What Drives the Volatility of Professional Stock Return Forecasts? Causal Evidence from Macro Shocks

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Abstract

Consensus professional stock return forecasts are three times more volatile than those of nonprofessionals and econometricians. This volatility stems from professionals' countercyclical responses to macro-shocks, with different shocks each accounting for 20-40% of the variation in forecast differences. We introduce a two-stage procedure to identify the discount rate variation in professional forecasts due to shocks and find it aligns well with realized returns and implications of rational asset pricing models. We conclude that professionals' assessment of the discount rate impact of macro-shocks distinguishes them from other stock return forecasts and forecasts of macro-variables, which challenges models of expectation formation.

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