



On the influence of expectations over international stock returns and macroeconomic variables

Carlos Pinho,^a Mara Madaleno,^a

a. GOVCOPP -- Unidade de Investigação em Governança, Competitividade e
Políticas Públicas

DEGEI - Departamento de Economia Gestão e Engenharia Industrial
Universidade de Aveiro

Campus Universitário de Santiago, 3810-193 Aveiro, Portugal

Abstract: Using confidence and economic variables, expressed by industrial production and stock returns dynamic index information flows are analyzed. Using quarterly data through a Vector Autoregressive procedure, it is showed that stock returns only respond contemporaneously to their own shocks, while leading to strong and significant responses of confidence and industrial production variables. From the eight countries sample, only on three it was found a business confidence index more closely related to industrial production. While most of previous literature concentrates on the relation between consumer confidence, the economy and financial markets, our results suggest stronger relations of the last two variables with business confidence indices as evidenced by higher percentages of uncertainty explained. Moreover, for countries with more market integrity (more informational efficient) results indicate that the impact of confidence on share prices is lower for longer periods. Empirical findings reveal that business confidence turns clearer the existent difference between more or less informational efficient markets in terms of quicker market news incorporation, which are important for financial and macroeconomic policy designs.

JEL classification: C32; E23; F43; G12; G14; G15; O11; O57

Keywords: Consumer and Business Confidence, Economic Uncertainty and Growth, Industrial Production, Investment, Multivariate Time Series (VAR), Stock Prices
