
t-value	(-1.08)	(-0.09)	(0.61)	(0.24)
R^2	0.01	0.01	0.01	0.01
Obs	480	450	160	160
Panel B: Stock return predictors				
β		10.79		9.83
t-value		(2.75)		(2.56)
R^2		1.58		2.26
R^2_{OS}		1.77***		N/A
Controls		N		Y
Obs		480		480

Table 4: Presidential dependence of analyst forecast errors

This table reports the analyst forecast error and its components (actual and forecast) of quintile portfolios sorted on earnings surprise, where Low (High) refers to the portfolio with lowest (highest) earnings surprise. We calculate analyst forecast error as actual earnings per share minus the consensus analyst forecast, then scaled by five-day lagged stock price. Democratic and Republican refer to the samples that are split in time series into Democratic and Republican presidency periods. REP – DEM refers to the difference between Democratic and Republican presidency periods. *t*-values are reported in parentheses. All portfolios are rebalanced at a monthly frequency. The sample period is 1984:01 – 2023:12.

	Forecast error		Actual		Forecast	
	Low	High	Low	High	Low	High
Full sample	-2.05	1.13	-0.86	2.03	1.19	0.90
	(-19.03)	(23.61)	(-9.67)	(34.16)	(16.17)	(19.80)
Democratic	-1.46	0.98	-0.50	1.79	0.96	0.81
	(-9.61)	(14.26)	(-3.93)	(21.10)	(9.07)	(12.38)
Republican	-2.59	1.26	-1.18	2.24	1.40	0.98
	(-17.87)	(19.28)	(-9.80)	(27.69)	(13.87)	(15.61)
REP – DEM	-1.12	0.28	-0.69	0.44	0.44	0.16
	(-5.35)	(2.96)	(-3.91)	(3.78)	(2.99)	(1.79)

Table 5: Presidential cycles in analysts underreaction

This table reports the impacts of presidential cycles on analysts underreaction. We calculate forecast error (FE) as actual earnings per share minus the consensus analyst forecast and forecast revision (FR) as the difference between consensus forecast $E_t e_{i,t+1}$ and $E_{t-1} e_{i,t+1}$, both forecast error and forecast revision are scaled by lagged stock price. RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. All regressions include industry dummy and weekday dummy. Specifications with control variables additionally include the interactions of these controls with *RD*. Dependent variables are truncated at 0.5% and 99.5% level. Standard errors are clustered by the day of announcement and *t*-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	Low and High SUE groups		Full sample	
	(1)	(2)	(3)	(4)
FR × RD	0.26	0.36	0.23	0.30
	(2.25)	(2.26)	(2.27)	(2.25)
FR	0.14	0.12	0.13	0.11
	(3.79)	(3.19)	(3.84)	(3.19)
FElag × RD	-0.14	-0.21	-0.14	-0.21
	(-1.31)	(-1.25)	(-1.34)	(-1.26)
FElag	0.07	0.06	0.08	0.06
	(1.02)	(0.79)	(1.10)	(0.88)
RD	-0.01	0.01	-0.01	0.01
	(-3.60)	(0.73)	(-3.62)	(2.46)
Controls	N	Y	N	Y
Interacted with RD	N	Y	N	Y
Constant	-0.01	-0.04	-0.01	-0.02
	(-4.44)	(-11.64)	(-3.26)	(-11.96)
Adjusted R^2	0.03	0.06	0.02	0.03
Obs	88,390	80,572	239,946	220,326

Table 6: Variance decomposition of earnings component

This table reports the cross-sectional variance decomposition of actual earnings based on the identity (6). We decompose the earnings into operating income after depreciation (OIADP), non-operating income (NOPI), special item (SPI), interest expense (XINT), tax (TAX) and Others. Others represents all residual and potentially minor components, such as extraordinary item (XI), minority interests (MII) and dividend payout (DVP). We also report the variance decomposition of actual earnings under Democratic and Republican presidencies. Newey-west *t*-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	Full sample	Democratic	Republican
OIADP	66.23	67.78	64.83
	(28.30)	(29.80)	(17.47)
(-)XINT	4.37	3.11	5.51
	(5.01)	(3.29)	(4.02)
SPI	37.15	40.32	34.27
	(23.86)	(19.88)	(15.78)
NOPI	5.22	4.08	6.26
	(5.77)	(6.05)	(3.84)
(-)TAX	-16.27	-16.56	-15.99
	(-12.45)	(-10.23)	(-8.32)
Other	3.30	1.28	5.13
	(4.66)	(2.01)	(4.65)

Table 7: Presidential dependence of earnings component volatility

This table reports the difference in the volatility of earnings components under Republican and Democratic presidencies. Earnings components include operating income after deprecation (OIADP), tax (TAX), special item (SPI) and we group all the other earnings components as residuals (RES = Total earnings – OIAPD – TAX – SPI). For each component, we calculate the volatility as the standard deviation or mean absolute value for each firm, under Republican or Democratic periods. To test the significance of differences across presidential terms, we regress firm-level volatilities on a Republican dummy. To make coefficients comparable across components, we pool all firm-by-regime volatility and standardize them to zero mean and unit variance, for each component. The reported coefficients are expressed as percentages. Newey-west *t*-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

Panel A: Standard deviation				
Component	OIADP	TAX	SPI	RES
RD	2.07	4.73	-0.32	-0.16
	(1.44)	(3.28)	(-0.22)	(-0.11)
Obs	19,467	19,503	19,308	19,277
Panel B: Mean absolute values				
Component	OIADP	TAX	SPI	RES
RD	1.02	4.74	0.52	1.07
	(0.71)	(3.29)	(0.36)	(0.74)
Obs	19,467	19,503	19,308	19,277

Table 8: Intensity of policy discussions

This table reports the intensity of policy discussions across different presidents. For each corporate filing, we count the number of sentences mentioning Republican and Democratic policies, scaled by the total number of sentences in each filing. We aggregate the ratios (%) by value-weighted average within each month. Republican (Democratic) policy refers to the policy signed by Republican (Democratic) presidents. The sample period is 1994:01 – 2023:12.

	All periods	Democratic periods	Republican periods
Democratic policy	0.012	0.019	0.003
Republican policy	0.031	0.010	0.063
Rep-Dem difference	0.019	-0.009	0.060
	(5.31)	(-4.47)	(8.47)

Table 9: Option-implied volatility prior to earnings announcements

This table reports the difference in option-implied volatility between Republican and Democratic presidencies. We report the results for full sample, high tax exposure group and low tax exposure group separately. Dependent variable is change in option-implied volatility (in %) from *t*-6 to *t*-1 prior to earnings announcement days (RDQ). Independent variable RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. Control variables include book-to-market ratio, illiquidity, idiosyncratic volatility, momentum and size. The sample period is 1996:01 – 2023:12.

	Full sample		High tax exposure		Low tax exposure	
RD	0.35	0.37	0.49	0.49	0.21	0.24
	(2.14)	(2.28)	(2.87)	(2.88)	(1.24)	(1.41)
Constant	2.08	2.22	2.13	1.96	2.04	2.43
	(10.18)	(8.97)	(9.24)	(6.62)	(8.25)	(8.54)
Controls	N	Y	N	Y	N	Y
Adjusted R^2	0.03	0.04	0.03	0.04	0.03	0.03
Obs	91,996	89,155	45,936	44,844	45,456	43,735

Table 10: Presidential cycles in PEAD among firms with different tax policy exposures

This table reports the results connecting different measures (text-based and accounting-based) of tax policy exposure with presidential cycles in PEAD. Dependent variable is the post-announcement cumulative abnormal return (CAR[2,31]). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. HTAX is a dummy variable that equals one (zero) for firms with above (below) median tax exposures. SUE_5 is an indicator variable which equals which equals one (zero) for top (bottom) earnings quintile. All regressions include industry dummy and weekday dummy. Dependent variables are truncated at 0.5% and 99.5% level. Standard errors are clustered by the day of announcement and *t*-values are reported in parentheses. The sample period is 1994:01 - 2023:12 for text-based measure and 1984:01 – 2023:12 for accounting-based measure.

Panel A: Firms with high exposure			Panel B: Firms with low exposure		
	Text	Accounting		Text	Accounting
$SUE_5 \times$ RD	0.97	1.23	$SUE_5 \times$ RD	0.20	0.09
	(3.44)	(5.07)		(0.67)	(0.36)
SUE_5	0.82	0.59	SUE_5	1.13	1.37
	(4.30)	(3.44)		(5.94)	(8.03)
RD	-0.44	-0.50	RD	-0.30	-0.11
	(-2.17)	(-2.85)		(-1.40)	(-0.63)
Constant	-0.02	-0.21	Constant	-0.36	-0.72
	(-0.09)	(-0.93)		(-1.10)	(-3.10)
Adjusted R^2	0.01	0.01	Adjusted R^2	0.01	0.01
Obs	31,824	41,747	Obs	37,518	44,906

Panel C: Triple interaction		
	Text	Accounting
$SUE_5 \times$ HTAX $\times$ RD	0.78	1.14
	(2.02)	(3.50)
$SUE_5 \times$ HTAX	-0.32	-0.78
	(-1.20)	(-3.38)
$SUE_5 \times$ RD	0.20	0.08
	(0.67)	(0.35)
HTAX $\times$ RD	-0.15	-0.38
	(-0.51)	(-1.55)
SUE_5	1.13	1.37
	(5.95)	(8.05)
HTAX	0.09	0.52
	(0.46)	(2.95)
RD	-0.30	-0.11
	(-1.37)	(-0.63)
Constant	-0.33	-0.64
	(-1.33)	(-3.32)
Adjusted R^2	0.01	0.01
Obs	69,342	86,653

Figure 1: Post-earnings announcement drifts under different presidents

The upper panel plots the post-announcement cumulative abnormal returns from the highest and the lowest SUE portfolios across different presidential administrations. We calculate the average cumulative abnormal return from the spread portfolio from day 2 through day h after the earnings announcement, with h extending up to 35 days. The lower panel plots their difference. The sample period is 1984:01 – 2023:12.

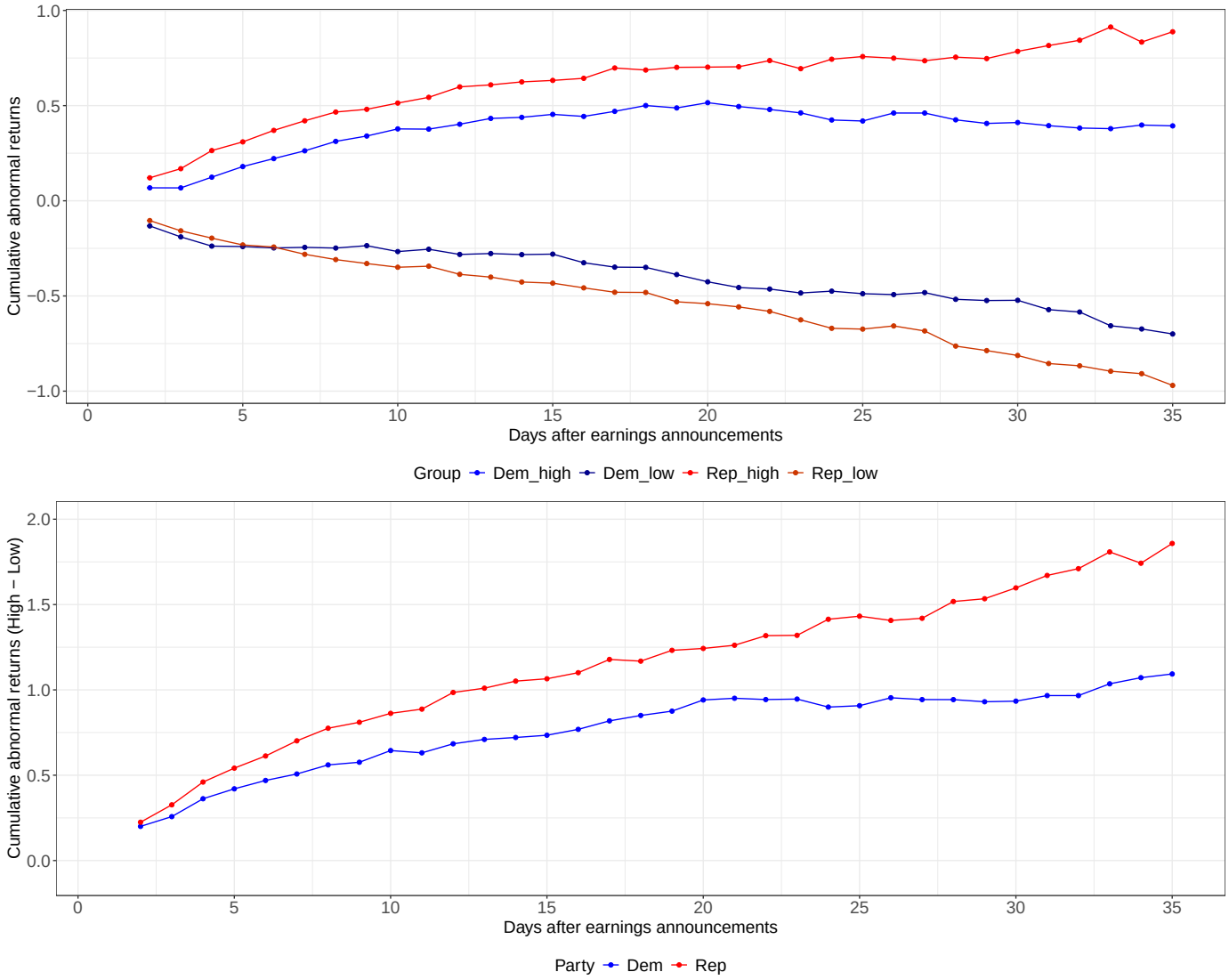


Figure 2: SUE spread portfolio: Cumulative performance

This figure plots the cumulative return and FF5 alpha of the SUE spread portfolio. Payoffs are scaled using the natural logarithm. The sample period associated with Democratic (Republican) presidents is in blue (red) color. All portfolios are value weighted and rebalanced at a daily frequency. The sample period is 1984:01 – 2023:12.

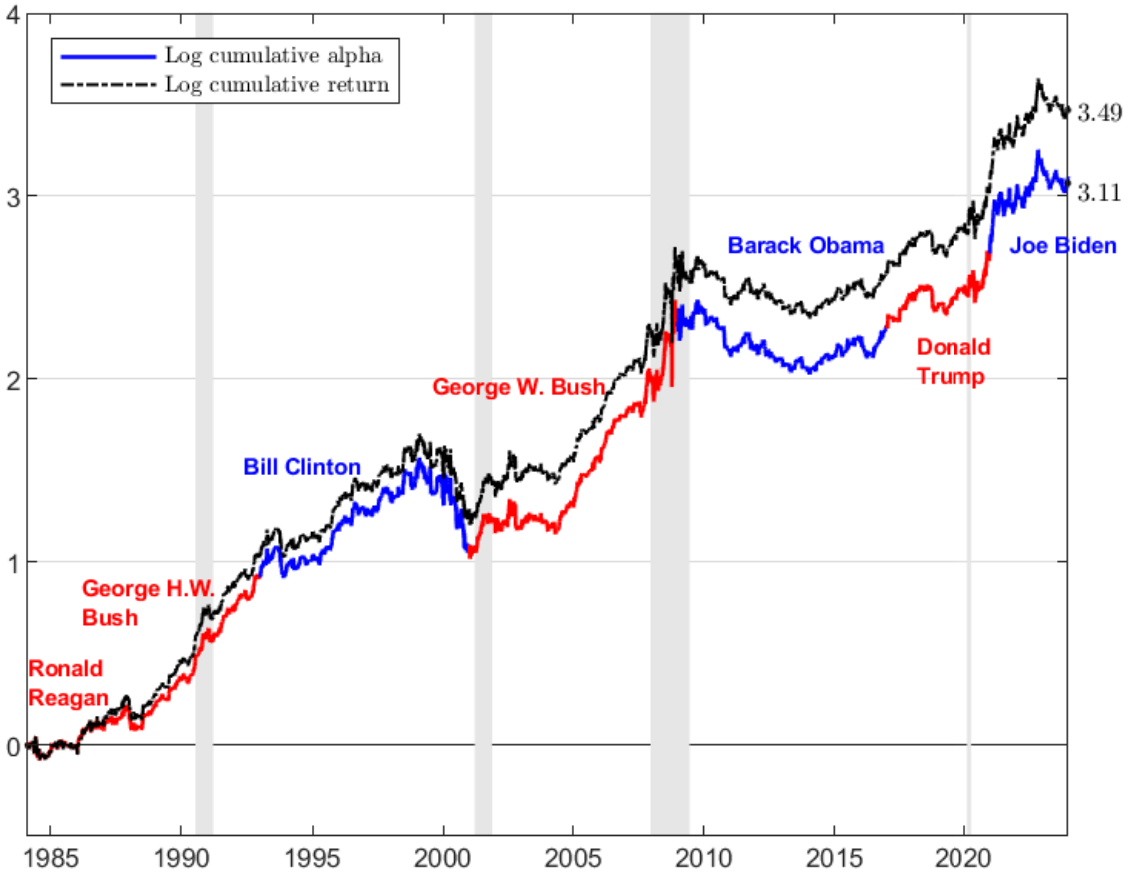


Figure 3: Presidential dependence of tax policy uncertainty

This figure plots the two measures of tax policy uncertainty under different presidencies. The first is the average of firm-level tax volatility, which is calculated as the within-regime standard deviation of pooled firm tax expenses (scaled by absolute pretax income). The second is Tax Policy Uncertainty (TPU) index developed by Baker et al. (2016). We standardize the two measures so that they are comparable in magnitude. The sample period associated with Democratic (Republican) presidents is in blue (red) color. The sample period is 1984:01 – 2023:12, while the available TPU index data begin in 1985:01.

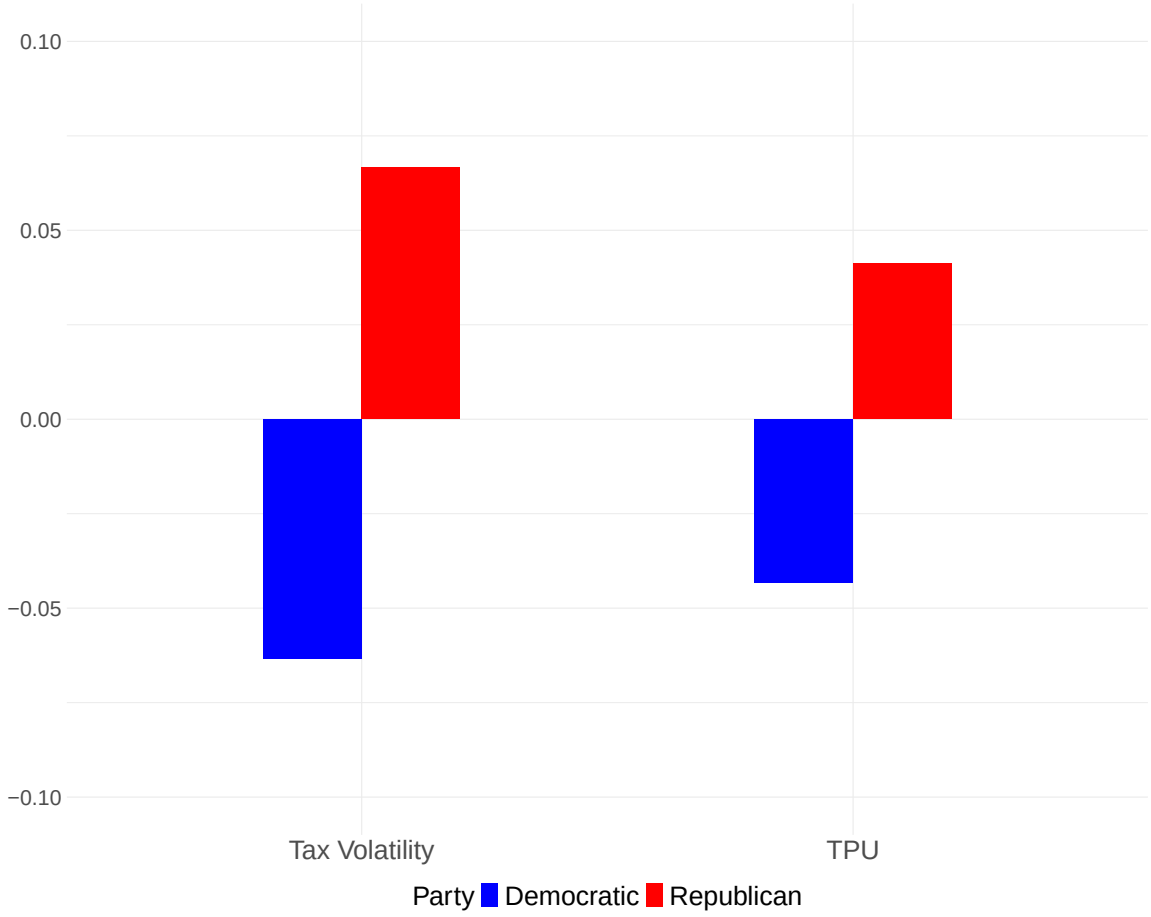


Figure 4: Corporate mentions of Democratic or Republican tax laws

This figure plots the proportion of corporate filings mentioning Republican and Democratic policies. For each corporate filing, we count the number of sentences mentioning Republican and Democratic policies, scaled by the total count of sentences in each filing. We plot the value-weighted average of these ratios within each month. The policy signed by Republican (Democratic) presidents are in red (blue). The sample period is 1994:01 – 2023:12.

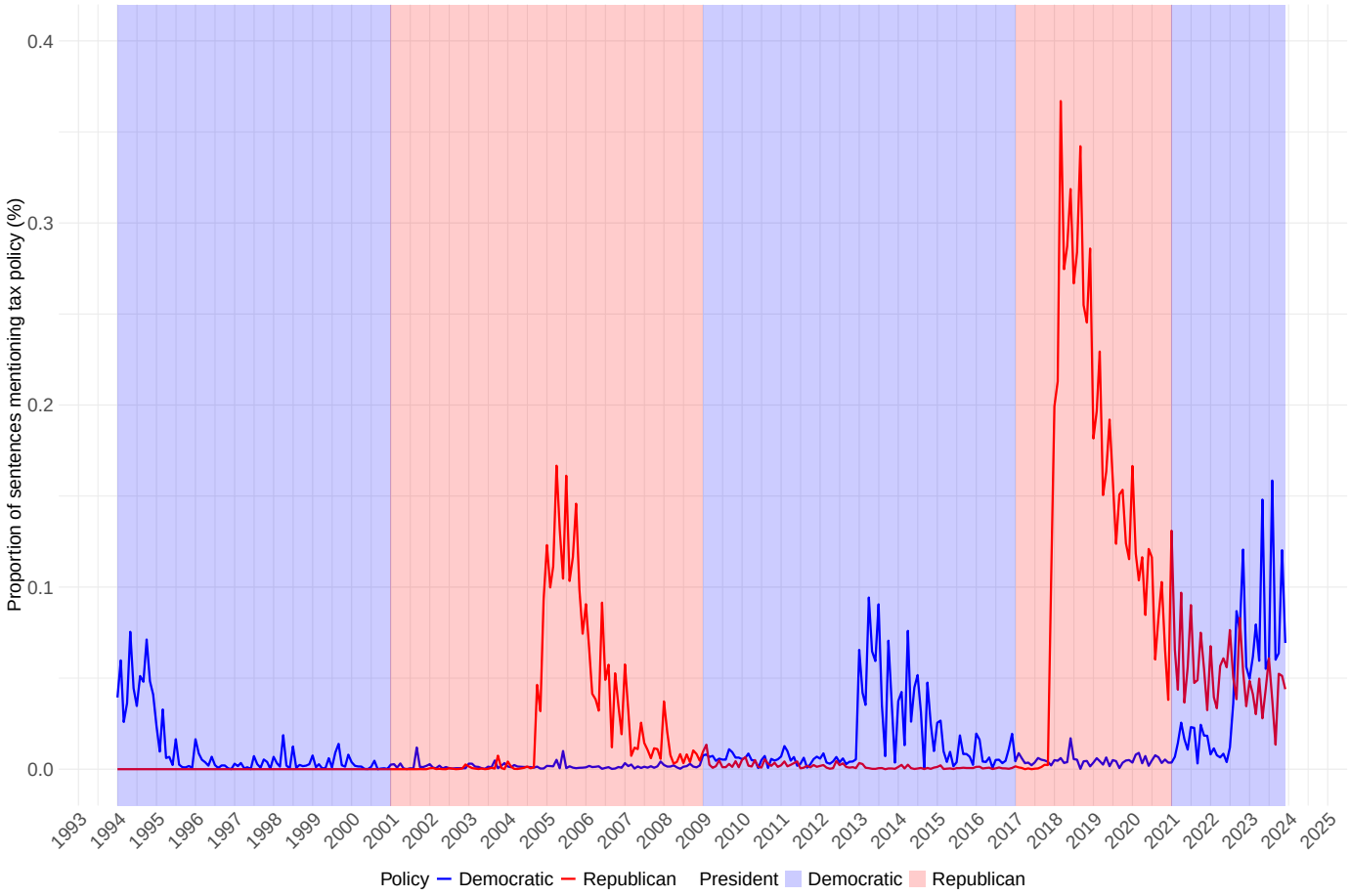


Figure 5: Event study of TCJA: example from P&G

This figure plots the forecast errors and post-announcement cumulative abnormal returns (CAR[2,31]) for P&G during the four quarters following the enactment of Tax Cuts and Jobs Act. Panel A reports the forecast errors including EBITDA per share (EBS), earnings per share (EPS) and their difference (a proxy for the forecast errors of tax expenses). Panel B shows the forecast errors of EPS and post-announcement cumulative abnormal returns (CAR[2,31]).

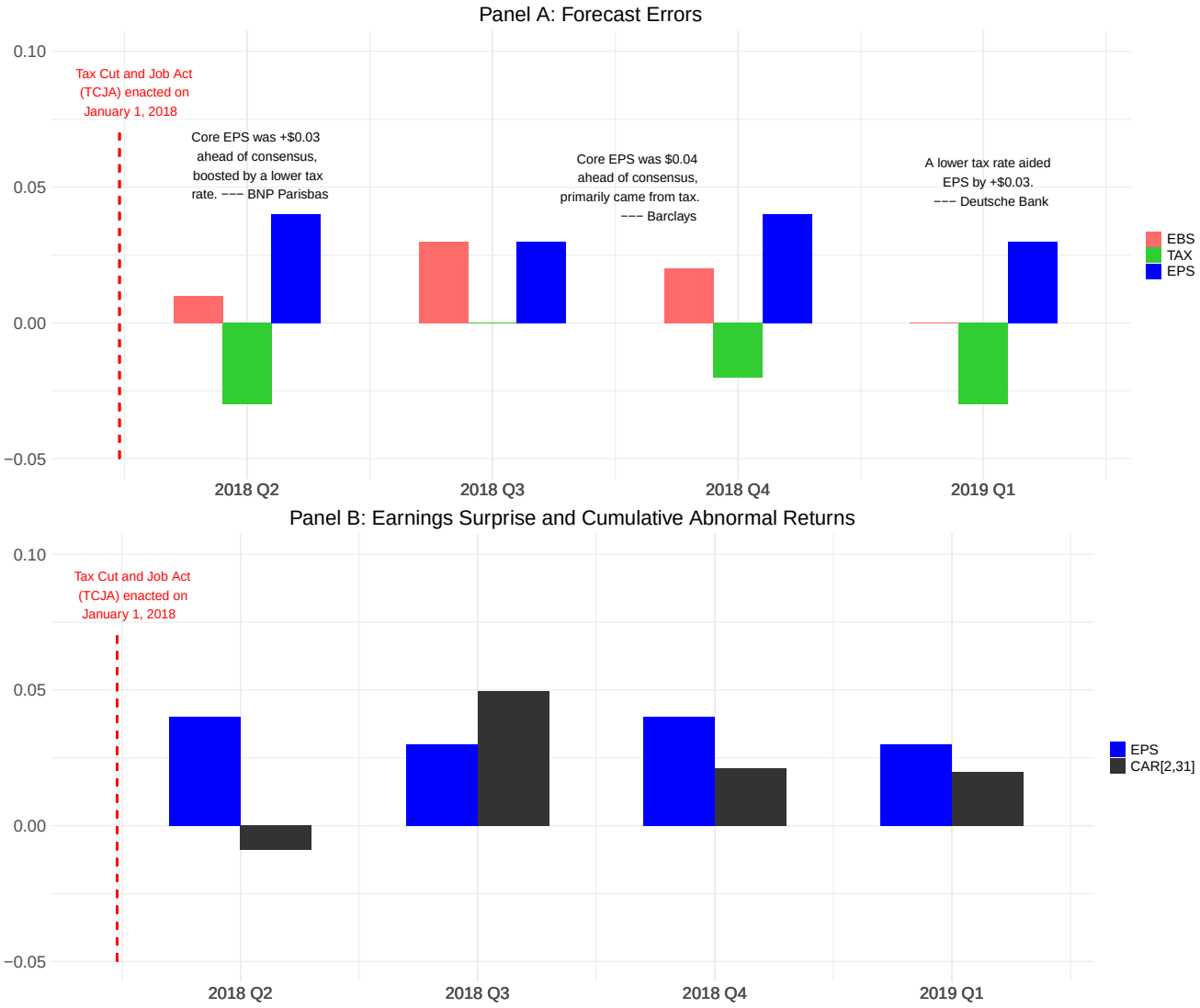
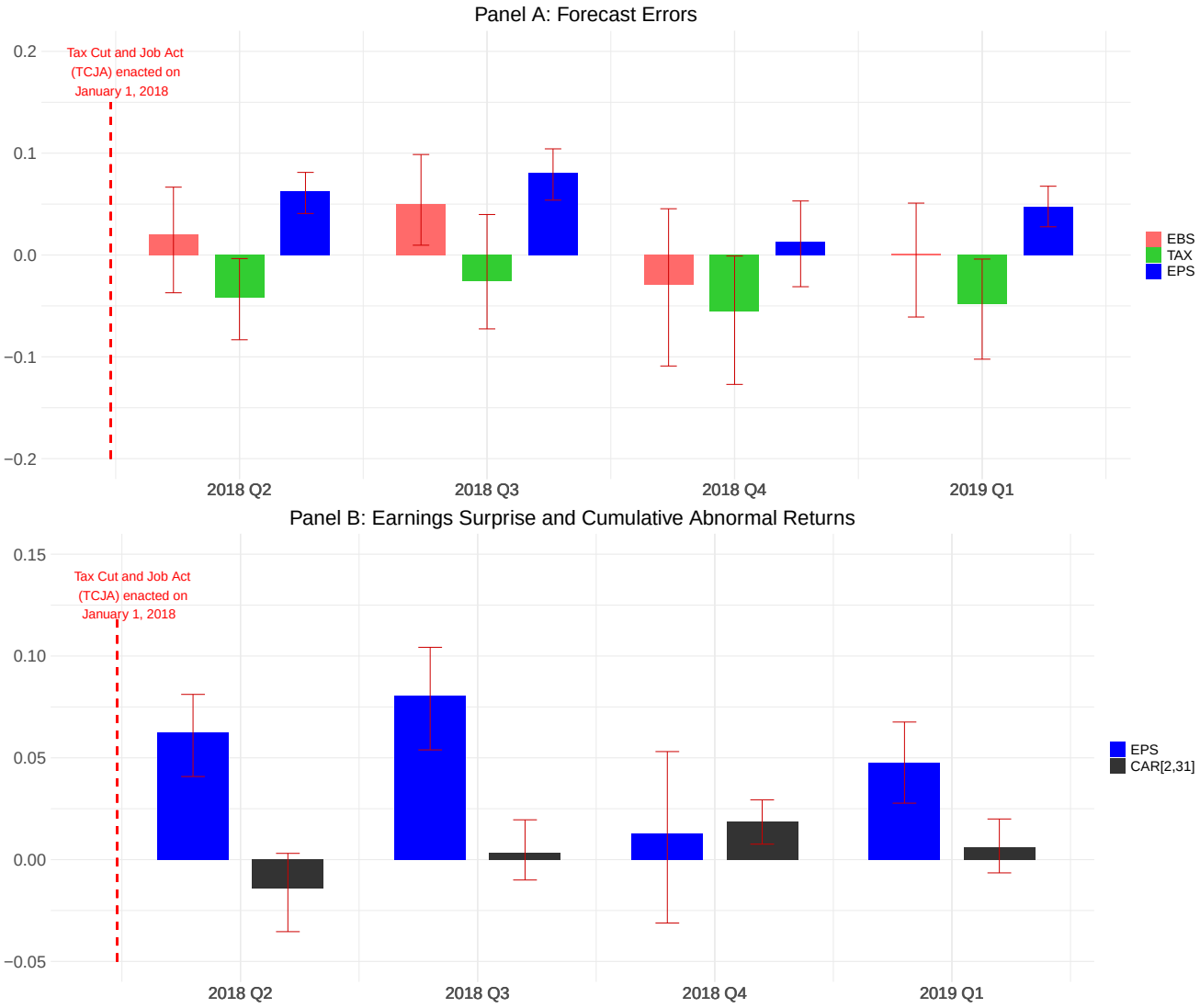


Figure 6: Event study of TCJA: firms with high tax exposures

This figure plots the forecast errors and post-announcement cumulative abnormal returns (CAR[2,31]) for firms with high tax exposures during the four quarters following the enactment of the Tax Cuts and Jobs Act. Panel A reports the forecast errors including EBITDA per share (EBS), earnings per share (EPS) and their difference (a proxy for the forecast errors of tax expenses). Panel B shows the forecast errors of EPS and post-announcement cumulative abnormal returns (CAR[2,31]).



Online Appendix to

"Presidential Cycles in PEAD"

A Details for Corporate Filings Data

Our analysis uses all electronically available 10-Q and 10-K fillings by publicly listed U.S. companies from 1994 to 2023. We obtain the cleaned versions of the 10-Q and 10-K filings from the Software Repository for Accounting and Finance compiled by Bill McDonald and Tim Loughran.[1] This repository applies consistent parsing and preprocessing procedures — such as the removal of tables, exhibits, and non-textual elements — which facilitates large-scale textual analysis while preserving the substantive narrative content of the original filings. Our final sample consists of 879,823 filings submitted by 41,552 unique firms from 1994 to 2023. Table OA.1 lists the legal names for 12 major national level tax laws or acts we consider in our analysis.

Table OA.1: Tax Legislation by Presidential Party

Tax Law	Year	Party
Omnibus Budget Reconciliation Act	1993	D
Taxpayer Relief Act	1997	D
Economic Growth and Tax Relief Reconciliation Act	2001	R
Jobs and Growth Tax Relief Reconciliation Act	2003	R
American Jobs Creation Act	2004	R
Economic Stimulus Act	2008	R
American Recovery and Reinvestment Act	2009	D
Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act	2010	D
American Taxpayer Relief Act	2012	D
Tax Cuts and Jobs Act	2017	R
American Rescue Plan Act	2021	D
Inflation Reduction Act	2022	D

[1] The files can be downloaded at https://sraf.nd.edu/

B Supplementary Results

Table OA.2: Variance decomposition of earnings component: sample of firms with zero quarterly special items

This table reports the cross-sectional variance decomposition of actual earnings based on the identity (6) for the sample with zero special items. We decompose the earnings into operating income after depreciation (OIADP), non-operating income (NOPI), special item (SPI), interest expense (XINT), tax (TAX) and Others. Others represents all residual and potentially minor components, such as extraordinary item (XI), minority interests (MII) and dividend payout (DVP). We also report the variance decomposition of actual earnings under Democratic and Republican presidencies. Coverage refers to the ratio of monthly average number of firms with zero SPI scale by total number of firms in our sample. Newey-west *t*-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	Full sample	Democratic	Republican
OIADP	109.39	114.38	104.87
	(51.86)	(45.15)	(34.86)
(-)XINT	1.67	-0.03	3.21
	(1.44)	(-0.03)	(1.77)
NOPI	8.58	6.62	10.36
	(6.22)	(3.24)	(5.33)
(-)TAX	-22.52	-21.23	-23.69
	(-17.17)	(-11.67)	(-14.20)
Others	2.88	0.26	5.26
	(3.01)	(0.07)	(4.67)
Coverage	63%	61%	66%

Table OA.3: Presidential cycles in PEAD: sample of firms with zero quarterly special items

This table reports the multivariate tests of the effects of presidential cycles on the relation between earnings news and market reactions for the sample with zero special items. Dependent variables are the average announcement cumulative abnormal return (CAR[0,1]) and post-announcement cumulative abnormal return (CAR[2,31]). SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile and SUE_{Rank} is the earnings surprise rank (SUE_{Rank}=1: lowest, 5: highest). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. All regressions include control variables, their interactions with SUE, industry dummy and weekday dummy. Dependent variables are truncated at 0.5% and 99.5% level. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	CAR[0,1]	CAR[2,31]	CAR[0,1]	CAR[2,31]
	(1)	(2)	(3)	(4)
SUE_5	4.93	1.31		
	(54.80)	(8.40)		
$SUE_5 \times$RD	-0.54	0.51		
	(-4.24)	(2.45)		
SUE_{Rank}			1.22	0.32
			(59.38)	(9.33)
$SUE_{Rank} \times$RD			-0.11	0.12
			(-3.79)	(2.65)
RD	0.26	-0.11	0.29	-0.20
	(3.04)	(-0.69)	(3.11)	(-1.33)
Controls	Y	Y	Y	Y
interacted with SUE	Y	Y	Y	Y
Constant	-2.46	-0.67	-3.57	-1.20
	(-25.54)	(-3.39)	(-44.17)	(-7.85)
Adjusted R^2	0.11	0.01	0.07	0.01
Obs.	65,514	65,337	168,974	168,505

Table OA.4: Presidential cycles in PEAD among firms with different tax exposures: auditing-related tax services

This table reports the results connecting the audit-related tax exposure with presidential cycles in PEAD. Dependent variable is the post-announcement cumulative abnormal return (CAR[2,31]). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. Tax exposure is calculated from Audit Analytics on firms' annual payments to auditors for tax-related services. HTAX is a dummy variable that equals one (zero) for firms with above (below) median tax exposures. SUE_5 is an indicator variable which equals which equals one (zero) for top (bottom) earnings quintile. All regressions include industry dummy and weekday dummy. Dependent variables are truncated at 0.5% and 99.5% level. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. The sample period is 2000:01 - 2023:12 due to the data availability from Audit Analytics.

Panel A: Firms with high exposure		Panel B: Firms with low exposure	
$SUE_5 \times$ RD	0.98	$SUE_5 \times$ RD	0.54
	(3.42)		(1.82)
SUE_5	0.48	SUE_5	0.99
	(2.42)		(4.93)
RD	-0.47	RD	-0.54
	(-2.30)		(-2.47)
Constant	-0.66	Constant	0.02
	(-2.29)		(0.06)
Adjusted R^2	0.01	Adjusted R^2	0.01
Obs	33,413	Obs	31,607

Table OA.5: Robustness: Other political dimensions

This table reports multiple robustness tests. Dependent variables are the average announcement cumulative abnormal return (CAR[0,1]) and post-announcement cumulative abnormal return (CAR[2,31]). SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile and SUE_{Rank} is the earnings surprise rank (SUE_{Rank}=1: lowest, 5: highest). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. All regressions include control variables, their interactions with SUE, industry dummy and weekday dummy. Dependent variables are truncated at 0.5% and 99.5% level. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. Panel A reports the results across years of the president's terms. Panel B reports the results of mid-term elections. Panel C reports the impacts of partisan conflict. The sample period is 1984:01 – 2023:12.

	CAR[0,1]	CAR[2,31]		CAR[0,1]	CAR[2,31]
Panel A: Years within a presidential term					
Year = 1					
$SUE_5 \times$RD	-0.56	0.17	$SUE_{Rank} \times$RD	-0.12	0.01
	(-2.89)	(0.52)		(-2.80)	(0.13)
Obs.	27,946	27,933		70,932	70,842
Year <= 2					
$SUE_5 \times$RD	-0.24	0.26	$SUE_{Rank} \times$RD	-0.05	0.03
	(-1.78)	(1.20)		(-1.75)	(0.65)
Obs.	56,790	56,765		144,445	144,280
Year <= 3					
$SUE_5 \times$RD	-0.26	0.60	$SUE_{Rank} \times$RD	-0.05	0.09
	(-2.31)	(3.35)		(-1.90)	(2.43)
Obs.	85,836	85,722		218,135	217,676
Year <= 4					
$SUE_5 \times$RD	-0.31	0.67	$SUE_{Rank} \times$RD	-0.07	0.12
	(-3.10)	(4.08)		(-2.90)	(3.53)
Obs.	113,151	113,020		287,103	286,554

	CAR[0,1]	CAR[2,31]		CAR[0,1]	CAR[2,31]
Panel B: Mid-term elections					
Post mid-term election periods					
$SUE_5 \times$RD	-0.30	1.32	$SUE_{Rank} \times$RD	-0.03	0.25
	(-1.09)	(2.65)		(-0.52)	(2.37)
Obs.	10,567	10,576		26,688	26,687
Other months					
$SUE_5 \times$RD	-0.32	0.59	$SUE_{Rank} \times$RD	-0.07	0.11
	(-2.98)	(3.38)		(-2.90)	(2.95)
Obs.	102,584	102,444		260,415	259,867
Panel C: Partisan conflict					
Senate and House controlled by the same party					
$SUE_5 \times$RD	0.23	0.87	$SUE_{Rank} \times$RD	0.07	0.17
	(1.94)	(4.60)		(2.54)	(4.27)
Obs.	83,834	83,822		212,741	212,473
Senate and House controlled by different parties					
$SUE_5 \times$RD	-1.86	0.24	$SUE_{Rank} \times$RD	-0.47	0.01
	(-8.38)	(0.69)		(-9.73)	(0.14)
Obs.	29,317	29,198		71,956	71,812
High partisan conflict periods					
$SUE_5 \times$RD	-0.78	0.26	$SUE_{Rank} \times$RD	-0.22	0.05
	(-5.01)	(1.07)		(-6.04)	(1.01)
Obs.	54,851	54,742		139,669	139,319
Low partisan conflict periods					
$SUE_5 \times$RD	0.54	0.66	$SUE_{Rank} \times$RD	0.16	0.10
	(4.02)	(2.68)		(5.14)	(1.83)
Obs.	58,300	58,278		147,434	147,235

Table OA.6: Presidential cycles in PEAD: Impact of a single president

This table reports the impacts of presidents on presidential cycles in PEAD by dropping the period of one president at a time. Dependent variables are the average announcement cumulative abnormal return (CAR[0,1]) and post-announcement cumulative abnormal return (CAR[2,31]). SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile and SUE_{Rank} is the earnings surprise rank (SUE_{Rank}=1: lowest, 5: highest). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. All regressions include control variables, their interactions with SUE, industry dummy and weekday dummy. Dependent variables are truncated at 0.5% and 99.5% level. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	CAR[0,1]	CAR[2,31]		CAR[0,1]	CAR[2,31]
Exclude Ronald Reagan					
$SUE_5 \times$RD	0.13	0.69	$SUE_{Rank} \times$RD	0.04	0.12
	(1.18)	(4.01)		(1.71)	(3.23)
Obs.	106,261	106,135		269,850	269,298
Exclude George H.W. Bush					
$SUE_5 \times$RD	-0.08	0.58	$SUE_{Rank} \times$RD	-0.01	0.10
	(-0.72)	(3.35)		(-0.13)	(2.62)
Obs.	103,885	103,735		263,865	263,318
Exclude Bill Clinton first term					
$SUE_5 \times$RD	-0.69	0.80	$SUE_{Rank} \times$RD	-0.16	0.17
	(-6.27)	(4.42)		(-6.29)	(4.24)
Obs.	100,705	100,556		255,750	255,235
Exclude Bill Clinton second term					
$SUE_5 \times$RD	-0.58	0.71	$SUE_{Rank} \times$RD	-0.13	0.15
	(-5.34)	(4.16)		(-5.30)	(4.01)
Obs.	98,637	98,510		250,368	249,893
Exclude George W. Bush first term					
$SUE_5 \times$RD	-0.14	0.56	$SUE_{Rank} \times$RD	-0.03	0.12
	(-1.29)	(3.17)		(-1.16)	(3.03)
Obs.	100,288	100,160		254,603	255,086
Exclude George W. Bush second term					
$SUE_5 \times$RD	-0.87	0.48	$SUE_{Rank} \times$RD	-0.22	0.09
	(-8.15)	(2.72)		(-8.95)	(2.32)
Obs.	99,843	99,735		253,146	252,648

	CAR[0,1]	CAR[2,31]		CAR[0,1]	CAR[2,31]
Exclude Barack Obama first term					
$SUE_5 \times$RD	-0.04	0.59	$SUE_{Rank} \times$RD	0.01	0.10
	(-0.41)	(3.35)		(0.18)	(2.52)
Obs.	101,033	100,904		256,500	255,991
Exclude Barack Obama second term					
$SUE_5 \times$RD	-0.01	0.57	$SUE_{Rank} \times$RD	0.01	0.10
	(-0.09)	(3.22)		(0.15)	(2.49)
Obs.	101,537	101,425		257,166	256,670
Exclude Donald Trump					
$SUE_5 \times$RD	-0.68	1.02	$SUE_{Rank} \times$RD	-0.15	0.20
	(-6.50)	(6.01)		(-6.11)	(5.53)
Obs.	101,883	101,768		258,202	257,688
Exclude Joe Biden					
$SUE_5 \times$RD	-0.24	0.69	$SUE_{Rank} \times$RD	-0.05	0.12
	(-2.30)	(4.04)		(-2.19)	(3.31)
Obs.	104,287	104,252		264,477	264,159

Table OA.7: Presidential cycles in PEAD: Removing microcap stocks

This table reports the multivariate tests of the effects of presidential cycles on the relation between earnings news and market reactions for non-microcap companies. Dependent variables are the average announcement cumulative abnormal return (CAR[0,1]) and post-announcement cumulative abnormal return (CAR[2,31]). SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile and SUE_{Rank} is the earnings surprise rank (SUE_{Rank}=1: lowest, 5: highest). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. Dependent variables are truncated at 0.5% and 99.5% level. All regressions include control variables, their interactions with SUE, industry dummy and weekday dummy. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	CAR[0,1]	CAR[2,31]	CAR[0,1]	CAR[2,31]
	(1)	(2)	(3)	(4)
SUE_5	6.70	1.08		
	(32.50)	(2.84)		
$SUE_5 \times$RD	-0.59	0.48		
	(-5.12)	(2.43)		
SUE_{Rank}			1.80	0.24
			(39.89)	(3.15)
$SUE_{Rank} \times$RD			-0.13	0.09
			(-4.95)	(2.18)
RD	0.41	-0.04	0.46	-0.21
	(4.88)	(-0.22)	(5.59)	(-1.52)
Constant	-5.03	-4.72	-7.17	-1.71
	(-9.27)	(-4.23)	(-23.24)	(-2.64)
Adjusted R^2	0.12	0.01	0.08	0.01
Obs.	69,744	69,643	229,797	229,418

Table OA.8: Robustness: Role of investor inattention

This table reports results of subsample analysis. Dependent variables are the average announcement cumulative abnormal return (CAR[0,1]) and post-announcement cumulative abnormal return (CAR[2,31]). SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile and SUE_{Rank} is the earnings surprise rank (SUE_{Rank}=1: lowest, 5: highest). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. All regressions include control variables, their interactions with SUE, industry dummy and weekday dummy. Dependent variables are truncated at 0.5% and 99.5% level. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. Panel A divides the sample based on whether the earnings announcement occurred on a Friday. Panel B splits the sample based on the number of earnings announcements made by other firms on the same day. The sample period is 1984:01 – 2023:12.

	CAR[0,1]	CAR[2,31]		CAR[0,1]	CAR[2,31]
Panel A: Friday vs. Non-Friday					
Friday					
$SUE_5 \times$RD	-0.62	0.80	$SUE_{Rank} \times$RD	-0.14	0.19
	(-2.26)	(1.70)		(-2.26)	(1.82)
Obs.	10,159	10,152		22,907	22,875
Non-Friday					
$SUE_5 \times$RD	-0.24	0.63	$SUE_{Rank} \times$RD	-0.05	0.11
	(-2.28)	(3.67)		(-2.08)	(3.05)
Obs.	102,992	102,868		264,196	263,679
Panel B: Number of announcement on announcement day					
High number of announcement					
$SUE_5 \times$RD	-0.26	0.59	$SUE_{Rank} \times$RD	-0.07	0.10
	(-1.86)	(2.54)		(-2.06)	(2.01)
Obs.	63,836	63,700		158,338	157,970
Low number of announcement					
$SUE_5 \times$RD	-0.37	0.78	$SUE_{Rank} \times$RD	-0.07	0.16
	(-2.68)	(3.41)		(-2.10)	(3.16)
Obs.	49,315	49,320		128,765	128,584

Table OA.9: Presidential cycles in PEAD: Control for existing explanations

This table reports the multivariate tests of the effects of presidential cycles on the relation between earnings news and market reactions controlling for other explanations. Dependent variables are the average announcement cumulative abnormal return (CAR[0,1]) and post-announcement cumulative abnormal return (CAR[2,31]). SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile and SUE_{Rank} is the earnings surprise rank (SUE_{Rank}=1: lowest, 5: highest). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. Firm-level control variables include the number of announcements quintile, stock market return on the announcement day, number of analysts following the firm, abnormal risk, expected risk, price delay, book-to-market ratio, illiquidity, idiosyncratic volatility, momentum and size and their interactions with SUE. Macro control variables include dividend price ratio, dividend yield, earnings price ratio, dividend payout ratio, term spread, long-term government bond return, default yield spread, inflation, unemployment ratio, industrial production. Dependent variables are truncated at 0.5% and 99.5% level. All regressions include industry dummy and weekday dummy. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	CAR[0,1]	CAR[2,31]	CAR[0,1]	CAR[2,31]
	(1)	(2)	(3)	(4)
SUE_5	6.94	1.17		
	(40.88)	(3.93)		
$SUE_5 \times$RD	-0.31	0.67		
	(-3.10)	(4.08)		
SUE_{Rank}			1.77	0.30
			(45.90)	(4.74)
$SUE_{Rank} \times$RD			-0.07	0.12
			(-2.90)	(3.53)
RD	0.23	-0.14	0.26	-0.31
	(3.36)	(-1.26)	(3.40)	(-2.58)
Controls	Y	Y	Y	Y
interacted with SUE	Y	Y	Y	Y
Constant	-3.87	-1.48	-6.48	-0.74
	(-9.16)	(-1.59)	(-23.16)	(-1.25)
Adjusted R^2	0.12	0.01	0.08	0.01
Obs.	113,151	113,020	287,103	286,554

Table OA.10: Presidential cycles in PEAD: Longer horizon

This table reports the multivariate tests of the effects of presidential cycles on the relation between market reactions and earnings news over long horizon. SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile. RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. All regressions include control variables, their interactions with SUE, industry dummy and weekday dummy. Dependent variables are truncated at 0.5% and 99.5% level. All regressions include industry dummy and weekday dummy. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	CAR[2,15]	CAR[2,31]	CAR[2,45]	CAR[2,61]	CAR[2,91]
	(1)	(2)	(3)	(4)	(5)
SUE_5	0.97	1.17	1.08	1.05	1.11
	(4.84)	(3.93)	(2.87)	(2.17)	(1.88)
$SUE_5 \times$RD	0.35	0.67	0.59	0.48	0.48
	(3.16)	(4.08)	(2.85)	(1.91)	(1.56)
RD	-0.14	-0.14	-0.19	-0.24	0.03
	(-1.55)	(-1.26)	(-1.18)	(-1.27)	(0.13)
Controls	Y	Y	Y	Y	Y
interacted with					
SUE_5	Y	Y	Y	Y	Y
Constant	-0.40	-1.48	-1.80	-1.92	-3.96
	(-0.64)	(-1.59)	(-1.66)	(-1.41)	(-2.27)
Adjusted R^2	0.01	0.01	0.01	0.01	0.01
Obs.	113,172	113,020	112,297	111,925	111,430

Table OA.11: Presidential cycles in PEAD: Earnings surprise scale by volatility

This table reports the multivariate tests of the effects of presidential cycles on the relation between earnings news and market reactions. Earnings surprise is defined as actual EPS minus the consensus forecast of EPS and scaled by its volatility over the past 8 quarters. Dependent variables are the average announcement cumulative abnormal return (CAR[0,1]) and post-announcement cumulative abnormal return (CAR[2,31]). SUE_5 is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile and SUE_{Rank} is the earnings surprise rank (SUE_{Rank}=1: lowest, 5: highest). RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. All regressions include control variables, their interactions with SUE, industry dummy and weekday dummy. Dependent variables are truncated at 0.5% and 99.5% level. Standard errors are clustered by the day of announcement and t-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

	CAR[0,1]	CAR[2,31]	CAR[0,1]	CAR[2,31]
	(1)	(2)	(3)	(4)
SUE_5	6.68	0.97		
	(37.97)	(3.38)		
$SUE_5 \times$RD	-0.28	0.36		
	(-2.85)	(2.44)		
SUE_{Rank}			1.65	0.28
			(41.22)	(4.37)
$SUE_{Rank} \times$RD			-0.04	0.06
			(-1.84)	(1.98)
RD	0.29	-0.23	0.20	-0.16
	(4.17)	(-1.87)	(2.66)	(-1.31)
Controls	Y	Y	Y	Y
interacted with SUE	Y	Y	Y	Y
Constant	-4.09	-0.13	-5.70	-0.91
	(-9.70)	(-0.15)	(-19.40)	(-1.45)
Adjusted R^2	0.13	0.01	0.08	0.01
Obs.	106,351	106,371	267,264	266,738

Figure OA.1: Corporate mentions of Democratic or Republican tax laws: earnings conference calls

This figure plots the proportion of earnings conference calls mentioning Republican and Democratic policies. For each conference call transcript, we count the number of sentences mentioning Republican and Democratic policies, scaled by the total count of sentences in each transcript. We plot the value-weighted average of these ratios within each month. The policy signed by Republican (Democratic) presidents are in red (blue). The sample period is 2005:01 – 2023:12.

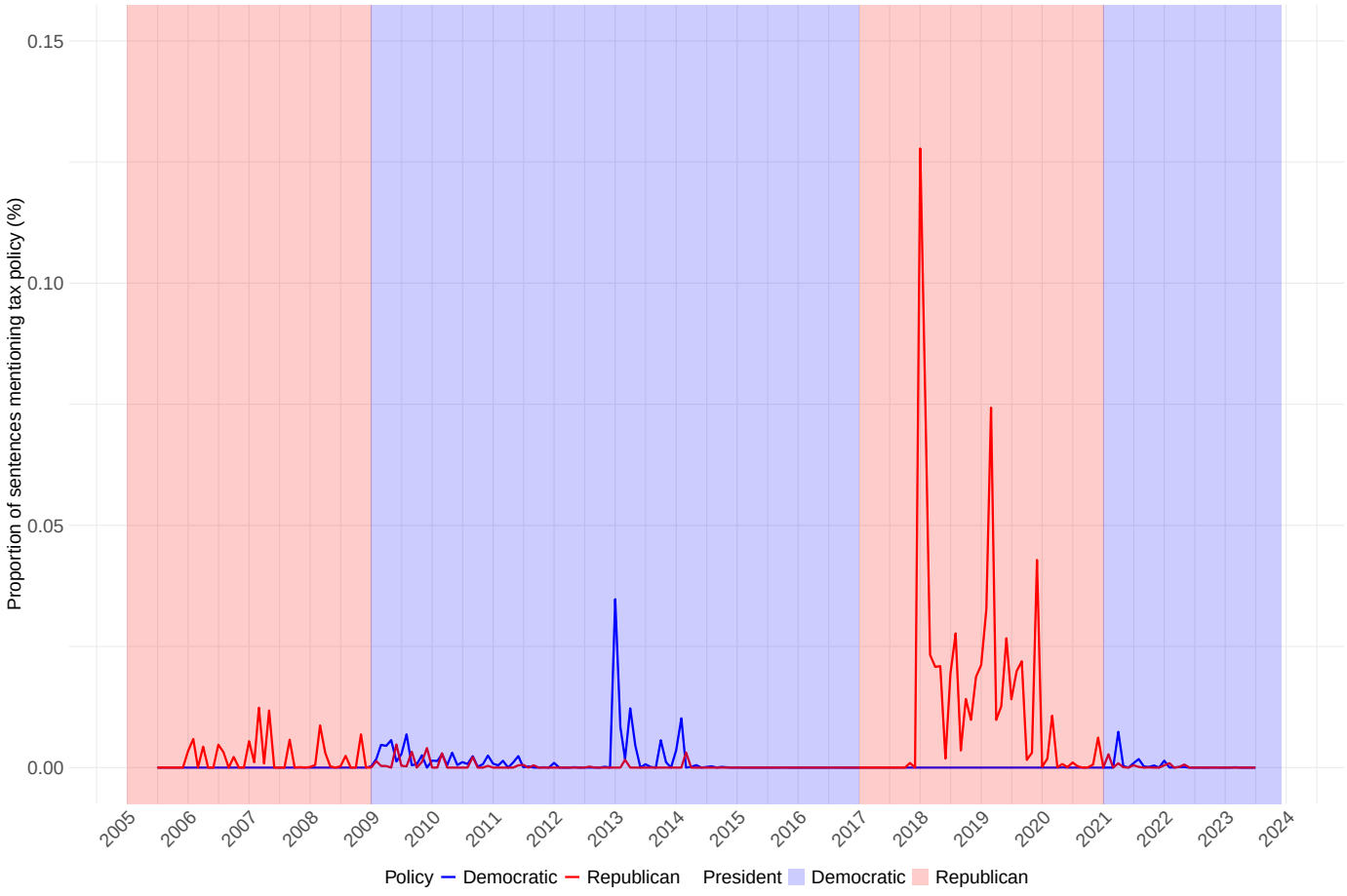


Figure OA.2: Event study of TCJA: firms with low tax exposures

This figure plots the forecast errors and post-announcement cumulative abnormal returns (CAR[2,31]) for firms with low tax exposures during the four quarters following the enactment of the Tax Cuts and Jobs Act. Panel A reports the forecast errors including EBITDA per share (EBS), earnings per share (EPS) and their difference (a proxy for the forecast errors of tax expenses). Panel B shows the forecast errors of EPS and post-announcement cumulative abnormal returns (CAR[2,31]).