

Partisanship Implication of Supreme Court Ruling And Stock Market Response

Abstract

On the evening of May 2nd, 2022, a leaked US Supreme Court draft suggested that the landmark decision in *Roe v. Wade* was going to be overturned. This would effectively remove the constitutional right to abortion and defer the matter to individual states. In this paper, I examine the stock market response to this event. I find that firms headquartered in right leaning states experience more positive reactions upon the leak, while those in liberal states react negatively. Additionally, stocks of firms that are more labor intensive suffer upon this revelation. Such a negative effect is primarily driven by firms headquartered in states without reproductive rights codified by state legislation. My findings support the perception that decisions of the US Supreme Court, an institution supposed to be impartial, are interpreted by the market through a partisan lens. I also provide evidence that the significant labor implication of overturning *Roe v. Wade* impacts firm values.

I. Introduction

On the evening of May 2nd, 2022, multiple news agencies reported on a leaked draft from the Supreme Court of the United States (SCOTUS) regarding the case of *Dobbs v. Jackson Women Health Organization* (hereafter “Dobbs”), suggesting that the landmark *Roe v. Wade* (hereafter “Roe”) was going to be overturned. The next day, Chief Justice Roberts confirmed the authenticity of the draft. Although Roberts did clarify that the leaked manuscript was a draft and “does not represent a decision by the court”, it still immediately led to heated discussions and rising tensions among societal groups holding drastically different social ideologies. In the days following, cultural leaders voiced their opinions on this subject, while the public grappled with the ruling’s implications. As US politics becomes increasingly divisive, how does the financial market process information with far-reaching political and social implications? What is the role of the high court, an institution meant to be impartial, in the economy of US politics? In this paper, I aim to shed light on these questions by examining the stock market responses to the leaked draft opinion on the Dobbs case. Given this case’s direct implication on labor supply in states dominated by different political ideologies, I focus on the role of a company’s labor intensity in such responses.

Recently, the heightened division in the U.S. political landscape has garnered increasing attention from economists regarding its economic implications. A growing body of literature documents how this division translates into strategic decisions and firm values in financial markets and the corporate world. Partisanship significantly shapes investors’ portfolio choices (Cookson et al., 2020; Cassidy and Vorsatz, 2024). The political affiliations of investors and management drives corporate decisions and strategies (Di Giuli and Kostovetsky, 2014; Rice, 2020; Knill et al., 2022; Bertrand et al., 2023). Stocks associated with different political inclinations exhibit

significant performance gaps (Goldman et al. 2009; Sheng et al., 2023). And there is the “Presidential Puzzle”, suggesting that the stock market under a Democratic presidency consistently outperforms a Republican presidency (Santa-Clara and Volkanov, 2003; Binder and Watson, 2016; Pastor and Veronisi, 2020). Given the intertwined connections between politics and the economy, unexpected events with political implications provide unique opportunities to study the impact of politics on economic outcomes. As the scrutiny over SCOTUS’ impartiality grows, the surprising leak of the opinion draft on the Dobbs case, one of the most significant SCOTUS rulings in recent years, offers a valuable opportunity to examine firm values through a political lens.

In contrast to the growing number of studies investigating the implication of partisanship and political power in financial markets, few have examined the impacts of SCOTUS. Traditionally, it is believed that the Supreme Court, although divided by judicial philosophies, *should* operate independent of partisan influence. However, such independence has often been questioned. As political division in the US grows, public faith in the Court’s nonpartisanship has evidently declined, especially among left leaning individuals.¹ Are these concerns well-founded? Are SCOTUS rulings interpreted through the lens of political power? What is the implication of a conservative Supreme Court for US corporations? I aim to shed light on these questions by studying the financial market response to the unexpected leak of the opinion draft on the Dobbs case.

Specifically, I investigate the risk-adjusted stock returns in response to this event through the lens of the US political landscape. As the Dobbs ruling is widely interpreted as a sign of politicization of SCOTUS,² I examine the relationship between a firm’s CAR in response to this

¹For example, <https://www.pewresearch.org/politics/2022/09/01/positive-views-of-supreme-court-decline-sharply-following-abortion-ruling/>, and <https://www.politico.com/news/magazine/2022/04/03/the-supreme-court-has-never-been-apolitical-00022482>.

² For example, <https://www.nytimes.com/2022/06/27/opinion/dobbs-supreme-court-legitimacy.html>.

leak and the political leaning of the firm's headquarter state. Furthermore, as this ruling has significant implications for the labor market in each US state based on their reproductive rights legislation, I consider the labor perspective in studying this issue. I find that firms headquartered in right-leaning states outperform those in more liberal states upon the leak of the opinion draft, supporting the hypothesis that this ruling indicates further empowerment of firms operating in politically conservative states. However, given the unique implication of this ruling for the labor supply in each state, the leaked draft has a negative effect on risk-adjusted stock returns of labor-intensive firms. Such an effect is driven by those firms operating in a state without codified reproductive rights; it is not observed in labor intensive firms in states that have laws protecting such rights.

I contribute to the literature investigating the implication of politics in financial markets. The economic value of politics has been well studied and documented in literature. Politically connected management teams and investors add significant value to firms worldwide, sometimes leading to advantages that may be perceived as unfair. These firms have better access to finance, receive more government contracts, and benefit more from regulatory and economic relief (Fisman, 2001; Faccio et al., 2006; Cooper et al., 2010; Tahoun, 2014; Brown and Huang 2020; among others). Kim et al. (2012) suggest that geographical proximity to political power is linked to higher stock returns. However, Akcigit et al. (2023) find that political powers of companies lead to higher survival rates, but not higher growth or productivity. These findings can raise concerns for investors and policy makers. As Fisman (2001) notes, negative and sometimes disastrous economic outcomes can take place when the value of a company is largely determined by political power rather than by productivity. Studying how financial markets interpret information with political connotations contributes to our understanding of the impact of partisan politics on firm value. Specifically, I provide evidence for the market-perceived partisanship of SCOTUS, in

association with related political policies. There is no doubt that Supreme Court decisions have far-reaching social and economic consequences. Politicized rulings can lead to policies that disproportionately affect certain groups or sectors, reinforcing societal inequalities and economic disparities. Understanding the market's perception of the politicization of the high court is crucial for addressing these impacts.

I also contribute to our understanding of the association between firm value and a firm's labor intensity, particularly when a policy shock to the local labor supply is anticipated. A larger, more robust labor market can benefit a company by reducing job searching costs and improving hiring matches (Ellison et al., 2010), as well as making job loss less costly and reducing the indirect costs of financial distress (Kim 2020), both of which enhance firm productivity. Pontuch (2011) finds that labor intensity relative to the industry is positively associated with equity returns. Similarly, Donangelo et al. (2019) find that a relatively higher labor cost is associated with higher equity returns. Given the direct labor implication of the Dobbs ruling, financial markets are expected to respond unevenly to the draft leak, depending on firms' levels of labor reliance and state legislation. I document such heterogeneities and contribute to our understanding of the ramification of a SCOTUS ruling in relation to the impact of labor intensity on firm value.

The rest of the paper is organized as follows: Section II provides the background of the Dobbs v. Jackson ruling and develops my hypotheses. Section III describes the data sources and the construction of major variables used in the empirical analysis. Section IV presents and discusses the main empirical results. Section V offers robust analysis and further discussions. Section VI concludes.

II. Background and Hypothesis Development

The case *Dobbs v. Jackson Women's Health Organization* centered on a Mississippi law that banned most abortions after 15 weeks of pregnancy, a direct challenge to the precedents set by *Roe v. Wade* (1973) and *Planned Parenthood v. Casey* (1992) (hereafter “Casey”). On the evening of May 2nd, 2022, a leaked draft suggested that the Supreme Court was posed to overturn *Roe* and *Casey* with its decision in *Dobbs*, effectively eliminating the constitutional right to an abortion and allowing states to set their own laws regarding reproductive rights. The next day, Chief Justice Roberts confirmed the authenticity of the leaked draft but stated that the case was still pending, and the final vote had not yet been decided.

Why was this leaked draft so shocking? After all, the conservative majority on the high court has been cemented since the passing of liberal justice Ruth Bader Ginsburg. However, prior to this leak, court watchers had predicted that this court would slice away at abortion rights without flatly overturning a precedent almost half-century old, given the significance of the *Roe* ruling as well as the societal evolution that has occurred since then.³ The leaked draft, in contrast, shows that the court is looking to reject *Roe*'s logic and legal protections, and completely overturn *Roe*. This demonstrates, first, the depth and length this court's conservative majority is willing to go to advocate for their judicial ideology, and second, the potential ill fate of other constitutional rights established with the same logic. The leaked 98-page draft suggests that a judicial shift towards conservatism may be more profound and significant than previously comprehended.

By then, divisive US politics had created a wide variation across states in terms of reproductive rights legislation. Thirteen states, as demonstrated in Figure 1a, had "trigger laws" designed to ban abortion immediately or through straightforward processes once *Roe* was

³ For example, <https://www.nytimes.com/2022/06/27/opinion/dobbs-supreme-court-legitimacy.html>, and <https://www.politico.com/news/2022/05/02/supreme-court-abortion-draft-opinion-00029473>

overturned. These states include Arkansas, Idaho, Kentucky, Louisiana, Mississippi, Missouri, North Dakota, Oklahoma, South Dakota, Tennessee, Texas, Utah, and Wyoming. States with early gestational age (6 weeks) bans blocked by judge orders based on Roe, but enforceable once Roe were to be overturned, include Georgia, Idaho, Iowa, Kentucky, Louisiana, Mississippi, North Dakota, Ohio, Oklahoma, South Carolina, Tennessee, and Texas. This is illustrated in Figure 1b. Some states had abortion bans that predate Roe, including Alabama, Arizona, Arkansas, Michigan, Mississippi, Oklahoma, Texas, West Virginia, and Wisconsin, as shown in Figure 1c. On the other hand, Washington D.C. and sixteen states, including California, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Massachusetts, Nevada, New Jersey, New York, Oregon, Rhode Island, Vermont, and Washington, have laws protecting abortion access, as shown in Figure 1d. The overturning of Roe would likely enshrine these divisions across states and create far-reaching social and economic ramifications.⁴

What implications is this ruling expected to have for US corporations? The answer can be complicated. On one hand, it signals a shift in power from the federal level to the state, which indicates reduced federal regulatory control. This shift can create further divergence in business environment across the board in terms of regulatory compliance, legal risks, economic stability, and social policies. For states and businesses that prefer less federal intervention, this reduction in federal oversight might mean fewer regulatory burdens. This could be seen as a positive aspect for firms that align with conservative views on limited government, or firms located in the conservative leaning states, as regulation shocks often have negative effects on firm values, especially in the short term (Schipper and Thompson, 1983; Zeume, 2017; among others). These firms might also benefit from aligning with the prevailing cultural and political values of their

⁴ Sources: <https://reproductivefreedomforall.org/wp-content/uploads/2022/01/WHODecides2022-BANS-BY-WEEK-Report-011722-1.pdf>, <https://www.cnn.com/2022/06/24/politics/dobbs-mississippi-supreme-court-abortion-roe-wade/index.html>, and [16 States and DC Have State Laws Protecting the Right to Abortion if Roe v. Wade is Overturned | KFF](#)

local communities, potentially strengthening customer loyalty and local support; after all, social norms are priced (Hong and Kacperczyk, 2009). On the other hand, companies' choice to strategically associate themselves with state and local governments given the rising power at the state level can be costly, risky and counterproductive (Fisman and Wang, 2015; Chen et al., 2017; Bertrand et al., 2018). Moreover, companies in right-leaning states that align themselves with the local environment risk alienating consumers who support abortion rights, and vice versa. This is particularly relevant for businesses with a national or international presence, where consumers' values may differ from those predominant in the state where the company is based. Firms may face pressure to take public stances on reproductive rights, which can be polarizing and affect their brand image either positively or negatively, depending on their customer base and public opinion.⁵ According to Bhagwat et al. (2020), publicized corporate sociopolitical activism can be a “wild card”, and on average elicits negative reactions from investors. In other words, companies are challenged to be adaptable and strategic in responding to these varying state environments, and carefully consider how their policies and public stances align with their values and the expectations of their stakeholders to optimize their operations and maintain competitiveness.

Perhaps more directly, the overturning of Roe has significant implications for corporate operations and strategies involving employees, by allowing states to set their own abortion laws. States with restrictive abortion laws may see a decrease in labor supply, particularly among women, due to increased barriers to reproductive healthcare and potential career disruptions. Companies located in these states may also find it more challenging to attract and retain talents, or convince employees to relocate to states with restrictive abortion laws, given that the majority of the US public hold the opinion that abortions should be legal in all or most cases, especially those with a

⁵ <https://www.cnn.com/2022/05/08/on-roe-v-wade-big-companies-already-have-a-precedent-for-action.html>.

four-year degree or higher.⁶ Conversely, states that enshrined reproductive rights might attract workers, especially women and younger workers, from conservative states, boosting their labor supply. A larger, more robust labor market can benefit a company by reducing job searching costs and improving hiring matches (Ellison et al., 2010), as well as making job loss less costly and reducing the indirect costs of financial distress (Kim 2020), both of which enhance firm productivity. The political divergence can exacerbate regional disparities in workforce availability and economic growth, influencing where businesses choose to locate or expand. Firms in states with more restrictive abortion laws may also need to navigate complex healthcare benefits, provide support for employees who may need to travel out of state for reproductive healthcare, and navigate the diverse political beliefs of their employees, balancing corporate policies to maintain a supportive and inclusive work environment. All these issues could potentially increase operational costs and administrative complexity, and affect workplace harmony and productivity, which can be especially impactful for labor intensive firms.

On top of that, investors with different political ideologies may respond to this leaked draft drastically differently. Investors holding more conservative views may celebrate the likely ruling of the high court as a victory, while liberal investors see it in negative light. Investors' "morale" is directly linked to stock market returns (Hirshleifer and Shumway, 2003; Edmans et al., 2007; Hirshleifer et al., 2020; among others); The well documented local preference from not only retail investors (Zhu, 2002; Seasholes and Zhu, 2010), but also institutional investors (Coval and Moskowitz, 1999; 2001; Stukalo, 2017) compounds this effect. Given that investors in conservative states are more likely to hold conservative views, and their stock holding may gravitate towards companies in their home states, their positive perception of the leak can give the

⁶ For example, <https://www.pewresearch.org/religion/2022/05/06/americas-abortion-quandary/>; <https://www.prii.org/research/abortion-attitudes-in-a-post-roe-world-findings-from-the-50-state-2022-american-values-atlas/>

local stocks a positive boost. This argument can apply to the stocks in liberal states in a similar way with an opposite effect.

In summary, the Dobbs ruling represents a pivotal moment with far-reaching consequences for corporate operational strategies and the labor market. Its impacts on US corporations vary by state, presenting a mixed picture of potential upsides and drawbacks for firm values. For companies in right-leaning states, the ruling may align with local values and reduce federal regulatory burdens but also poses risks in talent acquisition, employee morale, operational complexities, and brand image. Labor-intensive companies face additional challenges. Moreover, right-leaning investors may react positively, while left-leaning investors may feel deflated in response to the leaked draft. Given the complex potential impacts of the imminent Dobbs ruling, I propose and test the following hypotheses:

H1a: Firms headquartered in conservative states respond to the Dobbs leak more positively relative to those in liberal states.

H1b: Firms headquartered in conservative states respond to the Dobbs leak more negatively relative to those in liberal states.

H2: Labor intensive firms, especially those in states without codified reproductive right protection, respond to the Dobbs leak negatively.

III. Data

I obtained stock market data from CRSP, including daily individual stock returns, daily excess market return, and the daily returns on small-minus-big (SMB), high-minus-low (HML), and up-minus-down (UMD) factors, along with the daily risk-free rate, proxied by the 1-month Treasury Bill rate. Consistent with literature, I only include common stocks (share codes 10 or 11) traded

on Nasdaq or NYSE (Exchange codes 1,2, or 3). I construct CAPM-adjusted Cumulative Abnormal Return (CAR) for each stock in the sample. The CAPM alpha and beta are estimated based on daily stock and market returns along with the daily risk-free rate from April 1st, 2021 to March 31st, 2022. Since the draft was leaked on May 2nd, 2022, after the US stock market closed, I calculate the CAPM-adjusted CAR for May 3rd, the day after the draft was leaked.⁷ Additionally, I construct CARs adjusted for the Fama-French (FF) Three Factor Model and Carhart's extension of the FF Model.

I adopt several measures that capture state level politics. First, I construct a measure of partisanship for each state based on FiveThirtyEight's Partisan Lean Metric, obtained from the archived FiveThirtyEight website, where each state's political inclination index was calculated based on the most recent national election (in this case, it was calculated based on the 2020 election).⁸ My measure, *Partisanship*, retains the numerical component of the Partisan Lean Metric, converting the indication of "Republican" or "Democrat" into a negative or positive sign, respectively. I assign this value to each firm based on its headquarter state in Compustat. Second, I construct a binary variable, *Protect*, which equals 1 for firms headquartered in states with laws protecting reproductive rights, and 0 for firms in states without such laws. I also construct a variable, *# of Bans*, capturing the number of different types of abortion bans in a firm's headquarter state. These types are defined in Section II, and the value of this variable ranges from 0 to 3. Panel A of Table 1 reports the summary statistics of these variables at the firm level. 54.8 percent of the firms are headquartered in states with enshrined protections of reproductive rights. The median of

⁷ I do not take a longer window into consideration to ensure that the observed abnormal return is most likely caused by the shocking draft leak rather than other news. For instance, on May 4th, the second trading day after the leak occurred, Federal Reserve increased the Federal Target Rate by 50 basis points, which was the largest rate increase in more than a decade, which, arguably, had a much larger impact on stock market.

⁸ FiveThirtyEight's partisan lean metric is defined as the average margin difference between how a state or district votes and how the country votes overall. See <https://fivethirtyeight.com/features/how-red-or-blue-is-your-state-your-congressional-district/>. For example, if this metric for a state is R+5, that means it is 5 percentage points more Republican leaning than the nation as a whole.

of Bans is 0, suggesting majority of firms do not headquarter in states with any bans. The mean of Partisanship is 6.676 while the median is 12, suggesting that more firms headquarter in left-leaning states compared to the nation as a whole. There are 2010 firms in state with protected reproductive rights (*Protect* = 1), 530 firms in states with one type of abortion ban (*# of Bans* = 1), 94 firms in states with two types of bans (*# of Bans* = 2), 365 firms in states with three types of bans (*# of Bans* = 3), and 667 firms in states where reproductive rights are neither protected nor banned (*# of Bans* = 0 and *Protect* = 0), as illustrated in Figure 2. In the “Further Discussion” section, I also control for *Political Risk*, a measure developed by Hassan et al. (2019), when examining whether the observed divergence in stock market response across firms’ headquarter states is due to the inherent different levels of political risk for firms homed in different states.

I obtain firms’ financial and headquarter information from Compustat. Consistent with literature, I control for firm characteristics, including *Size* (logarithm of the firm’s average market capitalization in April, 2022), *Leverage* (debt divided by assets), *Profitability* (pretax income divided by assets), *growth* (sales growth divided by last year’s sales), *Cash tax rate* (cash taxes paid divided by the pretax income), and *Cap exp* (capital expenditure divided by assets), when investigating the link between state level politics and stock market response. Since the Dobbs ruling has direct implications for each state’s labor supply, I study the role of labor intensity in the market response to the ruling leakage. I construct the variable *Labor* (number of employees divided by sales) to measure the number of employees needed to generate per unit of sales. Since the magnitude of this measure can be highly dependent on industry, I construct the labor intensity measure, *Labor Intensity*, by deciding whether this raw number is above (1) or below (0) the median of the industry. I divide the data into subsamples based on whether a firm’s headquarter state is more right-leaning than the nation (*Partisanship* < 0) or less so, and report the summary statistics for the subsamples’ firm characteristics in Panels B and C of Table 1, respectively. These

statistics reveal that firms in right-leaning states are smaller in size, report less loss in the most recent annual report, grow more slowly, and are less labor-intensive. This heterogeneity suggests that firm characteristics should be controlled when investigating the impact of state politics on a firm's stock market response to the leaked draft on Dobbs ruling.

IV. Empirical Analysis

1. Stock Market Response and Partisanship

First, I investigate the stock market response to the Dobbs ruling draft leaked from SCOTUS based on the political inclination of each company's headquarter state. I present the results in Table 2. Panel A shows the unconditional CARs upon the leak of the draft when the firms in the sample are divided into two groups based on their headquarter states: left or right leaning. I adopt four different categorization methods. First, whether the state is more Democratic or Republican leaning than the nation as a whole, based on the FiveThirtyEight Partisan Lean Metric calculated from the 2020 election (i.e., whether the value of the variable, *Partisanship*, is greater than zero). Second, whether Joe Biden, a Democratic, won the state in the 2020 election. Third, whether the state had passed state level legislation protecting reproductive rights independent of Roe. And fourth, whether the state had passed some form of state level ban(s) against abortion. As shown in Panel A, regardless of the categorization method, stocks of companies headquartered in right-leaning states significantly outperform those in left leaning states, by .595 to .778 percent in terms of their CARs on May 3rd. Furthermore, I regress each company's CAR on its headquarter state's political inclination measures, including *Partisan*, *Protect*, and *# of Bans*. The results are consistent with what is indicated in Panel A. For each percentage point increase in Democratic leaning of a company's headquarter state in the 2020 election, the firm experiences a 0.01 to 0.02 percent decrease in CAR in response to the draft leak. Conversely, with each additional type of

abortion ban enacted in the headquarter state, indicating greater legislative effort to limit reproductive rights, the company sees a 0.24 to 0.45 percent increase in CAR. Companies in states with laws protecting reproductive rights, all of which are left leaning, underperform by 0.35 to 0.59 percent.

2. Stock Market Response and Labor Intensity

Given the direct implication of the Dobbs ruling for each state's labor supply, I investigate the effect of a company's reliance on labor to generate revenue on stock market response to the leaked draft. First, I present the results from the pooled OLS regression of CAR on measures proxying for such reliance, *Labor*, *Labor Quartile*, and *Labor Intensity* in Table 3. The coefficient on *Labor* is statistically insignificant, while the coefficients on *Labor Quartile* and *Labor Intensity* are both negative and statistically significant. In other words, although the absolute magnitude of a company's labor reliance, measured by the number of employees it takes to generate each unit of sales, does not necessarily indicate more negative stock market response to the draft leak, being in a higher labor reliance quartile does make it more likely for the company to experience negative abnormal return upon the leak; being more labor reliant compared to other peers in the same industry has the similar effect, too.

Next, I examine this effect by the reproductive rights legislation of each company's headquarter state. If the hypothesized channel through which this ruling affects labor intensive firms is true, such effect should be driven by states in which reproductive rights rely on Roe to hold. In the states with reproductive rights enshrined by state legislation, the imminent Dobbs ruling shown in the leaked draft should not affect the labor supply negatively. This is consistent with what I find when I regress CAR on *Labor Intensity*, presented in Table 4. The first two columns present the results on the sample of firms headquartered in states with codified reproductive rights protection, and the last two columns present the results on the sample without

such laws. Since firms headquartered in “red” and “blue” states may have different firm characteristics, as suggested in Table 1, I also control for their financials in Column (2) and Column (4). In the first two columns, the coefficient estimates on *Labor Intensity* are economically and statistically insignificant. These coefficient estimates are -.69, or -.64 when controlling for other firm characteristics, suggesting that more labor-intensive firms in states without enshrined reproductive rights experience abnormal returns .64 percent lower compared to those less labor-intensive.

I conduct similar analyses on samples in which the headquarter states have explicit abortion bans, and present the results in Table 5. The coefficient estimate on *Labor Intensity* is -.74, or -.73 when controlling for other firm characteristics, and statistically significant, on the sample of firms headquartered in states with some type of bans. This is presented in Columns (1) and (2) of Table 5. When I further divide this sample into subgroups based on how many types of bans had been in the book by the time of the leak, this negative effect of labor intensity is the strongest on the sample in which the headquarter states have all three types of bans, as presented in Columns (7) and (8). The results on states with only one or two types of bans are not consistently significant, suggesting a less strong effect; although it could also suggest limited statistical power of those tests due to smaller sample sizes, especially for states with two types of bans, as presented in Columns (5) and (6).

Then I include whether a state has enshrined reproductive rights protection (“Protect”) or how many different types of abortion bans are in the book of the state legislation (“# of Bans”) as explanatory variables in the regression analyses, as presented in Table 6. The results are consistent. Columns (1) and (2) show that the labor-intensive firms significantly underperform by .61 - .65 percent on May 3rd, 2022; however, with a reproductive rights protection law in place (Protect = 1) at the state level, such a disadvantage would be mostly overcome. Such laws also indicate that

the headquarter state holds a more liberal political value, and companies on average underperform by .50 - .61 percent in their CARs, consistent with the findings shown in Table 2. In a similar vein, Columns (3) and (4) show that the labor-intensive firms do not significantly underperform, unless they are in the states with abortion bans. The more effort the state legislators have made towards blocking reproductive rights, the more negative effect labor intensity would have on CARs. However, firms in states with bans do get a boost from the positive effect of being in a right leaning state, again, consistent with the findings in Table 2.

Overall, I find that the stock market interprets the leaked draft on Dobbs ruling through the lens of partisanship, and responds unevenly based on the political inclination of the state where a firm operates. My findings also support the labor implication of this ruling.

V. Further Discussion

1. The Days Leading to the Leak

Is it possible that labor intensity and the political landscape of the environment where a firm operates have always played a role in a firm's risk-adjusted stock return? To answer this question, I conduct the analysis in Column (4) of Table 6 on each day leading to the leak and compare it to the next day of the leak. I present these results in Table 7. It was not unusual that a firm's daily CAR has some loading on the state politics, proxied by # of Bans, as shown for Day -3 and Day -4 in Table 7, although the magnitude tends to be smaller. The loading on the interaction term, Labor Intensity \times # of Bans, is indeed unusually large in magnitude and statistical significance on the next day of the leak, suggesting that the findings documented in the previous section are unlikely a coincidence or an regularly seen stock market behavior.

2. The Day of the Final Ruling

I also examine the market response when the final ruling on the Dobbs case was officially announced by SCOTUS. Although Chief Justice Roberts made the remark that the leaked draft was regarding a pending case and it was not the final decision on the Dobbs case, it was widely believed that a written opinion that was so thoroughly and elaborately drafted were not to be overhauled.⁹ In fact, when I conduct the regression analysis on the day the final Dobbs ruling was announced, June 24th, the results on partisan politics and labor intensity are insignificant, as shown in Table 8. The market had absorbed the information when the draft was leaked. Interestingly, the loadings on other firm characteristics are much more significant on June 24th.

3. Alternative Risks

Next, I explore abnormal returns adjusted for alternative risk factors by conducting the same analyses with CARs adjusted for the 3- and 4-factor models. These analyses further confirm the implications of the leaked Dobbs ruling draft regarding labor intensity. I present the empirical results with “# of Bans” in Table 9. Interestingly, in untabulated results, when I replace # of Bans with *Protect* or *Partisanship*, the loading on either of the two turns statistically insignificant while the loading on the interaction term stays economically and statistically significant, suggesting that SMB, SML, and UMD factors somewhat absorb the information associated with political partisanship. This may be subject to further investigation. In unreported analyses, I also consider the political risk exposure measure developed by Hassan et al. (2019), and the results are qualitatively unchanged. In fact, the loading on the political risk exposure measure from the first quarter of 2022 or the last quarter of 2021 has economic and statistical significance close to zero, suggesting that the partisanship implication of SCOTUS ruling discussed in this paper cannot be captured by these political risk exposure measures.

⁹ <https://theconversation.com/leaking-a-supreme-court-draft-opinion-on-abortion-or-other-hot-topics-is-unprecedented-4-things-to-know-about-how-the-high-court-works-182942>

4. What caused the negative loading on *Partisanship*?

The empirical results consistently show that the stock market responds positively to the leak on the evening of May 2nd, 2022 for firms in right leaning states and negatively for those in left leaning states. For instance, Column (1) of Panel B in Table 2 suggests that each additional percentage point of left-leaning alignment in a state during the 2020 election leads to a 0.02 percent decrease in CAR in response to the Dobbs ruling leak. What has caused this response? As discussed, the leaked draft signals a significant shift towards conservatism on the high court, granting more power to individual states. This market reaction could be due to the perceived reduction in regulatory burden for businesses in conservative states, expectations that politically connected firms will gain a competitive edge, or celebratory/pessimistic trading behaviors among investors. These questions remain open for further investigation.

Furthermore, it is worth studying whether the stock market response to the leaked draft offers insights into the financial future of firms in different states or with varying levels of labor intensity. In unreported analysis, I find that CAR over the 12 months following the leak is not significantly associated with the partisanship of the headquarter state or the labor intensity of the firm when controlling for other firm characteristics. However, more questions remain open to be investigated regarding the implications of the negative sign of the regression coefficient on *Partisanship*.

VI. Conclusion

In this paper, I examine the heterogeneous stock market response to the leak of the US Supreme Court draft overturning the landmark Roe v. Wade decision. Such a reversal would effectively remove the constitutional right to abortion, and delegate the authority over reproductive rights to

individual states, creating a wide variation in reproductive rights across states due to each state's legislation and ideology.

I find that firms headquartered in conservative, right-leaning states experience significantly more positive market reactions the day following the leak. This is consistent with the notion that investors perceive this ruling as a sign for the power shift towards individual states, and as potentially beneficial to firms in these states, perhaps anticipating favorable regulatory environments or economic conditions aligned with conservative values. Conversely, firms based in liberal, left-leaning states face negative stock market reactions. The anticipation of relatively stricter state-level regulations and decreased political power, or pessimistic trading behaviors from local investors may contribute to such a stock underperformance.

Furthermore, this study highlights the implication of this ruling for labor-intensive companies. Stocks of firms with a high reliance on labor experience significant negative returns upon this leak. This adverse effect is particularly pronounced for firms headquartered in states without protective abortion laws. The potential for increased labor market disruptions, such as reduced labor supply or heightened employee turnover due to restrictive reproductive rights regulations, likely drive this negative market response.

Overall, my findings show that the decisions of the US Supreme Court, an institution ideally meant to remain impartial, are interpreted by financial markets through a partisan lens. The perceived political alignment of the Court's rulings influences market behaviors, reflecting broader political divisions. This study contributes to our understanding of how political shifts and judicial decisions can shape financial market response. Additionally, the substantial labor implications of overturning *Roe v. Wade* directly affect firm valuations, emphasizing the connections between socio-political developments and financial market outcomes.

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Figure 1a: States with 'Trigger Bans'



Figure 1b: States with Blocked 6-Week Bans



Figure 1c: States with Bans Predating Roe



Figure 1c: States with Laws Protecting Reproductive Rights

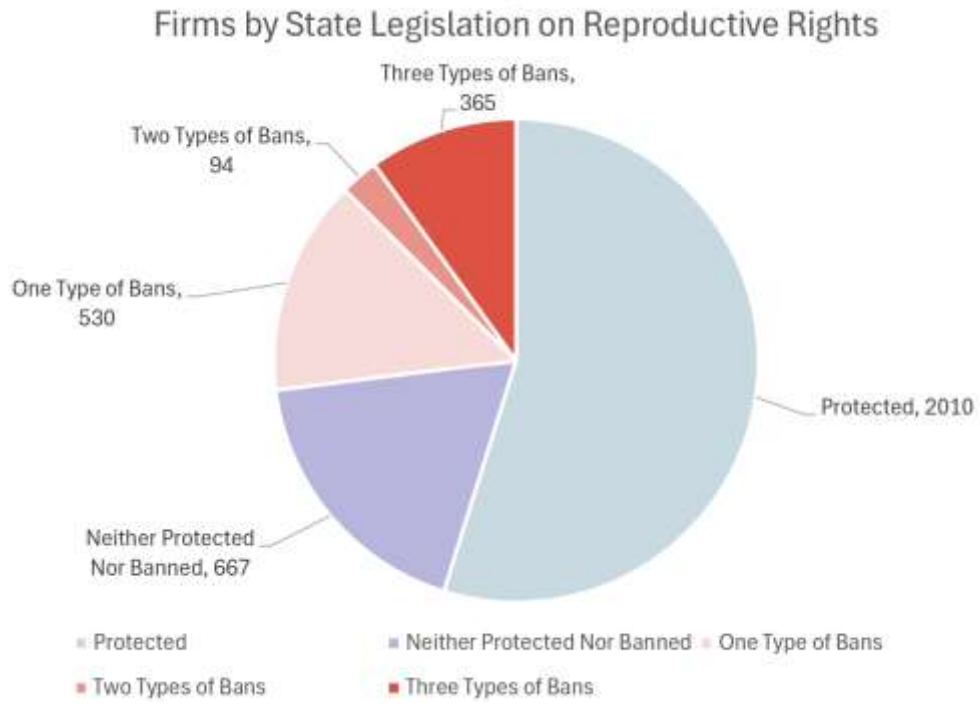


Figure 2: Firms by State Legislation on Reproductive Rights

Table 1 Summary Statistics

Table 1 presents the summary statistics of the control variables in this study. *Protect* equals 1 for companies headquartered in states with reproductive rights protection laws. *# of Bans* captures the number of different types of abortion bans there are in a firm's headquarter state by the time of the leak. *Partisanship* captures how left- (+) or right- (-) leaning a firm's headquarter state is compared to the nation as a whole in the 2020 election. *Mkt Cap* is the market capitalization in billion dollar averaged over April of 2022, $Leverage = (DLTT + DLC)/AT$, $Profitability = PI/AT$, $growth = (SALE(t) - SALE(t-1))/SALE(t-1)$, $Cash\ tax\ rate = TXPD/(PI - SPI)$, $Cap\ exp = CAPX/AT$. *Labor Intensity* equals 1 if *Labor* is above the median of the industry defined by 2-digit SIC, and 0 otherwise, where $Labor = EMP/SALE$. Political Risk is developed by Hassan et al. (2019).

	N	mean	sd	min	p25	p50	p75	max
Panel A: State Politics								
<i>Protect</i>	3,666	0.548	0.498	0	0	1	1	1
<i># of Bans</i>	3,666	0.495	0.948	0	0	0	1	3
<i>Partisanship</i>	3,666	6.676	18.11	-49.70	-7.600	12	25.50	68.20
Panel B: "Red" States								
<i>Profitability</i>	1,418	-0.00944	0.613	-21.54	-0.00924	0.0256	0.0908	0.820
<i>Growth</i>	1,121	0.457	1.947	-1	0.0641	0.176	0.399	33.53
<i>Cash Tax Rate</i>	1,250	0.124	1.508	-28.51	0.00308	0.147	0.229	29.56
<i>Leverage</i>	1,412	0.284	0.284	0	0.0559	0.247	0.427	4.685
<i>Cap Exp</i>	1,392	0.0309	0.0460	0	0.00421	0.0171	0.0391	0.543
<i>Political Risk</i>	1,068	97.10	161.9	0	14.06	50.86	119.2	3,191
<i>Mkt Cap</i>	1,527	9.240	41.17	0.00600	0.251	1.155	4.577	1,031
<i>Labor Intensity</i>	1,354	7.471	54.56	0.0598	1.611	3.058	4.641	1,402
Panel C: "Blue" States								
<i>Profitability</i>	2,304	-0.137	0.404	-4.965	-0.246	-0.00490	0.0602	2.814
<i>Growth</i>	1,733	2.779	54.79	-1	0.0603	0.199	0.466	2,159
<i>Cash Tax Rate</i>	1,707	0.109	0.705	-7.250	-0.000418	0.0517	0.214	14.72
<i>Leverage</i>	2,297	0.232	0.256	0	0.0321	0.155	0.359	2.995
<i>Cap Exp</i>	2,273	0.0226	0.0379	0	0.00268	0.0108	0.0272	0.529
<i>Political Risk</i>	1,376	110.0	188.4	0	19.45	57.42	131.8	3,120
<i>Mkt Cap</i>	2,196	13.66	91.93	0.00590	0.211	0.826	4.053	2,722
<i>Labor Intensity</i>	2,019	16.67	149.9	0.0128	1.692	3.142	5.332	3,930

Table 2 Stock Market Response: “Blue” vs. “Red”

Table 2 presents the differential stock market responses to the draft leak by the headquarter states’ political inclinations. Panel A presents the comparison in the unconditional CAPM-adjusted CAR on May 3rd, 2022 between subsamples headquartered in blue states vs. red states. Blue states are defined as the states that are more democrat-leaning compared to the nation as a whole in the 2020 election (“D vs. R”), the states won by Biden in the 2020 election (“Biden, Yes vs. No”), the states with laws protecting reproductive states (“Protect, Yes vs. No”), or the states without abortion bans (“Bans, No vs. Yes”). Panel B presents the pooled OLS regressions of CAMP-adjusted CAR on May 3rd, 2022 on *Partisanship*, *Protect*, or *# of Bans*, which are defined the same way as in Table 1.

Panel A						
	CAR1	CAR2	Difference	t-Value	Pr(T>t)	
D vs. R:	-0.138	0.460	-0.597	-5.116	0.000	
Biden, Yes vs. No:	-0.068	0.561	-0.629	-4.932	0.000	
Protect, Yes vs. No:	-0.158	0.438	-0.595	-5.144	0.000	
Bans, No vs. Yes:	-0.099	0.679	-0.778	-6.010	0.000	
Panel B						
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Partisanship</i>	-0.02*** (-6.15)			-0.01*** (-3.06)		
<i>Protect</i>		-0.59*** (-5.23)			-0.35** (-2.54)	
<i># of Bans</i>			0.45*** (7.65)			0.24*** (3.65)
Constant	0.26*** (4.53)	0.44*** (5.73)	-0.10 (-1.53)	0.21*** (7.03)	0.31*** (4.15)	-0.00 (-0.03)
Industry FE	No	No	No	Yes	Yes	Yes
Observations	3,674	3,674	3,674	3,665	3,665	3,665
R-squared	0.011	0.007	0.015	0.005	0.002	0.004

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 3 Stock Market Response: Labor Intensity

Table 2 presents the regressions of CAPM-adjusted CAR on May 3rd, 2022 on *Labor*, *Labor Quartile*, and *Labor Intensity*. *Labor* and *Labor Intensity* are defined the same way as in Table 1. *Labor Quartile* captures the quartile ranking of a firm's *Labor* in the whole data sample.

	(1)	(2)	(3)
<i>Labor</i>	0.55 (0.95)		
<i>Labor Quartile</i>		-0.21*** (-3.21)	
<i>Labor Intensity</i>			-0.32*** (-2.72)
Constant	0.12*** (19.39)	0.65*** (4.00)	0.29*** (4.93)
Industry FE	Yes	Yes	Yes
Observations	3,114	3,114	3,114
R-squared	0.000	0.003	0.002

Robust t-statistics in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 4 Stock Market Response: Labor Intensity by Abortion Protection Laws

Table 4 presents the regressions of CAPM-adjusted CAR on May 3rd, 2022 on firm characteristics on the subsample of firms headquartered in states with laws protecting reproductive rights (Columns (1) and (2)) and in states without such laws (Columns (3) and (4)) respectively. Firm characteristics are defined the same way as in Table 1.

	States with Protection Laws		States without Protection Laws	
<i>Size</i>		-0.13*		-0.10**
		(-1.78)		(-2.05)
<i>Profitability</i>		0.08		0.57
		(0.06)		(0.52)
<i>Cash Tax Rate</i>		0.08		0.04
		(1.33)		(1.11)
<i>Leverage</i>		1.18**		-0.07
		(2.30)		(-0.20)
<i>Growth</i>		0.00		0.05*
		(0.27)		(1.77)
<i>Cap Exp</i>		4.27		4.74
		(0.77)		(1.50)
<i>Labor Intensity</i>	-0.04	0.08	-0.69***	-0.64***
	(-0.24)	(0.27)	(-5.17)	(-4.39)
Constant	-0.15**	2.22	0.81***	2.72**
	(-2.11)	(1.30)	(11.48)	(2.57)
Industry FE	Yes	Yes	Yes	Yes
Observations	1,591	1,106	1,485	1,094
R-squared	0.000	0.013	0.013	0.017

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5 Stock Market Response: States with Abortion Ban(s)

Table 5 presents the regressions of CAPM-adjusted CAR on May 3rd, 2022 on firm characteristics on several subsamples of firms headquartered in states with abortion bans. Column (1) presents the results on the subsample of firms headquartered in states with some type of bans. Column (2) presents the results for firms in states with one type of ban; Column (3), two types; Column (4), three types. Firm characteristics are defined the same way as in Table 1.

	States with Ban(s)	States with One Ban	States with Two Bans	States with Three Bans				
<i>Size</i>	-0.12** (-2.15)	-0.09 (-0.87)	-0.17 (-0.32)	-0.10 (-0.80)				
<i>Profitability</i>	0.21 (0.15)	-3.66 (-0.93)	2.92 (0.68)	0.55 (0.34)				
<i>Cash Tax Rate</i>	0.05 (0.96)	0.05 (0.10)	0.01 (0.46)	0.24 (0.97)				
<i>Leverage</i>	0.00 (0.00)	-0.16 (-0.22)	1.10 (0.72)	0.37 (0.45)				
<i>Growth</i>	0.24 (1.34)	-0.87 (-1.20)	0.30 (0.50)	0.31** (2.38)				
<i>Cap Exp</i>	2.50 (0.72)	0.55 (0.10)	-30.73 (-1.10)	4.34 (0.76)				
<i>Labor Intensity</i>	-0.74*** (-3.65)	-0.73*** (-3.64)	-0.45* (-1.91)	-0.37 (-1.26)	-0.86 (-1.40)	-0.31 (-0.44)	-0.89** (-2.51)	-0.85*** (-3.38)
Constant	1.07*** (9.91)	3.46*** (2.85)	0.59*** (4.45)	2.79 (1.18)	1.01*** (3.36)	5.29 (0.49)	1.71*** (9.65)	3.41 (1.21)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	944	716	485	356	90	70	331	262
R-squared	0.015	0.021	0.006	0.028	0.017	0.149	0.021	0.048

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 6 Stock Market Response: State Politics and Labor Intensity

Table 6 presents the regressions of CAR on firm characteristics and the interaction of *Labor Intensity* and a variable capturing the headquarter state's legal status of reproductive rights, including *Protect* and *# of Bans*. Firm characteristics are defined the same way as in Table 1.

	CAR: Protection Laws?		CAR: Ban(s)?	
<i>Size</i>		-0.13*** (-2.72)		-0.13** (-2.63)
<i>Profitability</i>		0.31 (0.27)		0.29 (0.25)
<i>Cash Tax Rate</i>		0.04 (1.32)		0.04 (1.29)
<i>Leverage</i>		0.46 (1.44)		0.48 (1.50)
<i>Growth</i>		0.00 (0.27)		0.00 (0.21)
<i>Cap Exp</i>		4.64 (1.44)		4.22 (1.31)
<i>Labor Intensity</i>	-0.65*** (-4.96)	-0.61*** (-3.95)	-0.18 (-1.41)	-0.07 (-0.33)
<i>Protect</i>	-0.62*** (-3.63)	-0.50*** (-3.21)		
<i>Labor Intensity</i> × <i>Protect</i>	0.62*** (3.50)	0.75*** (2.87)		
<i># of Bans</i>			0.34*** (4.29)	0.31*** (4.23)
<i>Labor Intensity</i> × <i># of Bans</i>			-0.26** (-2.42)	-0.30*** (-2.87)
Constant	0.62*** (6.47)	3.03*** (2.82)	0.11 (1.57)	2.63** (2.38)
Industry FE	Yes	Yes	Yes	Yes
Observations	3,076	2,200	3,076	2,200
R-squared	0.006	0.013	0.006	0.014

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 7 Days Leading Up to the Leak

Table 7 presents the regressions of CAMP-adjusted CARs on firm characteristics and the interaction of *Labor Intensity* and *# of Bans* on May 3rd, 2022, as well as on each of the five trading days prior to the leak. Firm characteristics are defined the same way as in Table 1.

	Leak Day	Day -1	Day -2	Day -3	Day -4	Day -5
<i># of Bans</i>	0.31*** (4.21)	-0.02 (-0.21)	0.05 (0.51)	0.16* (1.92)	0.19*** (3.00)	0.08 (1.33)
<i>Labor Intensity</i>	-0.07 (-0.33)	-0.39 (-1.39)	-0.04 (-0.19)	-0.04 (-0.25)	0.32** (2.34)	-0.14 (-1.13)
<i># of Bans</i> × <i>Labor Intensity</i>	-0.30*** (-2.84)	0.04 (0.32)	-0.20 (-1.37)	0.15 (1.18)	-0.12 (-1.44)	-0.03 (-0.27)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,198	2,198	2,197	2,197	2,198	2,196
R-squared	0.013	0.023	0.032	0.008	0.014	0.002

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 8 Final Ruling Announcement on June 24th

Table 8 presents the regressions of CAMP-adjusted CAR on firm characteristics and the interaction of *Labor Intensity* and *# of Bans* on June 24th, 2022. Firm characteristics are defined the same way as in Table 1.

	June 24th
<i>Size</i>	0.21** (2.40)
<i>Profitability</i>	2.27** (2.58)
<i>Cash Tax Rate</i>	0.06 (1.58)
<i>Leverage</i>	1.28** (2.41)
<i>Growth</i>	0.00 (0.76)
<i>Cap Exp</i>	-9.45** (-2.15)
<i># of Bans</i>	-0.05 (-0.34)
<i>Labor Intensity</i>	-0.10 (-0.31)
<i>Labor Intensity</i> × <i># of Bans</i>	0.24 (1.14)
Constant	-5.15** (-2.64)
Industry FE	Yes
Observations	2,185
R-squared	0.035

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 9 Alternative CARs

Table 9 presents the regressions of 3- and 4-factor model adjusted CARs on firm characteristics and the interaction of *Labor Intensity* and *# of Bans* on May 3rd, 2022 (Columns (1) and (2)) and June 24th, 2022 (Columns (3) and (4)), respectively. Firm characteristics are defined the same way as in Table 1.

	May 3rd		June 24th	
	3-factor	4-factor	3-factor	4-factor
<i>Labor Intensity</i>	-0.10 (-0.50)	-0.10 (-0.47)	-0.16 (-0.58)	-0.20 (-0.71)
<i># of Bans</i>	0.18** (2.58)	0.18** (2.57)	-0.13 (-0.89)	-0.12 (-0.82)
<i>Labor Intensity</i> × <i># of Bans</i>	-0.27*** (-2.76)	-0.27*** (-2.76)	0.31 (1.34)	0.31 (1.34)
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Observations	2,198	2,198	2,185	2,185
R-squared	0.015	0.015	0.015	0.014
Number of ind	66	66	66	66

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1