Uncertainty Strengthens the Effects of Media Content in the Stock Market

In this paper, I analyse whether the level of uncertainty in financial markets affects the previously demonstrated relationship between media content and stock market outcomes. Using textual data of the New York Times stock market column ``Financial Markets'' from the years 1927-2020, I capture attributes of media content by constructing measures such as sentiment and textual unusualness. Uncertainty is measured on a daily level by a proven approach of computing the magnitude of unpredictability about the future. I find evidence that the level of uncertainty indeed matters for the strength of the effect on returns of the DJIA and the SMB factor and on NYSE volume. For example, a one standard deviation increase of uncertainty leads to an additional effect of sentiment on stock returns of 5-6 basis points. While there is evidence of a reversal effect in the following days for the DJIA, the effects are in general longer-lasting and more robust for the SMB factor, confirming the notion that smaller stocks are more affected by media content.