

Sell-side Analyst Research and Stock Comovement

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Abstract

We document that a stock's price around a recommendation or forecast covaries with prices of other stocks the issuing analyst covers. The effect of shared analyst coverage on stock price comovement extends beyond analyst activity days. A stock's daily returns covary with the returns of other stocks with which it shares analyst coverage. These links between stock price comovement and shared analyst coverage are consistent with the coverage-specific information we find in earnings forecasts; analysts who cover both stocks in a pair expect future earnings of the stocks to be more highly correlated than do analysts who cover only one stock from the pair. Collectively, our evidence indicates that analyst research produces coverage-specific spillovers that raise price comovement among stocks that share analyst coverage. The strength of these spillovers is comparable to spillovers from broad industry and market information in analyst research.

Keywords: Analyst coverage, Return correlation, Comovement, Spillover.