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Revisiting the investor sentiment-stock returns relationship: A multi-scale perspective using wavelets

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Highlights

- The nonlinear asymmetric Granger causal relationship between investor sentiment and stock returns for US economy is examined.
- The strong bilateral linear and nonlinear asymmetric Granger causality between longer-term investor sentiment and stock returns is detected.
- We observe the positive non-linear causal relationship from stock returns to investor sentiment and the negative non-linear causal relationship from investor sentiment to stock returns.

Abstract

This paper employs S^{BW} proposed by Baker and Wurgler [1] to investigate the nonlinear asymmetric Granger causality between investor sentiment and stock returns for US economy while considering different time-scales. The wavelet method is utilized to decompose time series of investor sentiment and stock returns at different time-scales to focus on the local analysis of different time horizons of investors. The linear and nonlinear