

The Fefe Indices: The Direction of Donal Trump's Tweets Effect on the Stock Market

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Abstract : An increasing amount of research demonstrates how market mood affects financial markets, but their primary goal is to demonstrate how Trump's tweets impacted US interest rate volatility. Following that lead, this work evaluates the effect that Trump's tweets had during his presidency on local and international stock markets, considering not just volatility but the direction of the movement. Three indexes for Trump's tweets were created relating his activity with movements in the S&P500 using natural language analysis and machine learning algorithms. The indexes consider Trump's tweet activity and the positive or negative market sentiment they might inspire. The first explores the relationship between tweets generating negative movements in the S&P500; the second explores positive movements, while the third explores the difference between up and down movements. A pseudo-investment strategy using the indexes produced statistically significant above-average abnormal returns. The findings also showed that the pseudo strategy generated a higher return in the local market if applied to intraday data. However, only a negative market sentiment caused this effect on daily data. These results suggest that the market reacted primarily to a negative idea reflected in the negative index. In the international market, it is not possible to identify a pervasive effect. A rolling window regression model was also performed. The result shows that the impact on the local and international markets is heterogeneous, time-changing, and differentiated for the market sentiment. However, the negative sentiment was more prone to have a significant correlation most of the time.

Keywords : market sentiment, Twitter market sentiment, machine learning, natural dialect analysis

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