

Presidential Cycles in PEAD*

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Abstract

Post-earnings announcement drift (PEAD) displays presidential cycles: it earns 4.1% per year during Democratic presidencies but its profitability increases significantly to 14.9% during Republican presidencies. Survey-based evidence also indicates substantial underreaction to earnings news when the US president is Republican. 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. Consistent with this mechanism, firms reference Republican tax laws more frequently in their corporate filings, particularly during Republican administrations. Option-implied volatility also increases more sharply prior to earnings announcements for firms with greater exposure to tax policy changes. Accordingly, presidential cycles in PEAD are concentrated among firms with high tax policy exposures. The cycles are more pronounced among non-microcap firms.

JEL Classification: G12, G14, G40, G41

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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.

While evidence of underreaction is ubiquitous, there is limited discussion on how the political climate affects investors’ reactions to earnings news. A key political factor in this context is the president’s party affiliation. Different parties have distinct economic priorities when implementing policies (see, e.g., [Alesina, 1987](#)). For instance, in the US, Democrats generally focus on stimulating economic growth, while Republicans typically prioritize reducing inflation. Additionally, the two parties have fundamentally different preference for the tax policy: Democrats are generally in favor of higher taxes, while Republicans advocate for lower taxes (see, e.g., [Pástor and Veronesi, 2020](#)).

In this paper, we document a striking difference in PEAD between periods based on the political party of the US presidents. We find that investors’ announcement date reactions to earnings news weaken substantially during Republican eras: the inter-quantile spread of two-day abnormal return following earnings announcements between firms with highest and lowest earnings surprises is 4.99% for Democratic terms and 4.59% for Republican terms. This translates to an economically and statistically significant differ-

ence of -0.40% ($t = -3.84$). Furthermore, consistent with the weakened immediate reactions to earnings news, we document much stronger post-earnings announcement drifts under Republican presidencies. The inter-quantile spread of the post-announcement 30-day cumulative abnormal returns between firms with highest and lowest earnings surprises is 1.56% for Republican terms. In a sharp contrast, the spread is only 0.92% during Democratic periods. This converts to an economically and statistically significant difference of 0.64% ($t = 4.18$), which is nearly a 70% proportional increase. Similarly, in multivariate regressions that control for the effect of limited attention, limits to arbitrage, other firm characteristics and calendar effects, the announcement date return response is still significantly less sensitive to earnings news while post announcement drift is significantly stronger during Republican presidencies.

To better visualize the presidential cycles in PEAD, we employ the standard calendar-time portfolio approach that invests in the stock the day following its announcements. Over ten presidential terms from January 1984 to December 2023, the PEAD effect is weak and statistically insignificant during Democratic presidencies. The spread portfolio that buys stocks in the highest earnings surprises quintile and sells stocks in the lowest earnings surprises quintile only earns a value-weighted return of 4.13% per year over those periods. In contrast, the PEAD effect is notably pronounced under Republican administrations, with the spread portfolio generating an average return of 14.88% per year. The cross-regime difference of 10.76% is both economically meaningful and statistically significant ($t = 2.32$). The presidential cycles in PEAD are robust and survive various factor-based risk adjustments, including the market model (CAPM), [Fama and French \(2015\)](#) five factor model, and the Q-factor model by [Hou et al. \(2014\)](#).

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., [Chordia et al., 2009](#); [Martineau, 2021](#)). However, we show that the presidential cycles are stronger among non-microcap stocks. Hence our findings generalize to a

broader and more economically significant segment of the stock market.

We show that the presidential cycles in PEAD are unlikely related to other political dimensions affecting the stock market. It is not driven by a specific year in presidents' terms or mid-term election effects. Different from the impact of divided government on equity premium ([Papamichalis et al., 2024](#)), the presidential cycles in PEAD are not driven by the Congressional majority dynamics and remain strong even amid heightened partisan conflict in recent years. Furthermore, they are not tied to any particular president or specific macroeconomic variables. Meanwhile, while existing literature highlights the role of limited attention in explaining PEAD, our analysis reveals that the presidential cycles we identify are not driven by investor inattention on Fridays ([DellaVigna and Pollet, 2009](#)) or distractions from extraneous news events ([Hirshleifer et al., 2009](#)).

We observe consistent patterns in investor beliefs. Security analysts' earnings forecasts show larger biases during Republican presidencies, as they fail to anticipate changes in actual earnings when transitioning from Democratic to Republican periods. Meanwhile, using the test developed by [Coibion and Gorodnichenko \(2015\)](#), we find stronger underreactions to earnings news during Republican periods. When revising their short-term earnings forecasts following recent earnings announcements, analysts' revisions underreact three to four times more to earnings news compared to 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. We find that among the systematic components that drive the cross-sectional variation in realized earnings, only the tax component exhibits a significant presidential difference in its volatility. This difference may reflect the contrasting tax policies of the two major political parties, since Republicans are generally viewed as favoring lower corporate taxes,

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

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. Indeed, in the data the tax policy uncertainty under Republican periods is higher.

While we do not rule out alternative explanations, this novel tax-based channel may offer 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 be excessively uncertain about after-tax income, resulting in stronger underreaction to earnings news.

We conduct four analyses to support this mechanism. First, by analyzing corporate 10-Q and 10-K filings, we find that firms reference Republican tax laws more frequently than Democratic ones, particularly 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 using 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 exposure to tax policy changes. This implies that Republican tax policy may create heightened information uncertainty and hence stronger underreaction, particularly among high-exposure firms. Third, the stronger PEAD during Republican presidencies is concentrated among high-exposure firms; among other firms, PEAD is generally weaker and exhibits no significant presidential cyclicalities. We find similar results even using an accounting-based measure of tax exposures. Finally, 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 impact for high-exposure firms, overestimating their tax expenses and thereby generating positive earnings surprises and subsequent price drift following earnings announcements.

We perform extensive tests to ensure the robustness of our findings. 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 important macroeconomic variables. Despite accounting for these effects, which cover most of the existing explanations for PEAD, the influence of presidential cycles on PEAD 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. To the best of our knowledge, we are the first to document the much stronger performance of PEAD during Republican presidencies.

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 US 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 :

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

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 Corporate filings

Our analysis uses all electronically available 10-Q and 10-K filings 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 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.² This repository applies consistent parsing and pre-processing procedures, which facilitates large-scale textual analysis while preserving the original filing content. Our final sample consists of 879,823 filings submitted by 41,552 unique firms from 1994 to 2023.

2.3 Other variables

Our main empirical analysis focuses on the impact of the political party affiliation of US 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 political dummy until January.³

²The files can be downloaded from <https://sraf.nd.edu/>

³Our results remain very similar if we adjust the dummy to reflect the election month (November).

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.

3 Presidential Cycles and Underreaction to Earnings News

3.1 PEAD strongly depends on the party in the White House

To rigorously examine the price drifts following earnings announcements, this subsection investigates how prices react differently to earnings news under presidential regimes. Following the methodologies of [Hirshleifer et al. \(2009\)](#) and [DellaVigna and Pollet \(2009\)](#), we calculate cumulative abnormal returns (CARs) in 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

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

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, $\text{CAR}[0,1]$ 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, $\text{CAR}[0,1]$ re-

flects 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](#))

$$\begin{aligned} \text{CAR}_{i,t}[0, 1] &= \alpha_0 + \beta_0 \text{SUE5}_{i,t} + \epsilon_{i,t}, \\ \text{CAR}_{i,t}[2, 31] &= \alpha_1 + \beta_1 \text{SUE5}_{i,t} + \nu_{i,t}, \end{aligned} \tag{3}$$

where $\text{SUE5}_{i,t}$ is an indicator variable which equals one for the top earnings quintile and zero for the bottom earnings quintile.⁴ Meanwhile, although [Bernard and Thomas \(1989\)](#) find that most of the drift occurs during the first 60 trading days after announcements, the difference in post announcement drift between Republican and Democratic presidencies appears to persist for a shorter period.⁵ Therefore, our analysis primarily focuses on the price drift during the first 30 trading days following the announcement ($\text{CAR}[2,31]$), with a discussion of results over different time horizons provided in [Section 5.3](#).

Column (1) and (3) of [Table 1](#) report the results. If the PEAD effect exists, we would expect an immediate yet insufficient stock price reaction to earnings news. Empirically, we confirm this pattern. The two-day returns following the earnings announcement are on average 4.80% higher when moving from the lowest to the highest SUE quintile. The

⁴All dependent variables are trimmed at the 0.5% and 99.5% levels to mitigate the impact of outliers.

⁵As discussed in [Section 5.3](#), the cross-regime divergence in drift becomes statistically significant around 30 days post-announcement ($\text{CAR}[2,31]$) and levels off by 45 days.

subsequent price drift in 30 days (CAR[2,31]) is also substantial: stocks in the highest SUE quintile outperform those in the lowest quintile by 1.22% on average ($t = 15.85$). Both of the differences in immediate response and post-announcement drift are statistically significant at the 1% level using standard errors clustering by announcement date.

[Table 1 about here]

We then examine whether the party in office influences price responses to earnings announcements by running the following regressions

$$\begin{aligned} \text{CAR}_{i,t}[0,1] &= \alpha_0 + \beta_0 \text{SUE5}_{i,t} + \gamma_0 \text{RD}_t + \theta_0 \text{SUE5}_{i,t} \times \text{RD}_t + \epsilon_{i,t}, \\ \text{CAR}_{i,t}[2,31] &= \alpha_1 + \beta_1 \text{SUE5}_{i,t} + \gamma_1 \text{RD}_t + \theta_1 \text{SUE5}_{i,t} \times \text{RD}_t + \nu_{i,t}, \end{aligned} \quad (4)$$

where the presidential dummy RD_t equals 1 when the US president is Republican at the end of month t (and zero otherwise). Based on the results from Table 2, if the PEAD effect is indeed stronger when $\text{RD}_t = 1$, we would expect $\theta_1 > 0$ in the second regression. Meanwhile, if the stronger PEAD effect arises from greater underreaction to earnings news during Republican terms, we would expect $\theta_0 < 0$.

Column (2) and (4) in Table 1 confirm the predictions. We find that the initial response $\text{CAR}[0,1]$ 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 4.99% for Democratic terms and 4.59% for Republican terms. This translates to an economically and statistically significant difference of -0.40% ($t = -3.84$).⁶

Consistent with the weakened immediate price responses, 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 1.56%

⁶As will be discussed in Section 3.5, 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.

for Republican terms. In sharp contrast, the spread is only 0.92% during Democratic periods. This translates to an economically and statistically significant difference of 0.64% ($t = 4.18$), which is nearly a 70% (i.e., $0.64/0.92$) 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}). Consistent with the past literature (e.g., [Kothari, 2001](#); [DellaVigna and Pollet, 2009](#); [Hirshleifer et al., 2009](#)), we use the cross-sectional rank of SUEs instead of the raw SUE values in the regressions, as the relationship between earnings surprises and price responses may be nonlinear. As shown, the results remain similar when we include all portfolios in the pooled regression. The initial response $CAR[0,1]$ significantly weakens during Republican presidencies while post-announcement drift $CAR[2,31]$ is significantly stronger.

The upper plot of Figure 1 offers a graphical comparison of the post-announcement cumulative abnormal returns at various horizons for the highest and the lowest SUE portfolios across different presidential administrations. Following [DellaVigna and Pollet \(2009\)](#), the average cumulative abnormal return is calculated for the spread portfolio from day 2 through day h after the earnings announcement, with h extending up to 35 days. The plot indicates large presidential differences of drifts in both the lowest and the highest SUE portfolios. The difference actually becomes more pronounced beyond the short-term response window. This pattern is further corroborated in the lower figure, where we plot the drift difference between the lowest and the highest SUE portfolios across different presidential parties.

[Figure 1 about here]

3.2 Calendar-time portfolio analysis

To best visualize different patterns of PEAD over presidential cycles, we examine returns to a standard calendar-time portfolio methodology. We follow previous work (e.g., [Barber et al. \(2007\)](#), [Cohen et al. \(2010\)](#), [Birru et al. \(2022\)](#)) and construct the 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 calendar-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 hold this stock in the calendar-time portfolio until trading day $t + 31$.⁷ This approach mimics both the direction of the trade idea and the investment horizon implied by the trade idea.

To capture abnormal returns, we compute risk-adjusted returns based on [Fama and French \(2015\)](#) five-factor model and DGTW characteristic-adjusted returns. We also report risk-adjusted returns based on CAPM model and [Hou et al. \(2014\)](#) HXZ-Q factor model. We report the value-weighted annualized returns for the bottom (L) and top (H) quintile portfolios, and the spread portfolios that buy the top and sell the bottom portfolios. If the PEAD effect exists, then stocks with higher past SUE will outperform those with lower past SUE.

Over the full sample period from 1984 to 2023, we observe a strong PEAD effect. The daily-rebalanced spread portfolio generates an average value-weighted annualized return of 9.78% ($t = 4.40$). Panel A of Table 2 shows that the returns increase monoton-

⁷In many previous studies, the sorted portfolios are based on the most recent announcements over the past one to six months. As will be clear from Section 5.3, our results are more pronounced within 30 days after the announcement, so portfolio sorts based on lagged information would weaken the presidential cycles.

ically from low SUE to high SUE. The risk-adjustment via the Fama-French five-factor model (Fama and French, 2015) does not change the results. Overall, these outcomes align with the long-standing literature demonstrating a robust PEAD effect.

[Table 2 about here]

We now 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 very pronounced. The spread portfolio generates an average annual return of 14.88% per year ($t = 4.71$). The cross-regime difference is 10.76%, which is both economically large and statistically significant. The risk-adjusted returns display a similar pattern with cross-regime difference of 10.01%.⁸ Table OA.2 reports similar results using risk-adjusted returns based on the CAPM and the HXZ Q-factor model.

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

⁸These 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.

[Figure 2 about here]

Our results are unlikely to be driven by the presidential cycles in market returns documented by [Santa-Clara and Valkanov \(2003\)](#). They find that market returns are much higher during Democratic terms. We confirm this finding within our sample period, with market returns 6.84% higher during Democratic periods. One might question whether the presidential cycles in PEAD are driven by cycles in the components of market returns. However, as shown in Table [OA.2](#), significant presidential cycles in alphas persist even after adjusting PEAD returns for market returns. Moreover, our findings remain robust when accounting for other well-established market return predictors as identified by [Goyal et al. \(2024\)](#). We test the predictive power of the Republican dummy on the PEAD spread portfolio's returns, which is calculated as the monthly cumulative of calendar portfolio returns. Column (1) of Table [OA.3](#) shows that the Republican dummy alone has significant predictive power, with an in-sample R^2 of 1.51 and an out-of-sample R^2 of 1.69, which is significant at the 1% level. Column (2) demonstrates that the predictive power remains robust even after controlling for other predictors. Thus, the presidential cycles in PEAD are not driven by determinants of the aggregate stock market premium.

3.3 Cycles in non-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., [Chordia et al., 2009](#); [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 more pronounced 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 3 show that the initial response $CAR[0,1]$ again weakens, with a presidential difference of -0.71% ($t = -5.71$). The post-announcement drift is also stronger during Republican presidencies, with a difference of 0.60% ($t = 3.12$). Hence our results are robust and unlikely driven by the performance of microcap stocks.

[Table 3 about here]

3.4 Controlling for existing explanations for PEAD

Having established the presidential cycles in PEAD using both portfolio sorts and regression analysis, we now investigate whether these cycles are subsumed by existing explanations for PEAD. In this subsection, we conduct multivariate tests using pooled regressions controlling for a wide range of firm and industry characteristics to assess the incremental power of presidential cycles on PEAD.

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:

$$\begin{aligned}
CAR_{i,t}[0,1] &= \alpha_0 + \beta_0 SUE_{i,t} + \gamma_0 RD_t + \theta_0 SUE_{i,t} \times RD_t \\
&\quad + \sum_{i=1}^n c_i X_i + \sum_{i=1}^n b_i (SUE_{i,t} \times X_i) + \epsilon_{i,t}, \\
CAR_{i,t}[2,31] &= \alpha_1 + \beta_1 SUE_{i,t} + \gamma_1 RD_t + \theta_1 SUE_{i,t} \times RD_t \\
&\quad + \sum_{i=1}^n c_i X_i + \sum_{i=1}^n b_i (SUE_{i,t} \times X_i) + \nu_{i,t}.
\end{aligned} \tag{5}$$

Table 4 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 ($\theta_0 = -0.29$, $t = -2.95$), with an economically significant difference: the market response is 4.25% weaker ($0.29/6.82$) during Republican periods. 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 ($\theta_1 = 0.65$, $t = 4.15$). This suggests that the PEAD effect is 75.58% ($0.65/0.86$) stronger during Republican presidential terms compared to Democratic ones. In sum, our finding regarding the impact of presidential cycles on PEAD is novel and not completely attributable to any existing explanations.

[Table 4 about here]

3.5 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*. To be consistent with our PEAD results, we would expect larger biases in earnings forecasts and stronger belief underreaction to earnings news during Republican presidencies.

We first assess the magnitude of biases. Within the top and bottom SUE quintiles, we calculate the average earnings forecast errors (i.e., SUEs from the sorting month). We also decompose the SUEs into their "actual" and "forecast" components. The results are presented in Table 5, where the portfolio averages are calculated using the equal-weighted scheme.

By construction, the average forecast errors increase from -2.05 in the bottom SUE quintile to 1.13 in the top SUE quintile. However, notable patterns emerge across presidential regimes. The absolute magnitude of average forecast errors is higher for both top and bottom SUE quintile when the US president is Republican, which seems to indicate that earnings are harder to forecast during Republican periods. This implies that the weaker immediate response to earnings news during Republican periods (see Table 1) cannot be attributed to changes in the magnitude of SUE, but is likely to reflect stronger underreaction to earnings news.

Consistently, while the actual earnings for firms in the top (bottom) SUE quintile are significantly higher (lower) under Republican presidencies than under Democratic ones, we find that security analysts largely ignore, or at best only partially anticipate this pattern. Changes in their earnings forecasts are smaller and sometimes even opposite to changes in actual earnings. Taken together, if analysts' beliefs serve as reliable proxies for market expectations (e.g., [Kothari et al., 2016](#)), the result potentially suggests greater

forecasting difficulty and stronger underreaction to earnings news during Republican periods.

[Table 5 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:

$$e_{i,t+1} - E_t e_{i,t+1} = \alpha + \beta(E_t e_{i,t+1} - E_{t-1} e_{i,t+1}) + \gamma RD_t + \theta(E_t e_{i,t+1} - E_{t-1} e_{i,t+1}) \times RD_t + \epsilon_{i,t+1}. \quad (6)$$

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 (6) 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. 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.

⁹Theoretically, [Coibion and Gorodnichenko \(2015\)](#) show that lagged forecast errors need not be included once forecast changes are accounted for. Our results remain unchanged when we exclude lagged forecast errors as a control.

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

Similar to [Bouchaud et al. \(2019\)](#), we pool firm-level quarterly earnings announcements in the lowest and highest SUE quintiles to estimate regression (6). 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 6 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, the underreaction to earnings news is around three times stronger than during Democratic presidencies.¹¹ In Column (2), we find similar patterns even after including additional controls as in regression (5) and their interaction with the presidential dummy. Third, Column (3) and (4) show that the relationship robustly holds under the full-sample that includes all SUE quintiles.

[Table 6 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 could reflect more sticky information or noisier information, both would contribute to more underreaction to news. An advantage of analyzing (6) is that we can quantify how large the underreaction could be, without taking a stand on the mechanism that generates underreaction.

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 $\lambda = 0.07$ (0.13) when the US president is Democrat (Republican).

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:

$$\text{Earnings} = \text{OIADP} + \text{SPI} - \text{XINT} + \text{NOPI} - \text{TAX} + \text{Others}, \quad (7)$$

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, 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 7. 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 de-

compositions separately for Democratic and Republican periods. The second and third column of Table 7 indicate that OIADP, SPI, and TAX remain the three most important components driving cross-sectional variations in earnings.¹²

[Table 7 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. Volatility is measured either as the standard deviation or the mean absolute value of each component, 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. To test the significance of differences across presidential terms, we regress firm-level volatilities on a Republican dummy. Table 8 reports the results, where we normalize the volatility of each component to make coefficients comparable across components. The coefficients on *RD* represent relative differences in the volatility of each component under Republican and Democratic presidencies. 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 relative differences almost double that of OIADP (5.05% vs. 2.19%), and is much higher than those of other components.

[Table 8 about here]

¹²The notable contribution of special items is likely due to their frequent zero values and occasional large, infrequent entries on firms' balance sheets. Table OA.4 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.5 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 US 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](#)).¹³ 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 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 developed by [Baker et al. \(2016\)](#).¹⁴ These two measures originate from different data sources and thus provide complementary views on aggregate tax policy uncertainty. We plot the within-regime mean uncertainty relative to the unconditional mean in Figure 3. For both measures, the average level during Republican administrations is consistently higher than during Democratic ones.

[Figure 3 about here]

Does potentially higher aggregate tax policy uncertainty translate into meaningful firm-level impacts? A direct way to examine this question is to quantify how individual firms perceive tax policies implemented by the two political parties. To do so, we directly search for the legal names of major national tax laws referenced in corporate 10-Q and

¹³[Wright \(2012\)](#) show that Republican politicians have consistently advocated for tax cuts since 1980.

¹⁴The tax policy uncertainty index is a sub-index based solely on news data, which covers the Access World News database of over 2,000 US newspapers. The index requires the key words of economic, uncertainty, and policy terms as well as a set of tax policy terms.

10-K filings from 1993 to 2023. Our sample includes 12 acts, of which 7 were signed by Democratic presidents and 5 by Republican presidents (see the full list in Table OA.1). For each corporate filing, we compute the number of sentences mentioning the names of any of these 12 tax policies, scaled by the total number of sentences in the filing. Figure 4 plots the value-weighted average of firm-level references to tax laws signed by either Democratic or Republican presidents.¹⁵ Because many firms do not mention any tax laws, the aggregate measure is close to zero in many periods. However, when firms do reference specific tax laws, these mentions are likely informative about the laws' firm-level impact.

[Figure 4 about here]

Moreover, we document a striking asymmetry across political parties: Republican tax policies are cited significantly more frequently on average (see also the first column of Table 9), 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 9 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 more than six times as intense under Republican presidencies as under Democratic ones, suggesting firms are substantially more concerned about Republican tax policy during such periods.

[Table 9 about here]

We then test whether rising concerns about Republican tax policy trigger higher firm-level information uncertainty and hence stronger underreaction (see, e.g., Daniel et al.,

¹⁵Although equal-weighted averages yield a similar plot, we prefer the value-weighted measure to mitigate the influence of small firms.

1997, 2001; Zhang, 2006), and especially whether this effect is stronger for firms with greater tax policy exposure. To this end, we exploit information from option prices, as the existing literature shows that stock options, particularly at-the-money options with short maturities, contain information about forthcoming earnings releases (see, e.g., Dubinsky et al., 2019). The idea is that the prices of options before earnings announcements reflect, in an ex-ante manner, the market’s expectations of how stock prices will respond to these announcements. When a larger price reaction is anticipated, or when uncertainty surrounding the earnings information increases, implied volatility tends to rise more sharply prior to announcements. Furthermore, in connection with the presidential cycles in PEAD, we expect option-implied volatility to increase more sharply during Republican presidencies.

We develop novel firm-level measures of tax policy exposure to test whether the increase in implied volatility is stronger for firms with high tax policy exposures. While we could in principle use firm-level law-reference frequency as in Table 9, many firms have zero mentions in practice, making it infeasible to distinguish between low and high exposure. Instead, we follow Loughran and McDonald (2011) and apply a bag-of-words approach to corporate filings, searching for tax-related keywords. 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 tax keywords are $\{tax, taxes, deferred, net operating loss, net operating losses\}$. 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, winsorizing the sample at the 0.5% and 99.5% of filing length. Finally, we define the firm-level tax policy exposure as:

$$TaxExposure_{i,t} = \frac{N_{i,t}^{Tax}}{N_{i,t}^{Total}}. \quad (8)$$

To mitigate concerns that tax discussions are concentrated in a particular fiscal quarter,

we compute this measure as a moving average of the ratio over the past four fiscal quarters.

The daily option-implied volatility data are from OptionMetrics, focusing on at-the-money options with maturities between one week and six months. We weight the implied volatility of each contract by its open interest and compute the one-week change in implied volatility preceding each earnings announcement. As shown in the first two columns of Table 10, after regressing firm-level implied volatility change before earnings announcement on the Republican dummy, we find that the implied volatility does increase more sharply during Republican periods. This effect remains economically meaningful and statistically significant, regardless of whether control variables are included. Relative to Democratic periods, the magnitude of the increase in implied volatility is approximately 18% higher in proportional terms, suggesting that ex-ante valuation uncertainty rises more during Republican administrations.

Furthermore, to evaluate the effect for firms with high tax policy exposures, at the end of each month, we sort all firms into two groups based on the cross-sectional median of tax policy exposures. Firms with above-median exposure are categorized as the high-exposure group. The third through the final columns of Table 10 show that the increase in ex-ante valuation uncertainty 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. The option-based evidence implies that ex-ante uncertainty is higher when the US president is Republican, and this effect is particularly pronounced for firms that are more exposed to tax policy changes.

[Table 10 about here]

4.3 Event Study of the Tax Cuts and Jobs Act

The information uncertainty created by Republican tax policy changes may induce underreaction to the policy's firm-level effects, thereby leading to a stronger PEAD. To visualize this mechanism, we conduct an event study on a major tax policy reform enacted by the Republican President Donald Trump. The Tax Cuts and Jobs Act (TCJA), signed into law in December 2017, represents the most significant overhaul of the U.S. tax code in the past three decades.¹⁶ The TCJA took effect on January 1, 2018.

We begin with a representative firm affected by this policy change: Procter & Gamble (P&G). Historically carrying a sizable tax burden, the firm engaged in extensive discussion of TCJA's impact following the law's enactment.¹⁷ 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., Baik et al., 2016; Bratten et al., 2017). 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

¹⁶The reform permanently reduced the corporate income tax rate from 35% to 21% and exempted most foreign profits from US taxation.

¹⁷The share of sentences mentioning TCJA in P&G's corporate filings rises steadily over the four quarters following enactment: 0.08% (2018 Q2), 0.26% (2018 Q3), 0.30% (2018 Q4), and 0.41% (2019 Q1) — all large relative to market-wide discussion levels (see Figure 4). This is also reflected in filing statements, such as: "...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).

negative tax forecast errors. 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 over-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 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 measured by our text-based approach (8). 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 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 most quarters, tax (EPS) forecast errors are negative (positive). Consistently, the lower panel shows mostly positive price drifts after the policy becomes effective.¹⁸ Overall, the event study suggests that the underreaction to Republican tax policy changes contributes to both belief and price underreaction to earnings news.

[Figure 6 about here]

¹⁸In unreported analysis, we repeat the calculation for firms with low exposure to tax policy changes. The results are considerably noisier, and no clear patterns emerge for earnings surprises or price drifts.

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

$$\text{Tax policy exposure} = \frac{|\text{Tax}|}{|\text{Pretax income}|}. \quad (9)$$

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 total tax expense and total pre-tax income from prior fiscal years, employing an expanding window within each president's four-year term. To ensure sufficient data, we require at least three years of observations at the start of each presidential term.¹⁹

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 11 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 1.76% under Republican presidencies, compared to just 0.50% under Democratic presidencies. This translates to an economically and statistically significant difference of 1.26% ($t=5.42$). Meanwhile, Panel B shows that presidential cycles are much weaker among low-exposure firms, with the

¹⁹We drop observations with absolute value of pretax income below the 0.5% cross-sectional percentile to mitigate the impact of extremely low pretax income. The results are robust without this filter.

interaction term $SUE5_{i,t} \times RD_t$ shrinking to near zero and becoming statistically insignificant.

[Table 11 about here]

Finally, Panel C of Table 11 tests whether presidential cycles in PEAD are significantly stronger among high-exposure firms relative to low-exposure firms. We estimate the following regression pooling firms in the highest and lowest SUE quintiles:

$$\begin{aligned} CAR_{i,t}[2, 31] = & \alpha + \beta_0 SUE5_{i,t} + \beta_1 RD_t + \beta_2 HTAX_{i,t} + \gamma_0 SUE5_{i,t} \times RD_t + \gamma_1 RD_t \times HTAX_{i,t} \\ & + \gamma_2 SUE5_{i,t} \times HTAX_{i,t} + \theta RD_t \times SUE5_{i,t} \times HTAX_{i,t} + v_{i,t}, \end{aligned} \quad (10)$$

where $HTAX_{i,t}$ is a firm-level dummy variable indicating high tax policy exposure. We find that the triple interaction term, which captures the differential strength of presidential cycles in PEAD between high- and low-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 indeed concentrated among firms with high tax policy exposures.

5 Additional Results and Robustness

This section explores whether the presidential cycles in PEAD are resilient to the effect from other political forces. We also perform a battery of robustness checks to test whether our results are driven by specific subsamples.

5.1 Alternative political dimensions

5.1.1 President's tenure

We examine whether the observed presidential cycles in PEAD are influenced by the specific years of a president's tenure. We split the sample based on the years within a president's term from year 1 to year 4 with the fifth year counted as the first year. Then, we compare the PEAD effect under Republican and Democratic administrations. As shown in Panel A of Table [OA.6](#), across the first to the fourth year of the president's term, the immediate response ($CAR[0,1]$) is significantly weaker under Republican presidencies compared to Democratic ones. The post-announcement drift ($CAR[2,31]$) is generally stronger for Republican presidents, although not statistically significant due to fewer observations in the first two years of the president's terms.

5.1.2 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.6](#) 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 completely driven by the mid-term elections and deserves separate consideration.

5.1.3 Partisan conflict

Recent years have witnessed the increasing divided government and intensified partisan conflict, which have pronounced influences on equity premium ([Papamichalis et al., 2024](#)). We delve into two dimensions to explore whether partisan conflict influences the presidential cycles in PEAD. First, we divide the sample into periods when both the Senate and the House are controlled by the same party and when they are controlled by different parties. As shown in Panel C of Table [OA.6](#), for the periods of coherent control, the post-announcement drift (CAR[2,31]) are stronger for Republican presidents than Democratic ones. In contrast, the impact of presidential cycles on PEAD is weaker when Senate and House are controlled by different parties.

Second, we utilize the partisan conflict index from [Azzimonti \(2018\)](#) and classify periods of high (low) partisan conflict as months with above (below) median partisan conflict. Panel C of Table [OA.6](#) shows that the presidential cycles in PEAD persist in low partisan conflict periods, however, becomes insignificant during high partisan conflict periods.

Overall, the evidence in Table [OA.6](#) suggests stronger PEAD during Republican periods when policy implementation is more likely. This is broadly consistent with our tax policy uncertainty channel. While lower partisan conflict may reduce general uncertainty, it simultaneously increases the likelihood of tax reform, which can in turn heighten uncertainty about future tax policy.

5.1.4 Which president matters?

As we explore the presidential cycles in PEAD, a key question arises: Which president has the most influence on these observed cycles? Our full sample, spanning from 1984 to 2023, includes ten presidential terms across seven presidents. In this section, we investigate whether our results are disproportionately influenced by any one or two presidents. To do so, we repeat the pooled regression analysis, systematically excluding one presi-

dent 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.7 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 the PEAD effect are a broad and consistent phenomenon, not attributable to the influence of any specific president.

5.2 Investor inattention and distraction

5.2.1 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 completely attributable to investors’ inattention on Fridays.

5.2.2 High number of announcements 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.

5.3 Presidential cycles over longer horizons

Even though investors exhibit a stronger underreaction to earnings news during Republican presidencies, the mispricing will gradually be corrected as new information is incorporated into the stock price. Much of the correction may occur within the next one or two earnings announcements. To assess how long the presidential difference in post-earnings announcement drift persists, we analyze the post-earnings announcement drift over multiple horizons, from 30 to 120 trading days following announcements. Table OA.9 shows that the correction does not begin immediately; it becomes marginally significant only within the first 15 trading days after the announcement ($t = 3.22$) in the regression of $CAR[2,15]$. The cross-regime difference in drift become significant around 30 days after the announcement ($CAR[2,31]$) and reach a plateau by 45 days with the coefficient on $SUE_{Rank} \times RD$ being 0.10 ($t = 2.23$). Beyond this period, the difference in post-earnings announcement drift diminishes over longer horizons, becoming small and statistically insignificant by 60 trading days after the earnings announcement. Notably, apart from the initial 30-day period, the cumulative presidential effect (the coefficient on $SUE_{Rank} \times RD$) as a percentage of the drift (the coefficient on SUE_{Rank}) is monotonically decreasing over time as we expand the horizon from 45 days to 90 days. This accords well with the previous results that investors underreact more when a Republican is in

office, and the mispricing due to such underreaction eventually will be corrected.

5.4 Alternative earnings surprise measures

In this part, we examine the robustness of presidential cycles in PEAD using alternative earnings surprise measures. 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:

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

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. (5). Table [OA.10](#) shows that the results remain similar when using this alternative measure of earnings surprise. The initial response (CAR[0,1]) weakens significantly while post-announcement drift (CAR[2,31]) is stronger during Republican eras than Democratic ones. Hence, the impacts of presidential cycles on PEAD are not due to any particular measure of standardized unexpected earnings.

6 Conclusion

In this paper, we document novel presidential cycles in post-earnings announcement drift (PEAD): it earns an average annualized return of 4.1% during Democratic presidencies but surges significantly to 14.9% under Republican administrations. By analyzing price responses to earnings news, we find that investors' announcement date reactions to earnings news weaken substantially during Republican eras, whereas post-

announcement drift is much stronger under Republican presidencies. Such presidential cycles are more pronounced among non-microcap firms, and are not driven by existing explanations of PEAD and remains significant among extensive robustness tests. Survey evidence also suggests a stronger belief underreaction during Republican eras.

The stronger underreaction likely arises from exposure to tax policy changes. Consistently, we find that the tax component of firm earnings is significantly more volatile during Republican periods. Firms reference Republican tax laws more frequently in their corporate filings, particularly during Republican administrations. Option-implied volatility also increases more sharply prior to earnings announcements for firms with greater exposure to tax policy changes. Accordingly, presidential cycles in PEAD are concentrated among firms with high tax policy exposure.

Appendix

Table A.1: Variable definitions

This table describes the constructions of the variables used in this paper.

Variable	Definition
<u>Main variables</u>	
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.
<u>Firm characteristics</u>	
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 (<i>Illiq</i>)	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 (<i>BM</i>)	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 French, 1992)
Momentum (<i>MOM</i>)	Cumulative return of a stock over an 11-month window ending one month before the portfolio formation.
<u>Macro controls</u>	
Dividend price ratio (<i>DP</i>)	Difference between the log of dividends and the log of prices. Goyal et al. (2024)
Dividend yield (<i>DY</i>)	Difference between the log of dividends and the log of lagged prices. Goyal et al. (2024)
Earnings price ratio (<i>EP</i>)	Difference between log of earnings and log of prices. Goyal et al. (2024)
Dividend payout ratio (<i>DE</i>)	Difference between log of dividends and log of earnings. Goyal et al. (2024)
Term spread (<i>TMS</i>)	Difference between the long term yield on government bonds and the T-bill. Goyal et al. (2024)
Long term rate of return (<i>LTY</i>)	Long term government bond yields. Goyal et al. (2024)
Default yield spread (<i>DFS</i>)	Difference between BAA- and AAA- rated corporate bond yields. Goyal et al. (2024)
Inflation (<i>INFL</i>)	Consumer Price Index (All Urban Consumers) from the Bureau of Labor Statistics. Goyal et al. (2024)
Unemployment (<i>UNPR</i>)	Unemployment rate from the Bureau of Labor Statistics.
Industrial production (<i>IP</i>)	Log growth in Industrial Production index.
<u>Earnings component</u>	
Operating income after depreciation (<i>OIADP</i>)	Compustat item oiadpq scale by market capitalization of the fiscal quarter.
Interest expense (<i>XINT</i>)	Compustat item xintq scale by market capitalization of the fiscal quarter.
Special item (<i>SPI</i>)	Compustat item spiq scale by market capitalization of the fiscal quarter.
Non-operating income (<i>NOPI</i>)	Compustat item nopiq scale by market capitalization of the fiscal quarter.
Tax expense (<i>TAX</i>)	Compustat item txtq scale by market capitalization of the fiscal quarter.
Minority interest (<i>MII</i>)	Compustat item miiq scale by market capitalization of the fiscal quarter.
Dividend payout (<i>DVP</i>)	Compustat item dvpq scale by market capitalization of the fiscal quarter.
Extraordinary item (<i>XI</i>)	Compustat item xiq scale by market capitalization of the fiscal quarter.

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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	4.80 (92.12)	4.99 (70.70)	1.22 (15.85)	0.92 (8.44)		
$SUE_5 \times RD$		-0.40 (-3.84)		0.64 (4.18)		
SUE_{Rank}					1.24 (74.42)	0.23 (9.80)
$SUE_{Rank} \times RD$					-0.08 (-3.42)	0.13 (3.90)
RD		0.23 (3.44)		-0.27 (-2.42)	0.25 (3.19)	-0.30 (-2.72)
Constant	-2.32 (-33.25)	-2.43 (-31.59)	-0.39 (-3.01)	-0.26 (-1.85)	-3.63 (-54.78)	-0.64 (-5.64)
Adjusted R^2	0.11	0.11	0.01	0.01	0.07	0.01
Obs.	113,831	113,831	113,498	113,498	288,889	287,898

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. Daily portfolio returns include average excess returns, abnormal returns adjusted by [Fama and French \(2015\)](#) and DGTW characteristic-adjusted returns (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	4.97 (1.36)	7.11 (2.36)	8.62 (2.87)	11.36 (3.52)	14.76 (4.03)	9.78 (4.40)
α_{FF5}	-4.16 (-2.41)	-1.96 (-1.76)	0.48 (0.43)	2.56 (2.02)	4.61 (2.88)	8.77 (4.10)
DGTW	-0.68 (-0.49)	-1.66 (-1.70)	-0.80 (-0.84)	1.99 (1.96)	3.52 (2.46)	4.20 (2.15)
Panel B: Democratic						
Excess	12.14 (2.42)	11.11 (2.75)	10.75 (2.52)	13.63 (3.24)	16.27 (3.37)	4.13 (1.31)
α_{FF5}	-2.42 (-0.92)	-1.91 (-1.17)	-1.17 (-0.68)	0.65 (0.36)	1.09 (0.48)	3.51 (1.02)
DGTW	1.88 (0.82)	-1.76 (-1.18)	-1.91 (-1.32)	1.49 (0.95)	1.67 (0.90)	-0.20 (-0.07)
Panel C: Republican						
Excess	-1.49 (-0.28)	3.50 (0.78)	6.71 (1.65)	9.32 (2.08)	13.39 (2.55)	14.88 (4.71)
α_{FF5}	-5.72 (-2.45)	-2.00 (-1.34)	1.97 (1.32)	4.28 (2.57)	7.79 (3.35)	13.51 (4.65)
DGTW	-2.99 (-1.75)	-1.57 (-1.22)	0.20 (0.16)	2.44 (1.75)	5.19 (2.40)	8.17 (3.12)
Panel D: Republican – Democratic						
Excess	-13.63 (-1.86)	-7.60 (-1.32)	-4.04 (-0.67)	-4.31 (-0.71)	-2.87 (-0.39)	10.76 (2.32)
α_{FF5}	-3.30 (-0.95)	-0.09 (-0.04)	3.14 (1.36)	3.63 (1.47)	6.70 (1.97)	10.01 (2.19)
DGTW	-4.86 (-1.74)	0.19 (0.10)	2.11 (1.10)	0.95 (0.45)	3.51 (1.21)	8.38 (2.15)

Table 3: Presidential cycles in PEAD: Non-microcap firms

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 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	4.75 (53.27)	0.63 (4.44)		
$SUE_5 \times RD$	-0.71 (-5.71)	0.60 (3.12)		
SUE_{Rank}			1.26 (60.66)	0.18 (6.09)
$SUE_{Rank} \times RD$			-0.16 (-5.47)	0.12 (3.07)
RD	0.44 (5.42)	-0.32 (-2.19)	0.49 (5.42)	-0.29 (-2.20)
Constant	-2.42 (-25.21)	0.13 (0.73)	-3.70 (-47.80)	-0.36 (-2.82)
Adjusted R^2	0.10	0.01	0.06	0.01
Obs.	70,540	70,487	231,958	231,532

Table 4: Presidential cycles in PEAD: Control for other 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	6.82 (41.22)	0.86 (3.03)		
$SUE_5 \times RD$	-0.29 (-2.95)	0.65 (4.15)		
SUE_{Rank}			1.75 (46.19)	0.23 (3.72)
$SUE_{Rank} \times RD$			-0.06 (-2.74)	0.13 (3.70)
RD	0.22 (3.30)	-0.23 (-2.06)	0.24 (3.17)	-0.36 (-3.11)
Controls	Y	Y	Y	Y
interacted with SUE	Y	Y	Y	Y
Constant	-3.98 (-9.81)	-0.23 (-0.27)	-6.38 (-23.01)	0.26 (0.46)
Adjusted R^2	0.12	0.01	0.08	0.01
Obs.	111,683	111,499	283,932	283,233

Table 5: Presidential cycles in 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 (-19.04)	1.13 (23.61)	-0.86 (-9.67)	2.03 (34.12)	1.19 (16.17)	0.90 (19.76)
Democratic	-1.46 (-9.63)	0.98 (14.26)	-0.50 (-3.95)	1.79 (21.10)	0.96 (9.07)	0.81 (12.35)
Republican	-2.59 (-17.87)	1.26 (19.29)	-1.18 (-9.79)	2.24 (27.67)	1.40 (13.88)	0.98 (15.59)
REP – DEM	-1.12 (-5.34)	0.28 (2.96)	-0.68 (-3.89)	0.45 (3.79)	0.44 (3.01)	0.16 (1.80)

Table 6: 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 control variables, their interaction with RD, 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.

	Low and High SUE groups		Full sample	
	(1)	(2)	(3)	(4)
FR $\times$ RD	0.13 (3.38)	0.13 (3.43)	0.08 (2.43)	0.08 (2.34)
FR	0.07 (3.22)	0.05 (2.45)	0.07 (4.22)	0.06 (3.35)
FE _{lag} $\times$ RD	0.01 (0.31)	0.01 (0.09)	0.02 (0.85)	0.02 (0.58)
FE _{lag}	0.19 (13.85)	0.18 (11.97)	0.20 (14.88)	0.19 (13.04)
RD	-0.01 (-5.91)	0.01 (2.42)	-0.01 (-7.32)	0.01 (2.85)
Controls	N	Y	N	Y
Interacted with RD	N	Y	N	Y
Constant	-0.01 (-4.21)	-0.03 (-16.26)	-0.01 (-4.35)	-0.02 (-20.84)
Adjusted R^2	0.06	0.07	0.05	0.07
Obs	86,920	78,497	238,310	216,855

Table 7: Variance decomposition of earnings component

This table reports the cross-sectional variance decomposition of actual earnings based on the identity in Eq. (8). 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	63.95 (27.42)	63.52 (28.98)	64.33 (16.91)
(-)XINT	4.94 (5.79)	4.28 (4.67)	5.53 (4.04)
SPI	37.73 (24.67)	41.31 (19.78)	34.47 (16.62)
NOPI	5.52 (6.18)	4.37 (6.40)	6.57 (4.10)
(-)TAX	-15.72 (-11.88)	-15.25 (-9.40)	-16.14 (-8.44)
Other	3.59 (5.68)	1.77 (3.01)	5.24 (5.35)

Table 8: Presidential cycles 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 and Democratic presidencies. Then, we test the presidential differences of each component. Newey-west t-values are reported in parentheses. The sample period is 1984:01 – 2023:12.

<u>Panel A: Standard deviation</u>				
Component	OIADP	TAX	SPI	RES
RD	2.19	5.05	-0.28	-0.05
	(1.52)	(3.50)	(-0.19)	(-0.04)
Obs	19,463	19,499	19,304	19,273
<u>Panel B: Mean absolute values</u>				
Component	OIADP	TAX	SPI	RES
RD	0.95	4.79	0.58	1.13
	(0.66)	(3.32)	(0.40)	(0.78)
Obs	19,463	19,499	19,304	19,273

Table 9: 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 10: 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	0.37	0.39	0.52	0.53	0.21	0.24
	(2.23)	(2.37)	(3.01)	(3.02)	(1.22)	(1.40)
Constant	2.06	2.19	2.12	1.93	2.01	2.41
	(10.07)	(8.78)	(9.19)	(6.49)	(8.14)	(8.44)
Controls	N	Y	N	Y	N	Y
Adjusted R^2	0.03	0.04	0.03	0.04	0.03	0.03
Obs	92,120	89,279	45,853	44,765	45,662	43,937

Table 11: 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 one (zero) for top (bottom) earnings quintile. 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 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
$SUE_5 \times RD$	1.07 (3.71)	1.26 (5.42)	$SUE_5 \times RD$	0.18 (0.63)	-0.11 (-0.47)
SUE_5	-0.27 (-0.51)	0.50 (1.09)	SUE_5	1.70 (3.12)	1.15 (2.68)
RD	-0.52 (-2.54)	-0.46 (-2.72)	RD	-0.21 (-0.95)	0.09 (0.50)
Constant	-3.22 (-1.43)	-1.36 (-1.13)	Constant	-4.42 (-1.70)	-0.01 (-0.01)
Adjusted R^2	0.01	0.01	Adjusted R^2	0.01	0.01
Obs	31,202	45,561	Obs	36,815	49,974

Panel C: Triple interaction		
	Text	Accounting
$SUE_5 \times HTAX \times RD$	0.89 (2.26)	1.40 (4.40)
$SUE_5 \times HTAX$	-0.30 (-1.15)	-0.62 (-2.81)
$SUE_5 \times RD$	0.15 (0.54)	-0.18 (-0.76)
$HTAX \times RD$	-0.33 (-1.15)	-0.69 (-2.97)
SUE_5	1.09 (5.77)	1.37 (8.38)
HTAX	0.14 (0.74)	0.58 (3.42)
RD	-0.20 (-0.92)	0.18 (0.96)
Constant	-4.56 (-2.54)	-1.27 (-1.38)
Adjusted R^2	0.01	0.01
Obs	68,017	95,535

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.

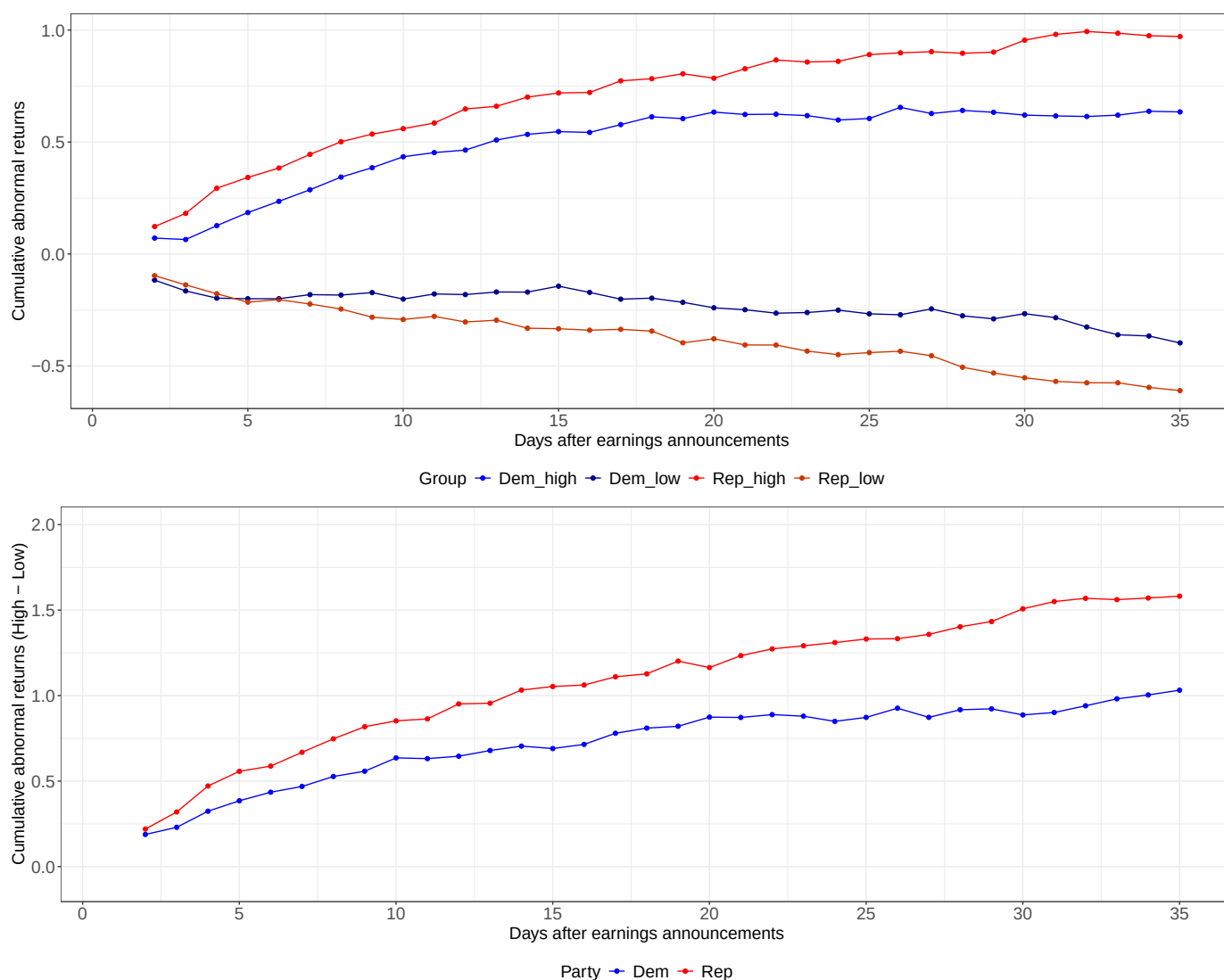


Figure 2: SUE spread portfolio: Cumulative performance

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.

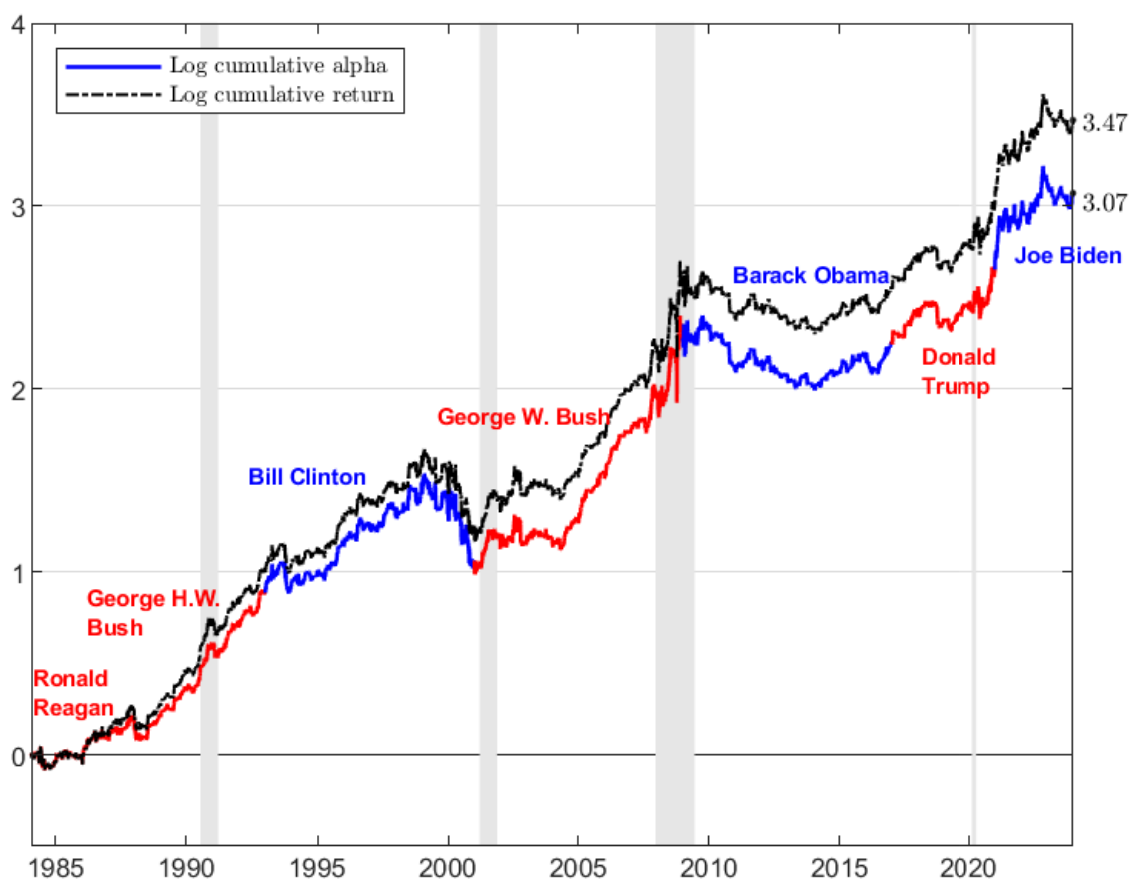


Figure 3: Presidential dependence of tax policy uncertainty

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.

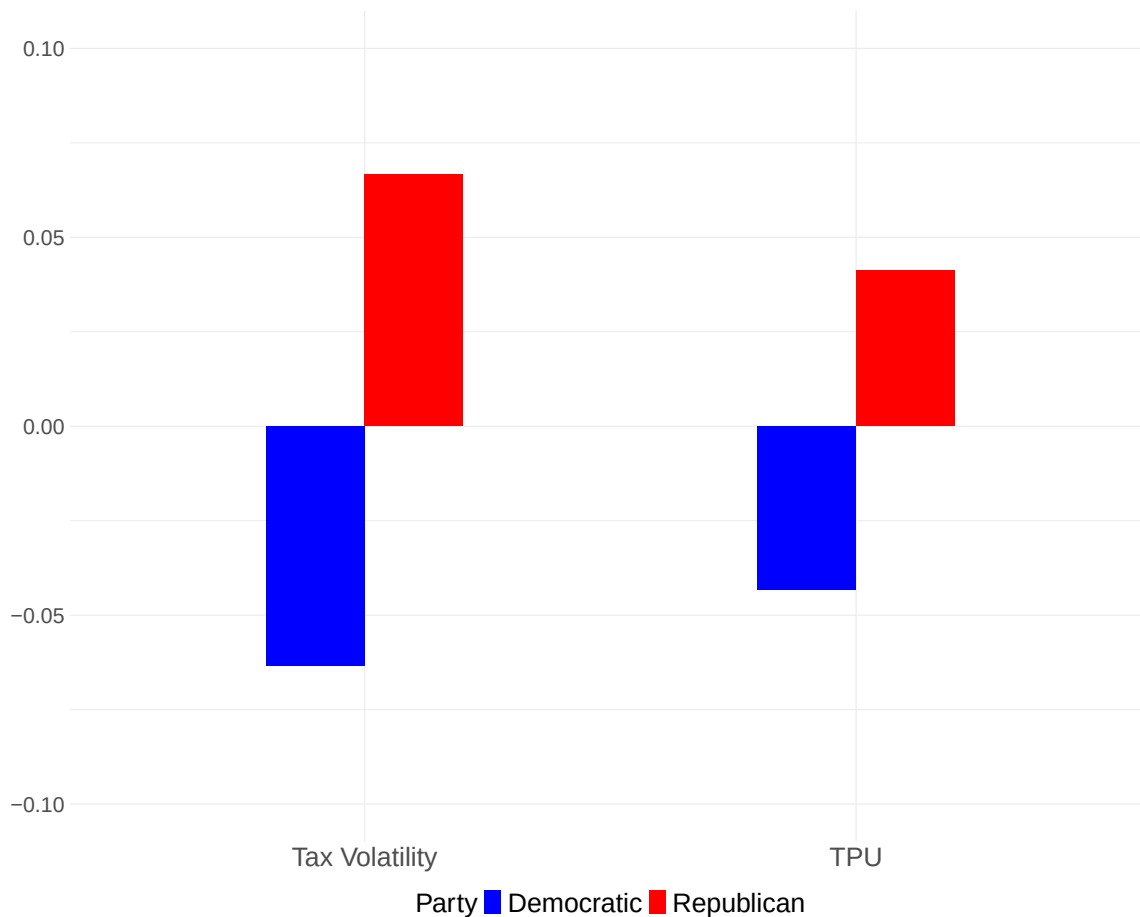


Figure 4: Tax policy by presidential party

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.

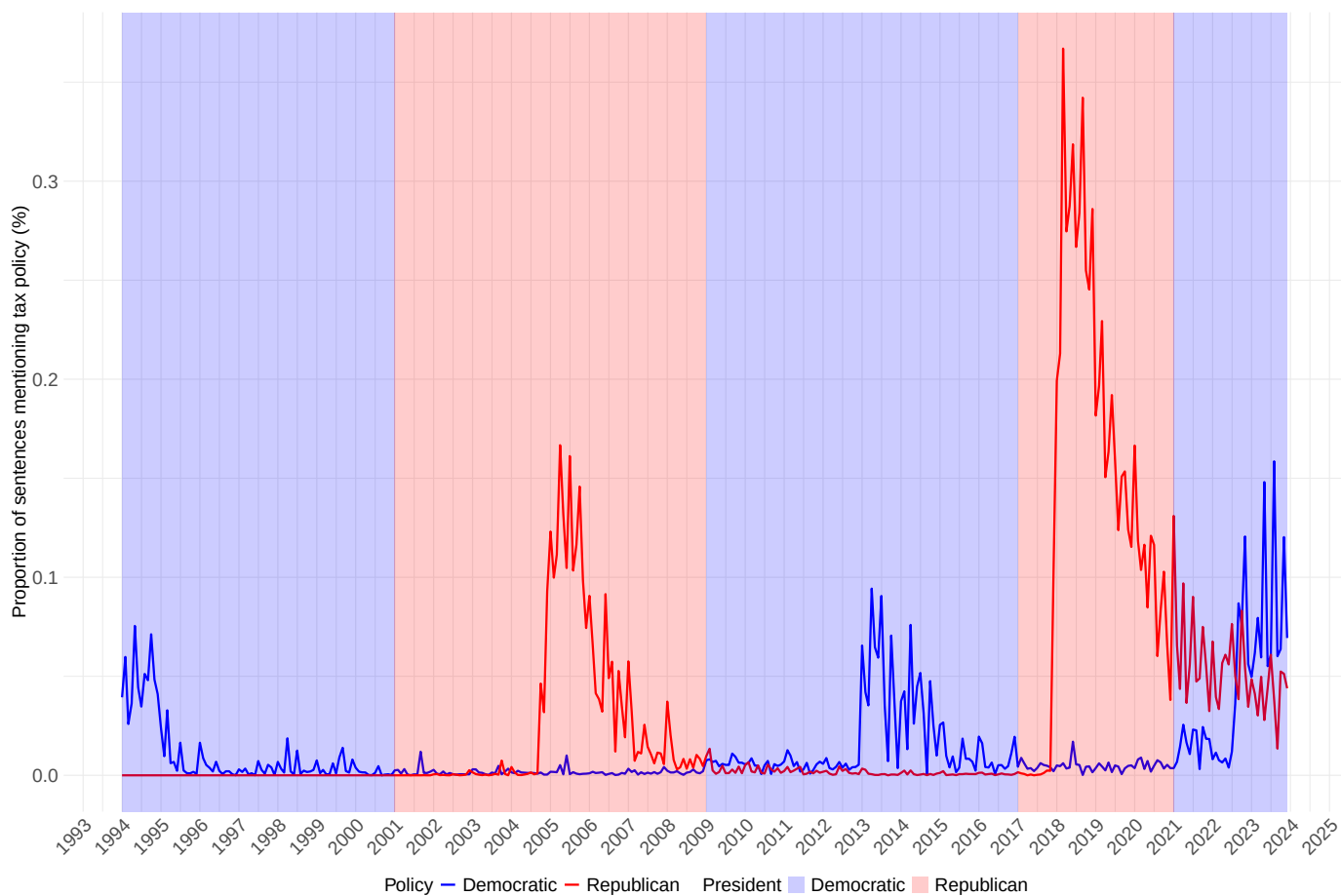


Figure 5: Event study of TCJA: example from P&G

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]).

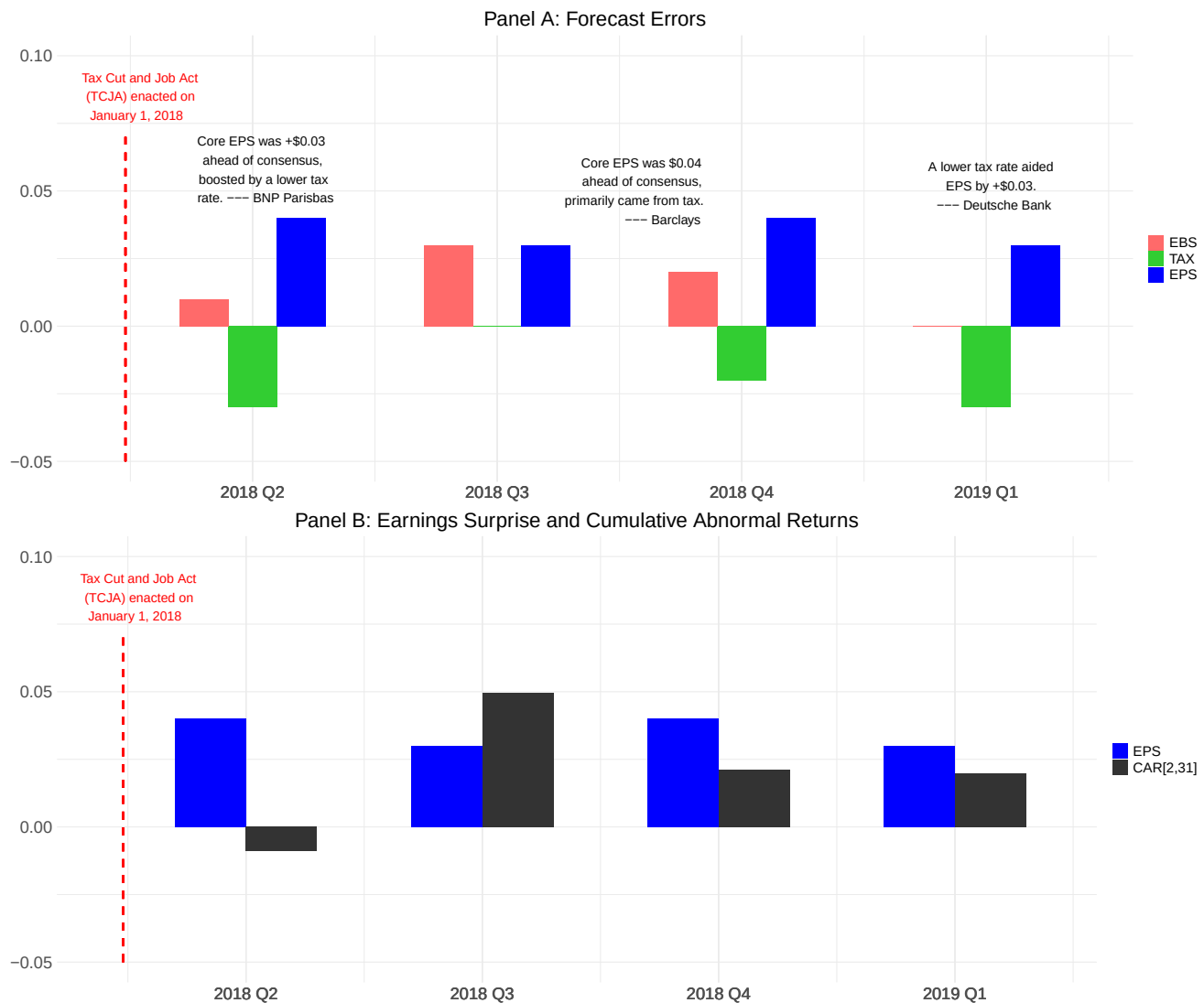
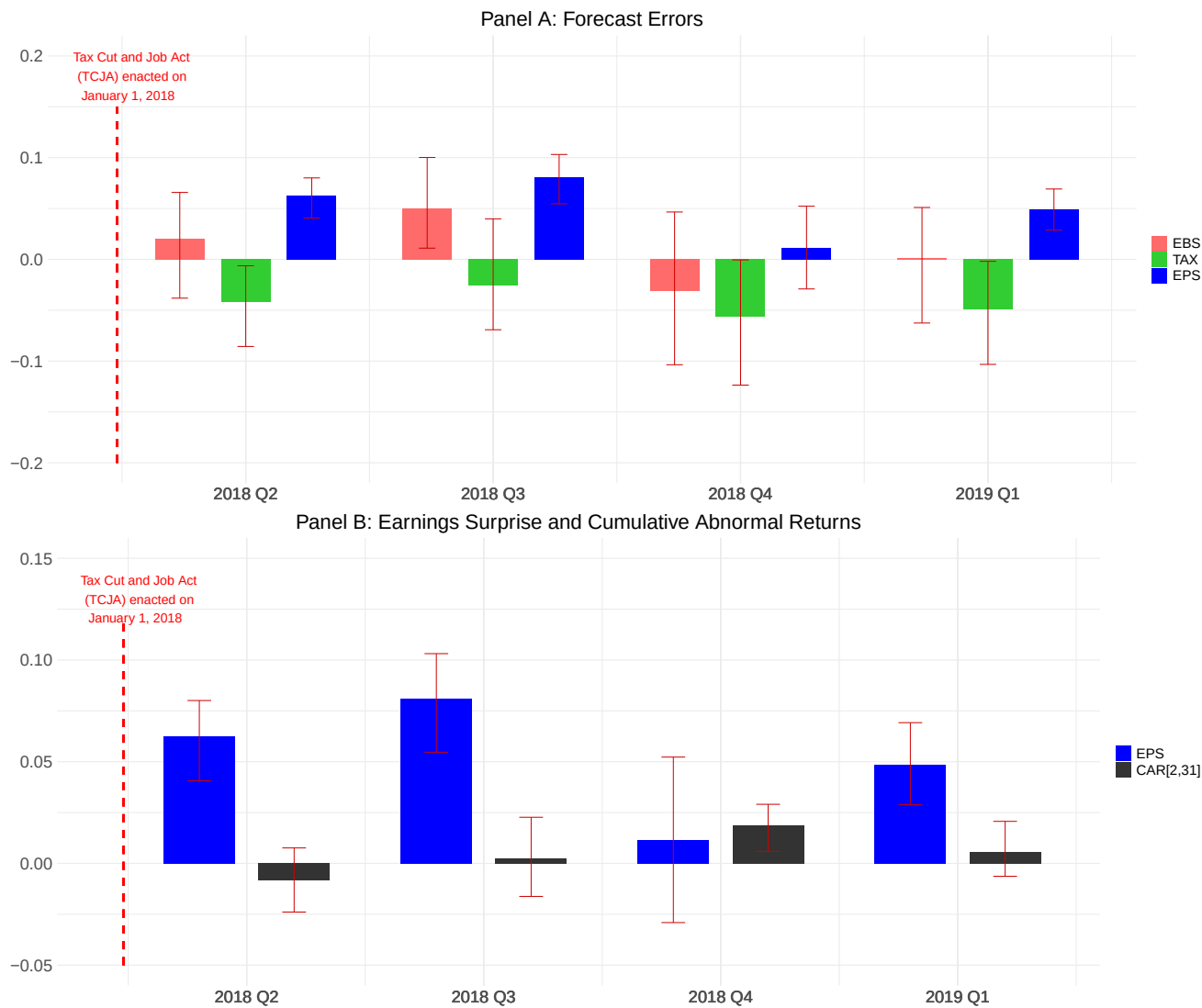


Figure 6: Event study of TCJA: firms with high tax exposures

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 filings 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

¹The files can be downloaded at <https://sraf.nd.edu/>

Table OA.2: Presidential cycles in PEAD: Calendar portfolio – alternative settings

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. Daily portfolio returns include abnormal returns adjusted by CAPM model and [Hou et al. \(2014\)](#) Q-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						
α_{CAPM}	-4.98 (-2.70)	-1.60 (-1.47)	-0.19 (-0.16)	2.27 (1.85)	5.09 (3.03)	10.08 (4.41)
α_{HXZ}	-2.55 (-1.41)	-1.76 (-1.54)	-0.13 (-0.11)	2.53 (1.95)	5.22 (3.22)	7.77 (3.41)
Panel B: Democratic						
α_{CAPM}	-2.50 (-0.95)	-1.69 (-1.00)	-2.21 (-1.23)	0.26 (0.15)	2.06 (0.86)	4.56 (1.32)
α_{HXZ}	-0.51 (-0.19)	-1.82 (-1.06)	-1.90 (-1.07)	0.54 (0.30)	1.84 (0.78)	2.35 (0.69)
Panel C: Republican						
α_{CAPM}	-7.22 (-2.84)	-1.51 (-1.00)	1.63 (1.07)	4.08 (2.53)	7.83 (3.35)	15.05 (5.01)
α_{HXZ}	-4.39 (-1.83)	-1.71 (-1.12)	1.48 (0.97)	4.32 (2.51)	8.27 (3.41)	12.66 (3.91)
Panel D: Republican – Democratic						
α_{CAPM}	-4.73 (-1.29)	0.18 (0.08)	3.84 (1.67)	3.82 (1.54)	5.77 (1.62)	10.49 (2.27)
α_{HXZ}	-3.88 (-1.11)	0.11 (0.05)	3.38 (1.46)	3.78 (1.61)	6.43 (1.82)	10.30 (2.25)

Table OA.3: Presidential cycles in PEAD: Time series regression

This table reports the results of predicting the returns of PEAD spread portfolio using Republican dummy as:

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

RD is the Republican dummy which equals to one (zero) during Republican (Democratic) presidency periods. Portfolio returns are calculated as the monthly cumulative of calendar portfolio returns. Control variables 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: $H_0 : R^2_{OS} \leq 0$ against $H_A : R^2_{OS} > 0$. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. All portfolios are rebalanced at a monthly frequency. The sample period is 1984:01 – 2023:12 and the out-of-sample period is 2000:01 – 2023:12.

	Value-weighted		Equal-weighted	
	(1)	(2)	(3)	(4)
β	10.58	9.82	6.78	6.39
t -value	(2.68)	(2.56)	(2.63)	(2.45)
R^2	1.51	2.17	1.38	2.56
R^2_{OS}	1.69***		1.43***	
Controls	N	Y	N	Y

Table OA.4: 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 in Eq. (8) 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 (50.31)	113.62 (46.40)	404.82 (33.03)
(-)XINT	1.25 (1.02)	-0.21 (-0.19)	2.57 (1.29)
NOPI	8.03 (6.42)	5.86 (3.43)	9.98 (5.18)
(-)TAX	-21.55 (-16.70)	-20.04 (-11.49)	-22.92 (-13.85)
Others	3.28 (3.65)	0.77 (0.60)	5.55 (4.81)
Coverage	63%	61%	66%

Table OA.5: 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	7.08 (26.30)	1.19 (3.18)		
$SUE_5 \times RD$	-0.33 (-2.40)	0.47 (2.35)		
SUE_{Rank}			1.79 (30.41)	0.30 (3.71)
$SUE_{Rank} \times RD$			-0.07 (-2.31)	0.11 (2.58)
RD	0.16 (1.71)	-0.17 (-1.17)	0.16 (1.62)	-0.24 (-1.62)
Controls	Y	Y	Y	Y
interacted with SUE	Y	Y	Y	Y
Constant	-3.29 (-18.10)	0.05 (0.16)	-4.96 (-27.11)	-0.42 (-1.46)
Adjusted R^2	0.11	0.01	0.08	0.01
Obs.	65,492	64,117	168,395	165,876

Table OA.6: 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 of the president's term					
<u>Year = 1</u>					
$SUE_5 \times RD$	-0.53 (-2.78)	0.11 (0.36)	$SUE_{Rank} \times RD$	-0.13 (-2.95)	-0.01 (-0.11)
Obs.	27,805	27,749		70,705	70,532
<u>Year <= 2</u>					
$SUE_5 \times RD$	-0.23 (-1.75)	0.24 (1.18)	$SUE_{Rank} \times RD$	-0.06 (-1.87)	0.03 (0.59)
Obs.	56,495	56,382		143,966	143,605
<u>Year <= 3</u>					
$SUE_5 \times RD$	-0.24 (-2.14)	0.66 (3.84)	$SUE_{Rank} \times RD$	-0.05 (-1.84)	0.11 (2.94)
Obs.	84,570	84,420		215,321	214,786
<u>Year <= 4</u>					
$SUE_5 \times RD$	-0.29 (-2.95)	0.65 (4.16)	$SUE_{Rank} \times RD$	-0.06 (-2.75)	0.12 (3.66)
Obs.	111,728	111,542		284,011	283,311

	CAR[0,1]	CAR[2,31]		CAR[0,1]	CAR[2,31]
<u>Panel B: Mid-term elections</u>					
<u>Post mid-term election periods</u>					
$SUE_5 \times RD$	-0.25 (-0.97)	1.70 (3.73)	$SUE_{Rank} \times RD$	-0.03 (-0.50)	0.31 (3.17)
Obs.	10,504	10,488		26,573	26,513
<u>Other months</u>					
$SUE_5 \times RD$	-0.30 (-2.87)	0.53 (2.98)	$SUE_{Rank} \times RD$	-0.07 (-2.76)	0.10 (2.87)
Obs.	101,224	101,054		257,438	256,798
<u>Panel C: Partisan conflict</u>					
<u>Senate and House controlled by the same party</u>					
$SUE_5 \times RD$	0.22 (1.94)	0.89 (4.98)	$SUE_{Rank} \times RD$	0.07 (2.47)	0.18 (4.64)
Obs.	83,407	83,309		212,055	211,499
<u>Senate and House controlled by different parties</u>					
$SUE_5 \times RD$	-1.88 (-8.91)	0.05 (0.14)	$SUE_{Rank} \times RD$	-0.47 (-9.73)	0.01 (0.14)
Obs.	28,321	28,233		71,956	71,812
<u>High partisan conflict periods</u>					
$SUE_5 \times RD$	-0.78 (-5.24)	0.11 (0.47)	$SUE_{Rank} \times RD$	-0.22 (-6.31)	0.02 (0.32)
Obs.	53,740	53,671		137,083	136,855
<u>Low partisan conflict periods</u>					
$SUE_5 \times RD$	0.57 (4.42)	0.79 (3.31)	$SUE_{Rank} \times RD$	0.16 (5.38)	0.13 (2.54)
Obs.	57,988	57,871		146,928	146,456

Table OA.7: Presidential cycles in PEAD: Which president matters

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]
<u>Exclude Ronald Reagan</u>					
$SUE_5 \times RD$	0.13 (1.31)	0.69 (4.19)	$SUE_{Rank} \times RD$	0.04 (1.82)	0.13 (3.55)
Obs.	104,985	104,985		267,030	266,366
<u>Exclude George H.W. Bush</u>					
$SUE_5 \times RD$	-0.06 (-0.53)	0.59 (3.57)	$SUE_{Rank} \times RD$	0.01 (0.06)	0.10 (2.91)
Obs.	102,514	102,307		260,855	260,204
<u>Exclude Bill Clinton first term</u>					
$SUE_5 \times RD$	-0.67 (-6.26)	0.71 (4.10)	$SUE_{Rank} \times RD$	-0.16 (-6.28)	0.15 (3.92)
Obs.	99,328	99,159		252,755	252,180
<u>Exclude Bill Clinton second term</u>					
$SUE_5 \times RD$	-0.56 (-5.28)	0.67 (4.16)	$SUE_{Rank} \times RD$	-0.13 (-5.22)	0.14 (3.96)
Obs.	97,269	97,112		247,365	246,823
<u>Exclude George W. Bush first term</u>					
$SUE_5 \times RD$	-0.13 (-1.19)	0.56 (3.39)	$SUE_{Rank} \times RD$	-0.03 (-1.01)	0.12 (3.16)
Obs.	98,925	98,764		251,608	250,976
<u>Exclude George W. Bush second term</u>					
$SUE_5 \times RD$	-0.84 (-8.16)	0.43 (2.54)	$SUE_{Rank} \times RD$	-0.21 (-9.01)	0.08 (2.24)
Obs.	98,476	98,318		250,138	249,506

	CAR[0,1]	CAR[2,31]		CAR[0,1]	CAR[2,31]
<u>Exclude Barack Obama first term</u>					
$SUE_5 \times RD$	-0.01 (-0.01)	0.62 (3.71)	$SUE_{Rank} \times RD$	0.01 (0.58)	0.11 (3.07)
Obs.	99,663	99,497		253,499	252,850
<u>Exclude Barack Obama second term</u>					
$SUE_5 \times RD$	0.01 (0.13)	0.55 (3.27)	$SUE_{Rank} \times RD$	0.01 (0.37)	0.10 (2.57)
Obs.	100,166	100,008		254,157	253,517
<u>Exclude Donald Trump</u>					
$SUE_5 \times RD$	-0.65 (-6.29)	0.97 (5.96)	$SUE_{Rank} \times RD$	-0.14 (-5.88)	0.19 (5.53)
Obs.	100,524	100,351		255,191	254,539
<u>Exclude Joe Biden</u>					
$SUE_5 \times RD$	-0.22 (-2.23)	0.70 (4.32)	$SUE_{Rank} \times RD$	-0.05 (-2.14)	0.13 (3.70)
Obs.	103,702	103,549		263,501	262,838

Table OA.8: Robustness: Subsample analysis

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]
<u>Panel A: Friday vs. Non-Friday</u>					
<u>Friday</u>					
$SUE_5 \times RD$	-0.55 (-2.05)	0.95 (1.96)	$SUE_{Rank} \times RD$	-0.13 (-2.10)	0.22 (2.02)
Obs.	10,078	10,042		22,748	22,647
<u>Non-Friday</u>					
$SUE_5 \times RD$	-0.22 (-2.15)	0.61 (3.69)	$SUE_{Rank} \times RD$	-0.05 (-1.96)	0.11 (3.15)
Obs.	101,650	101,500		261,263	260,664
<u>Panel B: Number of announcement on announcement day</u>					
<u>High number of announcement</u>					
$SUE_5 \times RD$	-0.26 (-1.97)	0.64 (2.96)	$SUE_{Rank} \times RD$	-0.06 (-2.07)	0.12 (2.46)
Obs.	62,913	62,734		156,385	155,913
<u>Low number of announcement</u>					
$SUE_5 \times RD$	-0.32 (-2.34)	0.65 (2.92)	$SUE_{Rank} \times RD$	-0.06 (-2.03)	0.13 (2.74)
Obs.	48,829	48,822		127,658	127,430

Table OA.9: 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_{Rank} is the earnings surprise rank ($SUE_{Rank}=1$: lowest, 5: highest) and 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]
	(1)	(2)	(3)	(4)
SUE_{Rank}	0.21 (4.96)	0.23 (9.80)	0.27 (3.33)	0.34 (3.56)
$SUE_{Rank} \times RD$	0.07 (3.22)	0.13 (3.90)	0.10 (2.23)	0.02 (0.40)
RD	-0.20 (-2.58)	-0.30 (-2.72)	-0.33 (-1.78)	-0.26 (-0.71)
Controls	Y	Y	Y	Y
interacted with				
SUE_{Rank}	Y	Y	Y	Y
Constant	-0.27 (-1.75)	-0.64 (-5.64)	-0.25 (-0.88)	-0.63 (-1.92)
Adjusted R^2	0.01	0.01	0.01	0.01
Obs.	283,573	287,898	282,827	282,241

Table OA.10: 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 (38.14)	0.57 (1.99)		
$SUE_5 \times RD$	-0.26 (-2.69)	0.45 (3.03)		
SUE_{Rank}			1.65 (41.12)	0.19 (3.03)
$SUE_{Rank} \times RD$			-0.04 (-1.77)	0.08 (2.54)
RD	0.22 (3.26)	-0.25 (-2.26)	0.14 (1.78)	-0.21 (-1.80)
Controls	Y	Y	Y	Y
interacted with SUE	Y	Y	Y	Y
Constant	-3.54 (-26.24)	-0.14 (-0.57)	-4.73 (-35.10)	-0.41 (-1.78)
Adjusted R^2	0.13	0.01	0.07	0.01
Obs.	105,488	105,461	265,113	264,489