Examination of Information Release on Return Volatility:
A Market and Sectoral Analysis

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Abstract: This paper examines the role of information release in explaining return volatility in the Australian equity market. The research utilises proxies of greater accuracy than previously used to examine the impact of private and public information on return volatility. Analyst price targets and Morningstar stock star ratings are employed as proxies for private information and Australian Securities Exchange (ASX) announcements serve as a proxy for public information. Analysis is conducted at both the aggregate market level and the sectoral levels. Sectoral analysis is important as Australia operates as a 'two-speed economy' where some sectors perform higher than others. The limited number of studies which highlight this distinction warrants the need to perform this study. Data was collected for ASX 200 listed firms for the period 2013 to 2017. The findings of the study provide insight into how information disclosures instigate volatility within the entire market and across sectors. The results also suggest that analyst price targets have the largest effect on return volatility at both the aggregate market and the sectoral levels thereby further indicating that investors place heavy reliance on this information when undertaking investment decisions. In contrast, Morningstar stock star ratings had a negligible effect, which is likely due to the lower degree of informational content. Although investors heavily rely on these information proxies, they do not realise the diverse effect that each private information proxy has on sectoral return volatility. Public information has a minor effect on return volatility at both the aggregate market and sectoral levels. These mixed results indicate that information flow varies depending on the information type (i.e. private or public) with each sector interpreting the same information differently, as highlighted by the varying levels of volatility. The research findings provide a valuable guide to investors regarding the appropriate information proxy to use to generate excess returns as well as to hedge against future losses.

Keywords: sectoral return volatility, E-GARCH, GJR-GARCH, APGARCH, analyst price targets, Morningstar stock star ratings, ASX announcements.

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