



M O M E N T U M

Pronounced Momentum Patterns Ahead of Major Events

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Many financial asset measures exhibit a weak continuation tendency. We show that this tendency is much more pronounced in the run-up to major events such as key macroeconomic announcements and central bank meetings.

For example, the authors write that the likelihood of recent yield trends continuing during the week of the U.S. nonfarm payroll report release is 60% for 10-year U.S. Treasuries, compared with the 53% normal likelihood of trend continuation. There are similar pronounced continuation patterns for other bond markets and major currencies, as well as some evidence of a post-event reversal tendency.

The main explanation for these regularities is behavioral. Investors tend to cut losing positions and run winning positions in advance of some major event. Trend continuation is more pronounced in the days leading up to events and less likely after those events. The payroll report, published on the first Friday of each month, appears to be the single most important regular event for the Treasury market.

Other assets, such as European government bond yields, follow the same payroll week momentum patterns. In fact, European bonds are more influenced by U.S. payroll reports than by any European report. These trend continuation patterns appear to be quite robust.

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