Top Government Meetings in China

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Abstract

Policymaking in China takes place at the highest level of the government. As such, top government meetings presided by the top leader in China (e.g., Politburo meetings) are highly anticipated, akin to FOMC meetings in the US. Over the 48-hour window prior to the announcement of top government meetings, we document a significant pre-Govt return of 42 basis points in Chinese equity. Similar to the pre-FOMC drift, this market-wide pre-Govt drift in China is significantly larger than that before the macro announcements, demonstrating the unique importance of top government meetings in China. We identify two distinct drivers for the pre-Govt returns. Under high market volatility, the heightened uncertainty channel of Hu et al. (2022) dominates and the pre-Govt drift escalates to 91 basis points. Under low market volatility, the pre-Govt drift disappears and we find evidence of information leakage – the pre-Govt returns can significantly predict the post-Govt returns. Our overall results offer direct evidence that China is a top-down economy with policy-driven markets.

Keywords: Chinese Government Meetings, Pre-Announcement Drift, Heightened Uncertainty, Information Leakage, Institutional Investors

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1 Introduction

Political events and decision-making by sovereign governments can have a profound impact on financial markets – an observation made apparent amidst growing geopolitical tensions in recent years. Our paper is inspired by the increasing presence of governments' interventions in their respective economies and the ensuing reactions from the global markets. This includes the Trump trade, both in anticipation and immediately after the 2024 U.S. election. It also includes the 2024 September Politburo meeting in China, which signals the determination of the central government to stimulate the economy and causes an unprecedented rally in stock market. Motivated by the unique importance of such events, we examine the interplay between the government and the markets from the perspective of the stock markets. In China, government intervention towards market is known to happen with a much higher frequency. As articulated by Brunnermeier et al. (2022), the Chinese government conducts frequent and intensive interventions in order to actively lean against short-term market fluctuations. Conversely, market participants internalize this government behavior and focus their attention on learning about the government policy decisions instead of economic fundamentals.[1]

Taking advantage of this setting and the regularity of the government meeting's occurrence in China, we examine the market's anticipation of top government meetings which contains economic policy discussion, including the overall direction of monetary, fiscal and industrial policies. In such a top-down economy, meetings held by the central government are highly anticipated and speculated by domestic investors, akin to the Federal Open Market Committee (FOMC) meetings in the U.S. For the U.S. markets, the asset-pricing impact of macroeconomic announcements such as the non-farm payrolls and the FOMC meetings has been well documented. Significantly positive announcement-day returns are first reported by Savor and Wilson (2013), and then followed by Lucca and Moench (2015), who find that the positive FOMC-day returns are in fact realized over a 24-hour window before, not after, the actual announcements. This pre-FOMC drift documented by Lucca and Moench (2015) is economically large, giving rise to a fast growing literature on pre-announcement returns. For key macroeconomic announcements such as non-farm payrolls, Hu et al. (2022) document the presence of a pre-Macro drift, whose economic significance, however, is notably smaller than the pre-FOMC drift, affirming the central importance of the FOMC meetings for the U.S. equity market.

For the Chinese equity market, though widely viewed as a policy-driven market, the chan-

[1]For this reason, the CAPM R2 in China is the highest among many developed and emerging markets (Eun et al., 2015; Jin and Myers, 2006). The equal-weighted R2 for individual stocks in China is on average around 0.5, while for U.S. is on average 0.2.

nel through which policy uncertainty affects asset pricing has not been well studied. Ex-post, there are ample evidences that abrupt and sometimes idiosyncratic changes in government policy have drastic market impact.[2] Ex-ante, however, the market price of such policy uncertainty has yet to be identified and quantified. Meanwhile, market participants regularly follow the coverage of top government meetings and scrutinize the released documents in preparation of impending new government policies. Building on the pre-announcement literature, we attack this highly relevant problem from the unique angle of the market's anticipation before the announcement of the regularly held top government meetings in China.

Our hypothesis is that, akin to the FOMC meetings for the U.S. markets, such top government meetings are of central importance for the Chinese markets. Despite the many distinctions between the Chinese and US markets, they should share the same mechanism of significant pre-announcement drift preceding important and highly anticipated events.[3] In other words, similar to the pre-FOMC drift in the U.S., there exists a significant pre-Govt drift in China, realized prior to the announcements of top government meetings. In addition to enriching the pre-announcement literature, our study also affirms the common belief that China is a top-down economy with a policy-driven equity market.

Pre-Govt Drift in China – We focus on the central government meetings held regularly and presided over by top leaders in China. This includes the Party Congress of China Communist Party (CCP) and its plenums, the Politburo meetings on economic affairs, and the annual political convention referred to as the "Two Sessions." We definite the pre-Govt return as the pre-announcement returns of the aggregate stock market in China over the 48-hour window before the announcements of the top government meetings. From 2009 through 2022, we have 95 top government meetings, roughly 7 meetings per year, and the corresponding pre-Govt return is on average 42 basis points and statistically significant. Compared with the full-sample average return of 2 basis points per day, the economic magnitude of the pre-Govt drift is large and significant. Similar to the FOMC meetings, this pre-Govt return is realized over a small fraction of the trading days; while the pre-announcement returns are large and significant, the post-announcement returns are on average small and insignificant.

To assess the relative importance of the pre-Govt drift, we further estimate the pre-

[2]For example, events such as the ban on the after-school tutoring (双减政策), the suspension of Ant Group's IPO, and the large-scale crackdown on tech giants all have detrimental impact on the respective industry. The "three red lines" policy (三条红线政策) requiring real-estate companies to deleverage triggered the crisis of Evergrande and real-estate industry in general. Over the weekend before the Christmas day of 2023, a proposed draft released by the regulator in charge of the online gaming sector triggered an immediate meltdown in gaming stocks in Hong Kong and mainland China.

[3]Focusing on the pre-announcement drift, Hu et al. (2022) incorporate heightened uncertainty in a two-risk model and link the pre-announcement returns directly to the accumulation of heightened uncertainty and its subsequent resolution prior to the announcement.

announcement returns before the release of important macroeconomic indicators in China, including M2, CPI, and GDP. In contrast to the significant pre-Govt drift, the pre-announcement returns associated with the macroeconomic indicators are found to be small and statistically insignificant. In the case of the M2 announcements, a widely followed monthly release of broad measures of money supply, credit, and liquidity in China's economy, the pre-M2 drift is 16 basis points with a statistically insignificant t-statistic of 1.29.[4] This contrast between the strong pre-Govt drift and the less significant pre-Macro drift highlights the unique importance of top government meetings in China. A parallel can be drawn for the U.S. markets, where the pre-FOMC drift is found to be significantly larger than the pre-Macro drift.[5]

The elevated pre-announcement drift documented in the two different economies – the pre-FOMC drift in the U.S. and the pre-Govt drift in China, reflects the pivotal role played by the U.S. Federal Reserve and the Chinese central government in their respective countries. Just as the FOMC announcements for the U.S. and other developed economies, the announcements of top government meetings take the center stage in China's economy. While Brusa et al. (2020) show that there is no equivalent pre-announcement drift for other central banks, either internationally or, more surprisingly, domestically, the pre-Govt drift we uncover from the Chinese market raises the possibility that international pre-announcement drift may also occur in the setting of government-related meetings instead of the central bank announcements. Borrowing from the title of Brusa et al. (2020), it may be true that the current global economy is "one central bank to rule them all," but it is hardly one government for all. From this perspective, our evidence can help deepen the understanding of the pre-announcement drift dynamics across different financial markets, in both developed and emerging countries.

Drivers of Pre-Govt Drift in China – To understand the drivers of the pre-Govt returns, we first examine the influence of market uncertainty. In the context of the FOMC meetings, market uncertainty is known to play a crucial role in explaining the pre-FOMC returns (Lucca and Moench, 2015). Hu et al. (2022) further link the pre-FOMC drift directly to the accumulation of heightened uncertainty and its subsequent resolution. Our evidence reveals that the same mechanism is in place for the pre-Govt drift in China. Using the stock market volatility realized during the accumulation period, specified by Hu et al. (2022) as the time window when the heightened uncertainty builds up in anticipation of the impending announcements, we sort the Chinese government meetings into high and low uncertainty

[4]Different from the pre-M2 drift documented by Guo et al. (2023), we use the Shanghai Stock Exchange (SSE) Index as well as the widely used market factor from CSMAR to compute the pre-M2 drift.

[5]As documented by Hu et al. (2022), the pre-announcement return before the FOMC meeting amounts to approximately 27 basis points, compared with the 10 basis points for the non-farm payrolls, one of the most importance macro announcements in the U.S.

groups. We find that the average pre-Govt drift for the high uncertainty group averages to 91 basis points and is highly significant, whereas the average pre-Govt return in the low uncertainty group is a mere -6 basis points. Moreover, this significant difference in return conditioning on market volatility is unique only before the announcements of top government meetings. While the accumulation-period market volatility can predict pre-Govt returns with an R-squared of 22%, on normal trading days or before the M2 announcements, market volatility is not predictive of future market returns.

As further evidence in support of the channel of heightened uncertainty, we find that institutional investors significantly over-sell more shares of stocks in the aggregate market five days before the announcement of government meetings, consistent with the accumulation of heightened uncertainty in anticipation of the impending meetings. They then come back to the market and over-buy more shares two days before the announcement, when the resolution of the heightened uncertainty begins. Importantly, this unique trading pattern exists only in the high uncertainty group, connecting it directly to the significant presence of the pre-Govt drift. In the low uncertainty group, this abnormal trading pattern is absent, and so does the pre-Govt drift. We further link the initial over-selling (i.e., heightened uncertainty) directly to the subsequent over-buying (i.e., resolution of uncertainty), by showing that the amount of institutional over-sell five days ahead can predict the amount of institutional over-buy two days before the announcements. Moreover, the initial over-selling on day -5 is also predictive of the pre-Govt returns realized two days before the announcements, linking the accumulation of heightened uncertainty directly to its resolution (i.e., the premium for heightened uncertainty).

While the channel of heightened uncertainty dominates under high market volatility, we find evidence of an information channel under low market volatility. In the setting of pre-FOMC drift, the driver of heightened uncertainty is present in both the high and low uncertainty groups, with significant pre-FOMC drift even for the low uncertainty group. By contrast, we do not find a significant pre-Govt drift in China in the low uncertainty group. Instead, when the market volatility during the accumulation period is low, our evidence is suggestive of an information channel. Regressing the post-Govt stock returns on pre-Govt stock returns, we find strong predictability in the low uncertainty group. As further evidence in support of the information-leakage channel, we extend our sample period to include 2002 through 2008. For this early time period, we find that 1) the pre-Govt returns are on average insignificant; 2) no sensitivity of pre-Govt returns on market volatility; 3) the pre-Govt returns can predict the post-Govt returns with with an R-squared of over 26%. Overall, prior to 2009, we do not find evidence of heightened uncertainty, but ample evidence of information leakage.

Finally, focusing on the pre-announcement returns of the macro announcements such as

M2, we find that while the pre-M2 drift is absent in the aggregate stock market, there is in fact a strong pre-M2 drift in the small-minus-big (SMB) portfolio, indicating that the small-cap stocks are more sensitive to the M2 announcements. Moreover, we find evidence in support of the heightened uncertainty channel in explaining the pre-M2 drift in the SMB portfolio. Specifically, just as the realized market volatility during the accumulation period can predict the pre-Govt drift in the aggregate market, it can also predict the pre-M2 drift in the SMB portfolio. The R-squared's of these two predictive regressions are 22% and 25%, respectively. Overall, the heightened anticipation of top government meetings impacts the aggregate stock market, while that of the M2 announcements affects the small-cap stocks.

Related Literature – We contribute to the literature on the role of government in economics and finance. Because of the unique importance of China to the global economy, much effort has been devoted to the understanding of China's economic growth. Among different components of the Chinese economy, the Chinese government stands out as the most influential player, actively intervening in both the economy and financial markets.[6] For example, Song et al. (2011) focus on the government's industrial policies that give preferential credit access to the less efficient state-owned firms and enable them to gain more market power in the capital-intensive industries; Tombe and Zhu (2019) on the government-led reforms aimed at reducing internal trade and migration costs; and Geng and Pan (2023) on the impact of government-led credit tightening on China's credit market. While the existing studies mostly focus on one government policy at a time, our paper performs a comprehensive study on the impact of government policies on financial markets. As such, our paper is close to the theoretical framework of Brunnermeier et al. (2022) on why the Chinese government chooses to conduct regular interventions in the financial markets, and, consistent with their prediction, our empirical results indicate that investors are indeed active in gathering information about the government's policy.[7]

Our paper also belongs to the growing literature on the pre-announcement returns on financial assets prior to important announcements such as those of the FOMC meetings. This includes Savor and Wilson (2013) on the FOMC-day returns, Lucca and Moench (2015) on the pre-FOMC drift, and Brusa et al. (2020) on the unique influence of the U.S. Federal Reserve on global equities. Unique in our paper is the finding that the highly anticipated and speculated events in China are associated with top government meetings. Serving as

[6] Another strand of literature tries to understand the government's impact through political connections (Chen and Kung, 2019; Fisman et al., 2020; Fisman and Wang, 2015).

[7] In their paper, they show Chinese stock market is a government-centric equilibrium, where all investors choose to acquire private information about the policy shocks rather than the economic fundamentals. It may explain why the A-share stock market is not linked to the macro fundamental such as the GDP growth (Allen et al., 2024).

a new and important addition to the pre-announcement literature, it is also a confirmation that China is indeed a top-down economy with policy-driven markets. To the best of our knowledge, we are the first in the literature that provides an in-depth study on the asset pricing impact of top government meetings in China. We further show that top government meetings in China command a higher pre-announcement premium for heightened uncertainty in the aggregate Chinese stock market than important macro announcements such as M2 announcements, underscoring the dominance of the Chinese central government over its financial markets.[8]

Our paper is closely related the literature that explains the pre-announcement return via the channels of heightened uncertainty and information leakage. On heightened uncertainty, Hu et al. (2022) provides the theoretical foundation via the two-risk model, Laarits (2019) and Ying (2020) study the arrival of new information during the pre-announcement period, and Ai et al. (2021) model the endogenous information acquisition before FOMC announcements. Our paper further takes advantage of the transaction data from institutional investors in China and provides new evidence in support of the mechanism behind the heightened uncertainty channel.[9] On information leakage, Cieslak et al. (2019) provide evidence for stock returns over the FOMC meeting cycles and Bernile et al. (2016) uncover informed trading right before the FOMC meetings. In our setting of top government meetings, both channels co-exist, and, depending on market uncertainty, informed investors might choose to use their private information differently.

By focusing on the asset-pricing implication of top government meetings in China, our paper also connects to the literature examining the impact of political uncertainty on asset prices.[10] Pastor and Veronesi (2012) examines the asset pricing impact of political uncer-

[8]Also related is the literature studying the asset pricing implications of government support in China. Geng and Pan (2023) investigate the financing difference between state-owned enterprises (SOE) and non-SOEs and its connection to government support for SOEs. Bai et al. (2020) study the "special deals" from local government to their favored private firms in resource allocation which can contribute to China's growth. Li et al. (2022) show the recent anti-corruption campaign in China helps credit reallocation from SOEs to non-SOEs. Allen et al. (2023) find the implicit guarantees provided by financial intermediaries can support the private sector and mitigate capital misallocation. Carpenter et al. (2021) find that equity pricing in China has become more informative for POEs, but less for SOEs after the post-crisis economic stimulus.

[9]Di Maggio et al. (2023) show institutional investors reduce their exposure to stocks before earnings announcements. Hendershott et al. (2015) find the institutional investors are informed about news by combining daily buy and sell institutional trading volume with all news announcements from Reuters. Jia et al. (2023) use proprietary database of stock transactions in China to document trading behaviors of institutional and retail investors before M2 announcement.

[10]Belo et al. (2013) links the industry exposures to government spending to variation in cash flows and stock returns over the political cycle. Kelly et al. (2016) utilize equity options to analyze the pricing of political uncertainty. Brogaard et al. (2020) study the global political uncertainty from the perspective of the U.S. election cycle. Calomiris et al. (2010) document a negative market reaction to the sales of government-owned shares in China because it leads to weaker political ties. Liu et al. (2017) use an exogenous Chinese

tainty, and Pastor and Veronesi (2013) demonstrates that political uncertainty commands a risk premium, with increased magnitude under weaker economic conditions. Our work is also related to Liu and Shaliastovich (2021), who document a pre-announcement drift prior to major political events in U.S. such as elections and the State of the Union addresses.

The remainder of the paper is organized as follows. Section 2 provides background information and summarizes the data. Section 3 presents the empirical results. Section 4 concludes.

2 Background Information and Data

2.1 China's Government Meetings

China's political economy differs from that of Western economies in that the central government of China wields significant economic resources and extensive administrative authority. In the top-down economy of China, decision makings take place at the highest level of the government. Specifically, the Chinese central government is responsible for shaping the overall direction of monetary and fiscal policies, as well as industrial policies. Take monetary policy as an example, unlike their western counterparts (e.g., Fed and ECB), whose decision making is in theory independent of their respective governments, the central bank in China (i.e., PBOC) is tasked with implementing monetary policy while the general policy direction is established by the central government.

In order to implement and communicate its policies, the Chinese government conducts meetings at various levels, including the central government and local government meetings. In this paper, we focus on the highest-level central government meetings in China. In the United States, the most significant gathering is the Federal Open Market Committee (FOMC) meeting, where decisions regarding monetary policy are formulated and subsequently made public. In China, the equivalent to the FOMC meeting is the top central government meeting. These meetings not only establish the tone and direction of monetary policy but also shape fiscal policies and policies across various industries.

Our study focuses on the central government meetings held regularly and presided over by top leaders. From 2009 through 2022 as our main sample period, we have in total 95 top government meetings, occurring with a frequency of roughly 7 meetings per year, comparable to the 8 FOMC meetings per year in the U.S. Our main sample encompasses 3 Party Congress meetings (全国代表大会), 19 Plenary Sessions of the China Communist Party

political shock to examine the impact of political uncertainty on the Chinese stock market. Megginson and Xia (2022) study how industry policies in China affect asset prices in China.

Central Committee (中央委员会全体会议/中央全会), 59 econ-focused Politburo Meetings (中央政治局会议), and 14 Two Sessions (全国两会). Additionally, we expand our sample period to include meetings before 2009, collecting 38 top government meetings starting from November 2002, the earliest point at which documents regarding the Politburo Meetings are available. The details of these top government meeting are as follows.

Five-Yearly Party Congress and its Plenums – The National Congress of China Communist Party (CCP) is the highest governing body of the party and is held every five years. Each of the five-yearly Party Congress approves the personnel of the Central Committee of CCP, a political body that comprises the top leaders of the party. For example, the 20th party congress, held in October 2022, elected 205 full members and 171 alternate members. When the Party Congress is not in session, the Central Committee serves as the party's supreme authority. Within the five-year cycle of the Party Congress, a series of CCP Central Committee Plenums are conducted. Such plenary sessions are arguably the most important political events outside of the Party Congress. Typically, seven plenums are held over the five-year term of each CCP Central Committee, among which the third plenum is normally the most important as, historically, major decisions on China's economy and reforms have been made there. Within our main sample period, plenary sessions are scheduled at least once a year, beginning with the fourth plenum of the 17th Party Congress in September 2009 and ending with the first plenum of the 20th Party Congress in October 2022. Out of the 95 top government meetings, 22 meetings fall under this category. As for extended sample, we start with the first plenum of the 16th Party Congress in November 2002.

Politburo Meetings – The Politburo of the Chinese Communist Party is the decision-making body of the Central Committee of the Chinese Communist Party. For example, the 20th Party Congress elected 24 Politburo members, with 7 of the 24 members serving in the Politburo Standing Committee. The Politburo meeting convenes on a monthly basis to engage in policy discussions and makes decisions on pivotal matters spanning various domains. To single out the Politburo meetings that are relevant for economic matters, we use the abstract and meeting contents provided on its official website[11] as well as the news report on People's Daily (人民日报) and divide the meetings into econ and non-econ groups. Meetings are considered to be related to the economic affairs if the abstract of the meeting references subjects such as economic conditions, economic initiatives, the Five-Year Plan (五年规划), or the Government Work Report (政府工作报告). Covered in the non-econ meetings are topics such as culture, military, society, agriculture, and rural affairs.

As a general pattern, the econ-focused Politburo meetings are typically held in Febru-

[11] https://www.12371.cn/special/zzjhy/

ary, April, July, and December.[12] The February meeting primarily discusses government performance and the general outlook to be presented at the Two Sessions. The Politburo meeting at the end of April aims to better coordinate the annual economic agenda following the Two Sessions. The meeting at the end of July focuses on planning the economic agenda for the second half of the year and the December meeting serves to connect with the Central Economic Work Conference held after the Politburo meeting at year-end, setting the tone for the economic agenda for the upcoming year. Of the 150 Politburo meetings that fall under our main sample period, 59 econ-focused meetings are included in the 95 top government meetings, while the non-econ meetings are not included. To gather data on Politburo meetings prior to 2009, we utilize the People's Daily database, which covers detailed meeting content on the front page one day after the meeting. After November 2002, the People's Daily consistently reported on Politburo meetings, marking the earliest point for official documentation available to us. Later in this section we show that, different from their non-econ counterpart, the econ-focused Politburo are highly anticipated by investors.

Two Sessions – The Two Sessions, one of the foremost annual political conventions, is held each year in March. During this event, representatives of the Chinese people propose and deliberate on a wide array of policies spanning various sectors and industries. The focal point of the Two Sessions consistently revolves around the Government Work Report, a document presented by the Prime Minister. This report provides a comprehensive summary of the performance of the government and the economy over the preceding year while setting objectives for the current year. Of notable importance is the inclusion of the GDP target, which is eagerly anticipated and watched by the markets. The GDP growth target in China serves not only as a forecast for economic output but also as an early indicator of forthcoming fiscal and monetary policies. Of the 95 top government meetings, 14 meetings fall under this category.

Other Meetings – In addition to the non-econ Politburo meeting, the central government meetings not included in our sample of top government meetings are the Central Economic Work Conference (中央经济工作会议), State Council routine meeting (国务院常务会议), Central Financial and Economic Affairs Commission meeting (中央财经委员会会议) and Financial Stability and Development Committee meeting (金融稳定发展委员会会议). Among this group of meetings, the most influential is the Central Economic Work Conference, which occurs once a year in December and follows shortly after the December econ-focused Polit-

[12]There are, however, a few exceptions. For example, due to the impact of Covid-19, Politburo meetings sessions also addressed economic matters in March and May 2020. Another exception is the Politburo meetings held in September 2024 which is not in our sample. It marked the turning point of the government policy towards economic. The stock market rallied after this Politburo meetings.

buro meeting.[13] Compared with the December Politburo meetings, the Central Economic Work Conference is participated by a much larger group of participants with the objective to deliver and carry out the main theme of the December Politburo meeting. As such, by the time this particular meeting takes place, the main theme of the meeting has already been released to be public, reducing the anticipation effect. Moreover, while the Politburo meeting is a one-day event, the Central Economic Work Conference normally spans two to three days. The State Council routine meeting occurs on a weekly basis, rendering it too frequent for the scope of this paper. Conversely, the Central Financial and Economic Affairs Commission meeting as well as the Financial Stability and Development Committee meeting, introduced after 2018, lacks a regular meeting schedule, and some of their content remains undisclosed to the public.

2.2 China's Macro Announcements

We define macro announcements as publicly released news with regular frequency that discloses the most recent data for a macroeconomic variable. Our selection comprises several important macro announcements, ranked based on Bloomberg's "relevance score". This includes M2/New Loan, GDP, CPI, Trade (total imports and exports of China), PMI (manufacturing purchasing managers index), VAI (value added of industrial enterprises above the designated size), and RS (Retail Sales). During our sample period, we have 56 quarterly GDP announcements, 161 Trade announcements, 154 VAI announcements, 142 RS announcements, and 168 announcements for CPI, M2 and PMI, respectively. Trade Data are published by the General Administration of Customs of the People's Republic of China (GACC). M2 and New Loan are published by People's Bank of China (PBOC). The rest of the macro announcements are from National Bureau of Statistics of China (NBS).

As documented by Guo et al. (2023), the timing and the actual announcement day for macroeconomic releases in China are not fixed. Entities such as the People's Bank of China (PBOC), the General Administration of Customs of the People's Republic of China (GACC), and the National Bureau of Statistics (NBS) do not pre-schedule or communicate with the market regarding the precise day of data releases. These releases can occur within or outside the trading hours of the A-share market.

Within the macro announcements, the most influential release is the monthly announcement made by People's Bank of China (PBOC) concerning China's monetary aggregate data. We refer this announcement as the M2 announcement, but within the same statement made by the PBOC on its website is a collection of data reflecting the broad market credit and

[13]The Central Economic Work Conference normally follows the December Politburo meeting with lag of one week. The shortest lag is 2 days and the longest 13 days.

liquidity condition. This includes the M2 money supply, CNY New Loans, and the amount of total social financing. In China's bank-dominated financial system, the M2 money supply and the addition of New Loans stand out as the most significant macroeconomic variables that the market closely monitors. These indicators provide insights into the overall credit and liquidity conditions and reflect the stance of PBOC's monetary policy. In an effort to liberalize interest rates, PBOC has introduced innovative monetary targets like the Loan Prime Rate (LPR). However, M2 remains the most critical gauge of monetary policy stance in China. Guo et al. (2023) has documented the existence of a pre-announcement premium preceding monetary announcements in China. In our analysis, we conduct a comparative assessment of the pre-announcement premium before M2 announcements and those before Chinese Government meetings. We try to explore which types of events command higher risk premiums and represent greater systemic risk within China's stock market.

2.3 Anticipations of Politburo Meetings and M2 Announcements

While the Party Congress, the Plenums of the Central Committee, and the Two Sessions are all pre-scheduled and publicly announced, the specific dates of the monthly Politburo meetings are not disclosed to the public in advance. So is the M2 announcements. Nevertheless, Politburo meetings as well as M2 announcements are regularly conducted, enabling investors to establish a time frame for these meetings, as illustrated in Figure 1. Typically, the Politburo meeting takes place in the morning and is announced to the public either on the same evening or the following day. The dating convention differs from the Baidu search index for the pre-announcement returns. Specifically, we define day 0 in Figure 1 as the actual day of the Politburo meetings, regardless of whether the announcement of the meeting is made public on the same day or the next day. For M2 announcements in Figure 1, day 0 is the actual announcement day. In the pre-announcement calculation, day 0 is the first trading day that the market reacts to the announcement during trading hours. When calculating the pre-announcement return of Politburo meetings, day 0 is defined as one day after the actual meeting, while day -1 corresponds to the meeting day itself, as information about the meeting is not disclosed to the public during trading hours on day -1.

We utilize the daily Baidu search index of "Politburo meetings (M2)" as an empirical proxy to measure investor attention and information-seeking behavior related to Politburo meetings (M2 announcements). We further categorize Politburo meetings into two types: Politburo Econ and Politburo Other, with the former focusing on economic affairs. Figure 1 illustrates the trends in the Baidu search index for Politburo meetings as well as M2 announcements.

For Politburo Econ meetings, the Baidu search index exhibits a noticeable increase start-

ing four days prior to the actual meeting, reaching its peak one day after the meeting, and subsequently experiencing a gradual decline. This pattern suggests that investors are able to discern the approximate timing of Politburo Econ meetings and intensify their attention and information-seeking activities as the Politburo Econ meetings draw near, even though the specific meeting date is not publicly disclosed. In contrast, there is a distinct difference in investor behavior before Politburo Other meetings, where the Baidu search index only begins to rise on the actual day of the meetings, indicating that investor attention and information-seeking activities for Politburo Other meetings are relatively subdued until the day of the meetings. Although the specific dates of the Politburo economic meetings are not publicly disclosed, some investors may possess advance knowledge of these meetings due to the necessity of preparing for the government's highest-level economic discussions and gathering information and opinions from various sources.

Similarly, the Baidu search index also increases five days prior to the actual announcement of the M2 indicator. Interestingly, the Baidu search index of M2 peaks the day before the announcement. The Baidu search index before announcements show that investors can still ascertain the timing of Politburo Econ and M2 announcements, even though the specific date of the announcement is not publicly disclosed in advance. When comparing the Baidu search index of Politburo meetings and M2 announcements, it is evident that investors pay more attention to Politburo Econ meetings, as indicated by higher search intensity.

Investors pay meticulous attention to the announcements of government meetings, official documents, and reports concerning these meetings. The language employed in official reports tends to be complex and challenging for ordinary investors to decipher. Consequently, many analysts conduct meticulous word-for-word comparisons with prior meetings and provide interpretations of the information conveyed during the meetings. Notably, it's not just investors who are keenly interested; officials at various government levels also convene meetings to grasp the policy information and the overarching spirit conveyed during government meetings.

In summary, government meetings play a pivotal role in China. These meetings serve as a platform for selecting top leaders and engaging in discussions concerning the tone and general direction of monetary policy, fiscal policy, and policies across various industries. Government meetings represent one of the most insightful windows for observing China's policy landscape and gaining insight into the overall trajectory of the Chinese economy.

2.4 Data Sources

Our main sample ranges from January 2009 to December 2022 for top government meetings and macro announcements. One reason for choosing the period after 2009 is that the

People's Bank of China (PBOC) initiated the practice of publishing current monetary data on its website[14] beginning in 2009 (Guo et al., 2023), allowing for direct comparison of investors' anticipation effects before top government meetings and macroeconomic announcements. We collect the top government meetings held after 2009 from the official website of the Chinese Communist Party.[15] We further extend our sample by including top government meetings before 2009 by manually gathering the meeting dates and detail content from the People's Daily archives. The earliest Politburo meeting that we have official documentation is from November 2002, after which the People's Daily consistently reported on Politburo meetings.

The macroeconomic announcement data is sourced from the Bloomberg Economic Calendar (BEC) database, and we have cross-verified the timing with the official websites of PBOC, the National Bureau of Statistics (NBS), and the General Administration of Customs of the People's Republic of China (GACC). We also collect PBOC's Open Market Operations such as Standing Lending Facility (SLF) and Medium-term Lending Facility (MLF) from Wind. These monetary policy tools are of significant interest to investors.

To gather stock market price data, we acquired intra-day price index information for the Shanghai Stock Exchange (SSE) Composite Index from the RESSET High-Frequency Database. As part of our data preprocessing, we performed a data cleaning process on the raw SSE index. This involved the exclusion of the first 5-minute and the last 5-minute price observations during the opening and closing trading sessions, as the raw data set contains certain data errors. In terms of stock market volatility, we computed daily realized volatility as the square root of the sum of squared returns within 5-minute intervals of the SSE index. Additionally, we obtained the daily SSE index from CSMAR and compute the daily return which does not include the dividend distribution.

To assess the cross-sectional impact of Chinese government meetings and macroeconomic announcements, we employ the Chinese Fama-French three factors for Shanghai stock exchange from CSMAR. The factor return is weighted by floating market cap and contains the dividend distribution. In addition, we conduct robustness checks using the size and value factors introduced by Liu et al. (2019), after excluding the shell value associated with the smallest 30% of firms.

We have also collected the Chinese iVIX index data spanning from 2015 to 2022. Following the introduction of option trading, China Securities Index Co., Ltd. released the iVIX index, serving as the Chinese counterpart to the CBOE VIX. However, the iVIX index was inexplicably suspended in early 2018. Subsequently, we have employed the iVIX index provided by WIND beginning in 2018. We utilize the iVIX index as an alternative

[14] http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/2882666/index.html

[15] https://www.12371.cn/

measure to further examine the robustness of heightened uncertainty channel to explain the pre-announcement returns.

To demonstrate that investors have the ability to discern the timing of important Politburo meetings, we utilize the Baidu, Inc. search index, a product of a prominent Chinese search engine conglomerate. This search index serves as a proxy for capturing investor attention and information acquisition regarding these important government meetings. Baidu provides search index data from both computer and mobile phone searches. For our analysis, we exclusively employ the computer-based search index, as the mobile phone index is only available from 2011 onward. Our results, however, remain robust when using the mobile phone search index. The data series for the Baidu search index, using relevant keywords, are obtained from Baidu Inc.'s website.

To investigate the behavior of institutional investors in relation to the government meetings, we take advantage of the A-share money flow data from WIND, which begins available from 2011. Based on the high-frequency Level 2 data, WIND classifies orders below 40,000 RMB as from retail investors and those above 1 million RMB as from institutional investors' orders. Under this classification, WIND provides the stock-level daily buy and sell volumes for both retail and institutional investors. We aggregate the stock-level order flow data to the market level for the SSE index, using the SSE index composition information.

2.5 Summary Statistics of Market Returns and Volatility

We report the summary statistic of daily SSE index return and small-minus-big (SMB) portfolio return around the Government meetings and M2 announcements in Panel of A Table 1. The announcement day of the top government meetings is marked by GOV[0], while that for M2 announcements marked by M2[0]. The days preceding the announcements are marked by GOV[-n] and M2[-n], respectively. The average daily return on SSE is insignificant at 2 basis points for the full sample while the SMB return is around at 4 basis point. Compared with the U.S. market, the Chinese stock market is significantly more volatile. The daily standard deviation measured on the full sample is 1.36% for China and is 1.15% for US. Also different from the U.S market is the moderate event-day volatility, which is 1.47% on the announcements of top government meetings and 1.19% on M2 announcements, both of which are statistically insignificant from the daily volatility of 1.36% measured over the full sample. Compared with its two neighboring days, however, the market volatility of 1.47% measured on GOV[0] is significantly higher than the 1.26% measured on GOV[-1] and the 1.20% measured on GOV[+1]. For the M2 announcements, the same pattern is not observed in the aggregate stock market (i.e., SSE), but in the SMB portfolio. The SMB volatility of 1.09% measured on M2[0] is significantly higher than the 0.87% measured on M2[-1].

Panel B of Table 1 further reports the summary statistics of the daily volatility measures used in our analysis. Using the intraday data on SSE, we first construct the daily intraday volatility as a proxy of market volatility, using the high-frequency returns of the SSE index. Starting from 2015, we also have the iVIX index, computed from options on the SSE ETF50 index. The reported intraday volatility is calculated as the square root of the sum of squared log returns on SSE index sampled at 5-minute frequency, which is the daily level to be comparable to the volatility estimated using daily returns. The intraday volatility averaged across all trading days is 0.94%, which is smaller in magnitude compared with the 1.36% measured using daily returns. The average of the iVIX index for the full sample is 22.97%, larger than the VIX index in the U.S. market which is around 18.84%, consistent with the fact that Chinese equity market is much more volatile than the U.S. market. Also interesting is the pattern that the iVIX measured on GOV[0] is 22.95%, larger than the 22.40% on GOV[-1].

Finally, Panel C of Table 1 reports the pairwise correlations of daily market returns and the daily changes in volatility and iVIX. Measured over the full sample, daily changes in volatility and iVIX are positively correlated and the correlation coefficient of 0.26 is statistically significant. Compared with the correlation in U.S. markets which is around 0.32, however, this level of correlation is slightly weak. Similar to the U.S. market, the stock market returns in China are negatively correlated with changes in volatility (-0.26) and changes in iVIX (-0.14), and both correlation coefficients are statistically different from zero. The correlation between stock market returns and changes in volatility is comparable with that in U.S. which is around -0.29. However, compared with the negative correlation of around -0.80 between the daily returns of the S&P 500 index and daily changes in VIX, this level of negative correlation in China is relatively small. Also reported are the pairwise correlations measured on the event day of GOV[0], and GOV[-2] and GOV[-5], respectively. The negative correlation between stock market returns and changes in volatility (iVIX) is stronger five days before the announcement of government meetings. Also, the negative correlation between stock market returns and changes in volatility (iVIX) decreases (increases) to -0.5 (-0.17) two days before the announcement of government meetings. While in U.S., the negative correlation between stock market returns and changes in volatility (iVIX) increases (decreases) to -0.2 (-0.85) one day before the announcement of FOMC meetings. The negative correlation between stock market returns and changes in volatility on the GOV[0] is around the same magnitude as the full sample while the correlation with changes in iVIX is insignificant.

3 Empirical Results

3.1 The Pre-Govt Returns in Chinese Equity

We examine in this section the asset pricing implication of investors' anticipation of government meetings and the uncertainty associated with the occurrence of the meetings. For this, we measure the pre-Govt returns over the pre-announcement window, defined as the 48-hour window before the announcements of government meetings. Unlike the FOMC meetings in the U.S., government meetings in China are not all pre-scheduled. For the pre-scheduled meetings, such as the Two Sessions, Plenums of the CCP Central Committee and Party Congress Meetings, we designate the first day of the meeting as the event day.[16] For the unscheduled meetings such as the Politburo meetings on macroeconomic issues, we identify the event day as the first trading day after the actual meeting, since the announcements of such unscheduled government meetings are typically made public after the market close on the day of the meeting.

Quantifying the Pre-Govt Drift – The overall reaction of China's stock market in anticipation of government meetings can be best summarized by Figure 2, which plots the high-frequency cumulative return on the Shanghai Stock Exchange Index (SSE) surrounding government meetings. The solid line traces the average cumulative SSE return starting two days before and ending two days after the announcements of government meetings, using 95 scheduled and unscheduled meetings from January 2009 to December 2022. The event day is shaded in grey and the 95% confidence internal of the mean cumulative return is shaded in blue. As shown in Figure 2, the aggregate stock market in China demonstrates a pronounced upward drift in anticipation of the government meetings, reaching its peak on the day of the announcements of government meetings. We report in Panel A of Table 2 that the average pre-Govt return over the two-day window prior to announcements is 42 basis points with a t-stat of 2.22.

To further illustrate economic magnitude of the pre-Govt return, Panel A of Figure 3 plots a hypothetical time series of the SSE index that takes into account only return realized

[16]This approach differs from that of the FOMC studies, where the event day is the second day of the meeting when the FOMC makes their policy decision. In the Chinese setting, the uncertainty hinges on the occurrence of the meetings rather than the content of the meetings. Once the meeting begins, the surprise component is mostly gone. Unlike the U.S. markets, which react to the FOMC announcement with significantly higher volatility, the market volatility in China during the span of such pre-scheduled meetings is not significantly different from that of non-event days, indicating that the actual contents of such meetings are not market moving news. Another difference between FOMC and Chinese pre-scheduled meetings is the size of the meetings. There are around 19 participants for FOMC meetings while for Chinese pre-scheduled meetings, the participants can amount to a few hundreds and even thousands for the Two Session. It's challenging to assume the content of the meetings is public at the end of the meetings.

two days before the government meetings and ignores the return on days outside of the pre-announcement window. In parallel to this pre-announcement cumulative returns, Figure 3 further plots the cumulative returns using all trading days. From 2009 through 2022, the cumulative SSE index return (excluding distribution) is 52.87% using all trading days, and 37.68% using only the pre-announcement days of top government meetings, which occurs on average 7 times per year. Effectively, a substantial portion of the equity premium is earned during the pre-announcement window before the top government meetings. Moreover, as depicted by the blue line in Figure 3, excluding the two-day pre-announcement window and the one-day post-announcement window, the cumulative SSE index return using all other days is a mere 7.78%. In other words, outside of the government meetings, the cumulative capital gain of the SSE index is close to zero from 2009 through 2022.

The time-series variation of the cumulative returns within the pre-announcement window (i.e., the red line) also differs substantially from that outside of the top government meetings (i.e., the blue line), underscoring the distinctive nature of government meetings and the systematic risk associated with them. For example, throughout the 2015 boom and bust of the Chinese stock market, the blue line moves up and then down, while the pre-Govt return captured by the red line climbs up steadily. Similarly, the SSE index drops significantly after the beginning of 2018, driven by the combination of the government-led deleveraging campaign and the US-China trade war, while the pre-Govt return elevates gradually post 2018.

The Pre-Govt Drift by Meeting Types – The pre-announcement returns associated with the different categories of the government meetings are reported in Panel A of Table 2. We find that the pre-announcement drift before the Politburo meetings on macroeconomics to be the most important, with a pre-announcement drift of 52 basis points with a t-statistic of 2.06. By contrast, markets do not respond to the Politburo meetings on non-economic issues and the pre-announcement return averaged to -4 basis points and is statistically insignificant, highlighting the market's focus on government meetings dedicated to economic issues.

Importantly, this difference in pre-announcement drift between the Politburo meetings on economic and non-economic affairs is also consistent with markets' anticipations as depicted in Figure 1. Associated with the heightened anticipation of the econ-focused Politburo meetings is the significant pre-Govt drift. By contrast, associated with the lack of markets' anticipation of the Politburo meetings on non-economic issues is the absence of any significant pre-Govt drift.[17] Taking advanage of this contrast between econ and non-econ Politburo

[17]Although the drift prior to the Party Congress & Plenums is economically large at 37 basis points, it is not statistical significant due to the limited number of observations in the sample. The pre-announcement drift before the Two Sessions is the least pronounced among the government meeting announcements, standing at approximately 7 basis points. To take out the outliers, we further remove the top and bottom 1% of

meetings, which are otherwise identical and attended by the same group of top leaders in China, Appendix A provides a comprehensive analysis on the drivers of the pre-Govt returns.

Pre-Govt vs Pre-Macro – To underscore the unique importance of government meetings in China, we further examine the pre-announcement returns prior to the macro announcements in China after 2009. We set the macro announcement day as the first trading day when the stock market gains access to the macroeconomic indicator. If the macro announcement is made after 15:00 PM on a trading day or during weekends, we set the following trading day as the announcement day. Similar to the case of pre-Govt return, we measure the pre-Macro return over a 48-hour window prior to the announcement day.

We report the pre-announcement stock return before important macro announcements in Panel B of Table 2 and monetary policy operation such as SLF and MLF as well as non-events days in Panel C. Non-events days are the trading days that are not macro announcement days and not in the five-day window around government meeting announcements. In contrast to the significant pre-Govt drift, the pre-announcement stock returns associated with macroeconomic indicators or PBOC operations such as SLF and MLF are statistically insignificant. In the case of the M2 announcements, which contain broad measures of money supply, credit, and liquidity in China's economy, the pre-M2 drift is 16 basis points with a statistically insignificant t-statistic of 1.29. Focusing on the M2 announcements, Guo et al. (2023) document a positive and significant pre-M2 drift. One primary difference is that we use the SSE Index to measure the aggregate stock market return, which is represented more by large-cap stocks, while the pre-M2 drift documented by Guo et al. (2023) is driven primarily by small-cap stocks. This differentiation between the significant pre-Govt drift and the insignificant pre-M2 drift at the aggregate market level also highlights the unique importance of China's top government meetings.

Drawing a parallel with the United States, the top government meetings in China assume a similar position as the FOMC meetings in the U.S. It's also true that the pre-FOMC drift is significantly higher than the pre-Macro drift in the US, indicating a higher premium for the heightened uncertainty. As documented by Hu et al. (2022), the pre-announcement return before the FOMC meeting is approximately 27 basis points, whereas even for one of the most significant macro announcements, the Non-farm Payroll, it stands at around 10 basis points. The higher pre-announcement drift associated with the announcements of both the US FOMC meeting and the Chinese government meeting underscores the pivotal roles played by the US Federal Reserve and the Chinese Central government in shaping the financial markets and the macro economy. It further demonstrates that despite the many

the returns, and the average pre-announcement drift remains significant, both economically and statistically. Examining the empirical distribution of the pre-Govt stock returns, we find that outliers do not exert a dominant influence on the results.

differences between the Chinese and US stock markets and their political economy, there is a common mechanism in place with respect to the markets' reaction to highly anticipated meetings.

3.2 The Channel of Heightened Uncertainty

This section examines the driver of the pre-Govt returns via the channel of heightened uncertainty. In explaining the pre-announcement drift, one central theme of the heightened uncertainty channel is the accumulation of heightened uncertainty and its subsequent resolution. In the two-risk model of Hu et al. (2022), the market impact of the announcement is given by $\sigma\epsilon$, where ϵ is the news shock and σ captures the impact uncertainty. Central to the model is the presence of this second risk concerning σ, and, depending on the realization of σ, the same news ϵ can have substantially different market impact.

Leading up to the announcement, the model specifies three time windows: 1) the accumulation period is when the impact uncertainty builds up in anticipation of a major announcement; 2) the pre-announcement period is when the heightened uncertainy is resolved and the pre-announcement drift is realized; 3) the announcement period is when the news shock ϵ is realized. Mapping the two-risk model into the pre-Govt setting, we examine the impact of the accumulation-period market volatilty on pre-Govt returns, and provide evidence of resolution of impact uncertainty during the pre-announcement window. Taking advantage of the institutional trading data in China's equity market, we document distinctive trading patterns by institutions under the accumulation of heightened uncertainty and its subsequent resolution.

3.2.1 Pre-Govt Returns Under High and Low Uncertainty

In the context of the FOMC meetings, market uncertainty is known to play a crucial role in explaining the pre-FOMC returns of stocks. Across FOMC meetings, Lucca and Moench (2015) finds the VIX index to be the most important predictor of the pre-FOMC drift. Focusing on the time window leading up to the FOMC announcement, Hu et al. (2022) link the pre-FOMC drift directly to the accumulation of heightened uncertainty and its subsequent resolution.

For the Chinese market, we use the realized market volatility as the main conditioning variable to examine the cross-meeting variation in the pre-Govt drift. The VIX equivalent in China becomes available only after the introduction of options trading in 2015, and is also used in our analysis. Following Hu et al. (2022), we focus on the market uncertainty during the accumulation period when uncertainty builds up in anticipation of the meeting. We estimate the daily realized volatility of the SSE index using the intra-day 5-minute returns,

and then average the realized volatility over the accumulation period, which begins at seven days and ends at four days before the announcement. Using the market volatility or the iVIX index as proxies for market uncertainty, we sort top government meetings into two groups, with the high-uncertainty group containing meetings with above-median market uncertainty during the accumulation period, and the low-uncertainty group containing the rest.

Focusing on the high- and low-uncertainty groups separately, Figure 4 repeats the same plot of high-frequency cumulative SSE returns as in Figure 2, demonstrating a stark contrast between the pre-Govt returns under high and low market uncertainties. To the extent that there is a positive and significant pre-Govt drift, it is driven exclusively by the high-uncertainty group. As shown in Panel A of Table 3, sorting top government meetings by their accumulation-period market volatility, the average pre-Govt return in the high-uncertainty group is 91 basis points and highly statistically significant, whereas the average pre-announcement return is a mere negative six basis point in the low-uncertainty group.[18] We also check the Sharpe ratio of the pre-Govt return since the sorting is based on volatility. The Sharpe ratio for high-uncertainty group is statistically significant at 0.4 and while for low-uncertainty group is insignificant at -0.08.

Using China's iVIX index as an alternative proxy for market uncertainty, we observe the same pattern of a positive and significant pre-Govt drift under high market uncertainty and an insignificant average pre-Govt return under low market uncertainty. As shown in Panel B of Table 3, the difference between the high- and low-uncertainty groups is 82 basis points and statistically significant at the 5% level.

This finding of market uncertainty as an important driver of the pre-announcement return is found to be unique only to the top government meetings. Outside of the top government meetings, we do not find the market uncertainty to be predictive for market returns. Using market uncertainty as the conditioning variable, we further examine the pre-announcement returns for the M2 releases and do not find any evidence that the realized volatility during the accumulation period can predict the return realized over the pre-announcement period. As reported in Table 3, the average difference in pre-M2 return between the high- and low-uncertainty groups is statistically insignificant from zero.[19] Similarly, using iVIX as an

[18]To ascertain whether the positive relationship between the pre-Govt returns and accumulation-period market volatility is driven only by the volatile market condition in 2015, we exclude the top government meetings held in 2015 and repeat the same exercise. The results remain robust after excluding the 2015 observations. The average pre-Govt return difference between the high-uncertainty and low-uncertainty groups is 69 basis points and is statistically significant at the 10% level. Regressing the pre-Govt drift on the accumulation-period volatility, the regressing coefficient is positive at 1% level with an R-squared around 20%. Overall, the positive relationship between market volatility during the accumulation period and the pre-Govt returns is not solely driven by the exceptional circumstances in 2015.

[19]The accumulation period for M2 announcements is around the beginning of the month, and the positive accumulation-period return mainly comes from the turn of month effect. Also, the significant difference in the

alternative proxy for market uncertainty, we also do not find evidence that the pre-M2 returns differ under high and low market uncertainty. Focusing on regular trading days outside of the government meetings and the M2 announcements, as reported in Table 3, we do not observe an significant difference in return conditioning on high and low market uncertainty, using either the realized volatility or the iVIX index.

We further test the heightened uncertainty channel in Table 4 for Politburo meetings with econ and non-econ focus. Using the market volatility during the accumulation period as a conditioning variable, we sort the Politburo meetings into high and low uncertainty groups, which contain the above- and below-median meetings. For the econ Politburo meetings, the average pre-Govt return in the high-uncertainty group is an economically and statistically significant 94 basis points, while the pre-Govt return in the low-uncertainty group is insignificant. By contrast, this pattern of higher pre-Govt drift under higher market uncertainty is absent for the non-econ Politburo meetings.

3.2.2 The Resolution of Heightened Uncertainty

Important to the heightened uncertainty channel is the mechanism of resolution of uncertainty, which takes place during the pre-announcement window and in turn gives rise to the premium for heighten uncertainty (i.e., the pre-announcement drift). As the pre-Govt drift is significant only under the high uncertainty group, our hypothesis is that the resolution of uncertainty should occur only under high market uncertainty. Focusing on the daily changes in market uncertainty leading up to the announcement of top government meetings, Table 5 provides exactly this evidence.

Two days before the announcement of top government meetings, which is the first day of our pre-announcement window, we observe significant reductions in market uncertainty, as measured by either the realized market volatility or the iVIX index, in the high uncertainty group. By contrast, the same pattern of resolution of uncertainty is not observed in in the low uncertainty group. The change of realized market volatility and iVIX index two days before the high- and low-uncertainty government meetings are significantly different as shown in column (7) and column (8).

We also report the returns of the SSE index for the high- and low-uncertainty groups separately in Table 5. Along with the resolution of uncertainty, when both the market volatility and the iVIX Index decreases significantly, we also observe positive and economically significant stock return two days before the announcement of top government meetings. The

post-M2 return between high and low volatility groups is mainly due to the easing monetary policy in 2009. Excluding the M2 announcements in 2009, the difference of post-M2 is no longer significant. By contrast, excluding 2009 does not affect the significant pre-Govt return or the significant difference in pre-Govt return between the high and low volatility.

stock return one day before the government announcements continues to be positive and economically large, contributing to the pre-Govt return of 91 basis points in high-uncertainty group. Overall, the combined evidences in Table 5 and Table 3 illustrate that a positive and significant pre-Govt drift in the high uncertainty group is accompanied with a decreasing market uncertainty during pre-announcement period, consistent with the prediction of Hu et al. (2022).

3.2.3 Examples of Government Meetings Under High Uncertainty

To obtain an in-depth understanding of the pre-Govt returns at the meeting level, we focus on those government meetings taking place under unusually high uncertainty. Included in Panel A of Figure 5 are all top government meetings between January 2009 and December 2022, with the accumulation-period market volatility on the horizontal axis and the pre-Govt return on the vertical axis. Consistent with the results in Section 3.2.1, there is a strong positive relationship between the pre-Govt return and the accumulation-period market volatility and the R-squared of the corresponding regression is 22% (Panel B of Table 11). We further highlight those episodes when the top government meetings took place under unusually high market volatility – meetings with accumulation-period market volatility above 1.5% are marked in orange circles.[20] This includes one meeting during the 2022 Shanghai lockdown, four meetings surrounding the 2015 stock market boom and burst, and three meetings during the 2009 aftermath of the U. S. financial crisis. One commonality of these episodes is stressed market conditions and heightened policy uncertainties.

The 2022 Shanghai Lockdown – The April Politburo meeting in 2022 took place when Shanghai was under a prolonged city-wide lockdown. Initially planned for a duration of just four days, the lockdown began on March 28 for Pudong and April 1 for Puxi and was lifted two months later on June 1. As the first meeting in our sample since the onset of this severe lockdown, this particular Politburo meeting is held on 2022-4-29 amidst heightened market uncertainty with a pre-Govt return of 2.96%.

The 2015 Stock Market Crash – Since late 2014, the Chinese stock market began a rapid ascend. The Shanghai Stock Exchange (SSE) Composite Index climbed steadily from 2,450 in November 2014 to an all-time peak of 5,166 on June 12, 2015, amounting to an increase of 111% in less than a year. Just as rapidly, over a span of less than a month, the SSE Index dropped by 39% to 3,507 on July 8.[21] Within this tumultuous period, the realized pre-Govt returns are large and economically significant. The July Politburo meeting on 2015-7-20 was

[20] As reported in Table 1, using the intraday SSE returns to measure the daily market volatility, the full-sample mean is 0.94% and its standard deviation is 0.57%.

[21] The SSE Index further decreased to a level below 3,000 on August 26, a 57% drop from the peak.

the first meeting in our sample after the stock market crash and the corresponding pre-Govt return was 4.32%. It was followed by the unprecedented second July Politburo meeting on 2015-7-30 and the corresponding pre-Govt return was 1.16%. Also circled in orange and occurring amidst high market volatility are the February Politburo meeting on 2015-2-12 with a pre-Govt return of 1.01%, and the April Politburo meetings on 2015-4-30 whose pre-Govt return is -0.78%, which is an exception to our story. Not marked in orange circle, but also important are the 2014-12-05 Politburo meeting during the stock market ascend and the 2015-10-12 Politburo meeting amidst the aftermath of the stock market crash. The respective pre-Govt returns 4.49% and 5.53%.

The elevated stock volatility in 2015 was driven not only by stock market speculations and government regulations but also by uncertainty about macroeconomic slowdown with declining real estate industry and missing new growth engines. A prominent debate during this period centered on whether the Chinese economy was experiencing a U-shaped recovery or an L-shaped slowdown. Amidst this high stock market volatility, Politburo meetings gained paramount importance and were highly anticipated by market participants. The first July Politburo meeting in 2015 unveiled the 13th Five-Year Plan (十三五规划), marking the initial plan of the new government's tenure.[22] The second July Politburo meeting introduced measures for structural adjustment and systematic risk prevention after experiencing the recent stock market crashes. To a large extent, the Politburo meetings held in July resolved the markets' uncertainty with respect to the government's attitude towards the economic slowdown.

The 2009 Aftermath of the U.S. Financial Crisis – The 2007-08 financial crisis in the U.S. brought significant pressure on China's economy due to its high dependence on exports. Our sample in 2009 includes five top government meetings. Marked in orange circles are the realized pre-Govt returns of 3.47% for the February Politburo meeting (2009-2-23), 4.88% for the March Two-Sessions (2009-3-5), and 3.42% for the September Plenum (2009-9-15). Not marked in orange circles, but also important is the July Politburo meeting (2009-7-23) with a pre-Govt return of 3.52%. One exception to our finding is the November Politburo meeting (2009-11-27), whose pre-Govt return of -6.1% is the most negative in our sample, indicating the possibility that heighten uncertainty was not resolved before the announcement of this particular Politburo meeting.[23]

[22]The Five-Year Plan has consistently played a central role in coordinating state activities across various policy areas, especially during periods of uncertainty surrounding economic slowdown. It outlined objectives for achieving a moderately prosperous society in all respects (全面建成小康社会), with a focus on maintaining economic growth and poverty alleviation.

[23]Because of the positive message conveyed in the Politburo meetings that the government would continue to implement proactive fiscal policy and moderately ease monetary policy, the post-Govt return for this November meeting is positive at around 3%.

One crucial and lingering concern in the market at that time revolved around how and to what extent the Chinese government would stimulate the economy through fiscal and monetary policies. The resolution of this lingering uncertainty about the stimulus plan occurred after certain key government meetings. The Politburo meeting in February 2009 and the Two Sessions in March 2009 help to resolve the uncertainty about the GDP target for 2009. The Politburo meeting in February typically discusses the "Government Work Report," which includes the GDP target and is later presented at the Two Sessions in March. These two events garnered significant global attention because investors were uncertain about whether the Chinese Government would set the GDP target for 2009 at 8% amidst the worsening global economy and whether additional fiscal stimulus policies would be implemented to achieve GDP target. Following the Prime Minister's confirmation of the 8% GDP target at the Two Sessions, the stock market rallied in the first half of the year in addition to the significant pre-Govt returns.[24]

3.2.4 Institution Trading in Anticipation of Government Meetings

In explaining the pre-announcement drift, one central theme of the heightened uncertainty channel of Hu et al. (2022) is the accumulation of heightened uncertainty and its subsequent resolution. This mechanism has a direct impact on investors trading behavior. Specifically, the emergence of heightened uncertainty triggered by the impending government meetings induces risk-averse investors to stay out or hedge their equity positions during the accumulation period, and then come back to the market as the heightened uncertainty gets resolved.

For the Chinese stock market, we can take advantage of the publicly available level-2 data from Wind Financials to examine the patterns of institution trading in anticipation of Government meetings. The Wind data categorizes stock transactions as either institutional or retail trades based on their trade size. Specifically, orders with a trade size exceeding 1 million RMB are classified as originating from institutional investors, while orders with a trade size of less than 40 thousand RMB are considered as trades made by retail investors.[25]

[24]The government decides to implement expansionary fiscal policy by proposing the government budget a record-high deficit of 950 billion RMB at that time and authoring the Ministry of Finance to issue 200 billion RMB in bonds on behalf of local governments to help them raise funds. The monetary policy is set to be moderately easing with broad money supply growth (M2) at around 17% and new loans exceeding 5 trillion yuan.

[25]There is a valid concern regarding the use of trade size as a proxy for retail investors, given the prevalence of computer algorithms that segment large institutional orders into a series of smaller transactions. However, this concern is not applicable when using trade size as a proxy for institutional investors. It is highly unlikely that a typical retail investor would engage in transactions exceeding 1 million RMB in size in the exchange market in a single transaction.

In our analysis, we first aggregate the stock-level transaction to the index-level transaction data for the SSE index. We then calculate the index-level buy-sell imbalances (BSI) for large institutions by subtracting the aggregate sell trading volume from the buy trading volume for orders larger than 1 million RMB. A positive BSI indicates that institutional investors are buying more aggregate stocks than selling. For easy interpretation, we further normalized the BSI so that it has mean zero and a standard deviation of one. The time-series pattern of institution BSI is plotted in Figure 6. Notably, during periods of heightened stock volatility, especially around 2015, the institution BSI displays a larger magnitude, approximately 10 times higher than the normal standard deviation.

Figure 7 summarizes the institutional trading behavior in anticipation of the Chinese Government meetings by plotting the abnormal institutional BSI on days leading up to the event day. Specifically, plotted in Figure 7 are the regression coefficients β_i in the following regression,

$$\text{Institution BSI}_t = \alpha + \sum_{i=-7}^{0} \beta_i * \mathbb{I}_t(\text{GOV}_{t+i}) + \epsilon_t \,.$$

where BSI_t is the day-t institutional buy-sell imbalance and GOV_t is the event dummy, equaling one if day t is an event day. For each i, β_i captures the abnormal BSI by institutional investors i days before the announcement of the Government meeting.

As shown in Figure 7, leading up to the announcement day, institution investors are net sellers of SSE five days ahead and then become net buyers two days before the announcement of the Government meeting. The net sell on day -5 and the net buy on day -2 are statistically significant, while the abnormal BSI on other days are insignificant. Moreover, the economical significance of the effect is also large with the net sell on day -5 and the net buy on day -2 both over 0.2 standard deviation of the BSI. This trading behavior of large institutional investors aligns with the heightened uncertainty channel. As in the two-risk model of Hu et al. (2022), during the accumulation period, institutional investors anticipate the forthcoming critical government meeting, which is associated with a substantial level of impact uncertainty. As a result, investors may choose to temporarily withdraw from the market because of the heightened uncertainty and sell more shares to reduce their risk exposure. As the event day approaches, investors, especially the sophisticated institutional investors with an advantage in information gathering, acquire more information about the impact uncertainty of the upcoming meeting. Along with the resolution of uncertainty, such investors come back to the market to buy more stocks.

As detailed in Section 3.2.1, there is a substantial difference in the magnitude of the pre-Govt drift conditioning on market volatility. In particular, the pre-Govt is large and significant only when the market uncertainty is high. For this reason, we examine the

unique BSI pattern by conditioning on market volatility. For the market volatility to be predictive of the BSI on day -5, we use the average realized volatility from day -7 to -6 to sort the Government meetings into high- and low-uncertainty groups, with the high-uncertainty group containing the top 50% of announcements with the largest average realized stock volatility.

In the bottom panel of Figure 7, we plot the same BSI pattern leading up to the event day as in the top panel. Consistent with the observation that the pre-Govt drift is significant only for the high-uncertainty group, we find that the pattern of abnormal sell on day -5 and the abnormal buy on day -2 is present only for in the high-uncertainty group. In other words, the trading evidence in support of the heightened uncertainty channel is present only when the pre-Govt drift is also present. Under the low uncertainty group, both evidences are absent, indicating that the heightened uncertainty channel is not an important driver when the market volatility is low.

Table 6 further combines the unique pattern in BSI together with market returns. Consistent with the heightened uncertainty channel, as institutional investors net sell on day -5, in anticipation of the impending event, the SSE return drops on average by -0.78%. As institutional investors net buy on day -2, the SSE return increases on average by 0.43%. This pattern of negative price drop accompanying the accumulation of heightened uncertainty and positive price increase due to the resolution of uncertainty is exactly what is predicted by the model of heightened uncertainty by Hu et al. (2022).

Our empirical observations reveal that institutional investors tend to significantly over-sell stocks five days prior to top government meetings, while there is also an observable increase in online searches for "Politburo meetings" in the period leading up to the Politburo Econ meetings. We link these two empirical patterns to confirm that the institutional over-sell is indeed associated with the anticipation of the upcoming meetings. Panel A of Table 7 demonstrates a negative correlation between the institutional BSI on day -5 and the daily change in the Baidu search index for Politburo meetings with an economic focus. Specifically, when institutional investors net sell on day -5, there is a notable increase in Baidu searches for "Politburo meeting," both on the same day and in the subsequent trading days. The R-squared value for the contemporaneous relationship between the BSI on day -5 and the change in the Baidu search index is approximately 24% prior to Politburo meetings with an economic focus. In contrast, this relationship is not observed before Politburo meetings with other focus, reinforcing the uniqueness of Politburo Econ meetings, during which investors increase their information-seeking activities and adjust their market positions accordingly.

Following the important observation that institutional investors over-sell five days before the government meetings, we further use this information to see if it can predict the subsequent over-buying and the reversal in market return two days before the announce-

ment. As shown in Panel A of Table 8, past BSI's are in general predictive of future BSI's with a positive coefficient, indicating that institutional BSI's are positively auto-correlated on normal days. Against this established empirical pattern, the BSI on day -5 before the government meeting announcements can significantly predict the BSI on day -2 with a negative coefficient, indicating that the over-sell on day -5 is indeed informative of the over-buy on day -2. The fact that this reversal trading behavior is absent on normal trading days reflect the unique trading environment leading up to the announcement of the government meetings. Moreover, the over-selling on day -5 can predict not only the over-buying on day -2, but also the pre-Govt returns on day -2. This set of evidence connects the two central ingredients of the heightened uncertainty channel, linking the accumulation of heightened uncertainty closely to its resolution. As shown in Table 8, this pattern is present only for the high-uncertainty group, when the pre-Govt drift is positive and significant.

We further show the time series variation of the normalized BSI five days and two days before the government meeting announcements in Panel A of Figure 8. The negative relationship between the BSI on day -5 and day -2 is obvious especially during high market volatility environment such as 2015 and 2020. When approaching to a government meeting with high uncertainty, institutional investors tend to over-sell the stocks on day -5 and then subsequently over-buy on day -2. This reversal trading behavior is absent on M2 announcements in Panel B of Figure 8, further demonstrating the uniqueness trading pattern before the government meetings.

3.3 Other Channels: Information Leakage and Government Put

We examine in this section other drivers of the pre-Govt returns. We find evidence of information leakage under low market volatility, as well as in the pre-2009 sample. We do not find evidence in support of a government put.

3.3.1 Information Leakage Under Low Market Volatility

Our results in Section 3.2.1 show that the pre-Govt return after 2009 is large and significant when the market volatility during the accumulation period is high, and becomes insignificant when the market volatility is low. This finding differs from the pre-FOMC drift, which is found to be positive and significant in both the high and low volatility groups. Moreover, while the heightened uncertainty channel is found to dominate under high market uncertainty after 2009, the empirical evidences summarized in the previous sections indicate that, under low market uncertainty in the post-2009 sample, the heightened uncertainty channel is no longer important in explaining the pre-Govt returns. Instead, our evidence in

this section is suggestive of an information channel for top government meetings with low volatility after 2009.

We begin by investigating the relationship between pre-Govt and post-Gov stock returns, as presented Table 9. The post-Gov stock returns reflect how the stock market responds to the content of the government meeting announcement. If informed trading occurs before the government meeting, the correlation between pre-Govt and post-Gov stock returns should be positive. Regressing post-Gov stock returns on pre-Govt stock returns for the post-2009 sample, the correlation is statistically insignificant and the corresponding R-squared is 0.3%. This echoes the finding of Lucca and Moench (2015), who conclude that there is no empirical evidence in support of informed trading.

We further divide the sample into high and low market uncertainty, based on the median value of the realized volatility during the accumulation period. As shown in Table 9, when the uncertainty is low during the accumulation period, the pre-Govt returns can positively predict the post-Gov returns, with a significant coefficient of 0.29 and the R-squared of the predictive regression is 5.24%. By contrast, under the high-volatility group, the pre-Govt returns are not predictive of the post-Govt returns, consistent with the fact that the heightened uncertainty channel dominates in the high volatility group.

3.3.2 Evidence of Information Leakage from the Pre-2009 Sample

We further extend the sample period of top government meetings back to November 2002 and calculate the pre-Govt returns before 2009 which is insignificant, averaging only around 11 basis points. The insignificant pre-Govt return as well as the insensitivity to market volatility shown in Figure B1 before 2009 is in line with the information channel where the pre-Govt return is predictive of post-Govt return. That's what we find in the pre-2009 sample. Regressing post-Gov stock returns on pre-Govt stock returns for top government meetings before 2009, the coefficient is statistically significant around 0.26 and the corresponding R-squared is as high as 26%.

This finding of positive stock return autocorrelation is unique only before the top government meetings. We further repeat the same regression for all trading days from November 2002 to December 2008 in Figure 9. It shows that previous two-day stock return fails to predict the next day stock return for all trading days and even exhibits an insignificant negative correlation with 0.2% R-squared.

While the channel of heightened uncertainty dominates in the post-2009 sample, we show evidence of information leakage channel in the pre-2009 sample, where the pre-Govt drift reflects some leakage of information regarding the upcoming meetings which is the news shock ϵ in the two-risk model. The news shock could be either positive or negative and consequently

the pre-Govt drift before 2009 is insignificantly different from zero. However, the dominant channel after 2009 switches to the uncertainty channel where the pre-Govt drift reflects more of the second risk λ which is the impact uncertainty. Depending on the realization of σ, the same news ϵ can have substantially different market impact. When λ is large, the impact uncertainty is large, giving rise to heightened uncertainty in anticipation of the top government meeting, leading to a significant positive pre-Govt drift as the compensation for the second risk.

3.3.3 The Possibility of a Government Put

The significant positive pre-announcement return observed prior to top government meetings is often attributed to the "Government Put" channel, similar to the "Fed Put," where investors rely on government intervention to stabilize a crashing stock market. Due to this expectation of government support, the stock market may rally before the top government meetings. It's a intuitive and well-documented channel for FOMC setting (Cieslak and Vissing-Jorgensen, 2021) and we test it in Table 10 to see if it still holds for the Chinese top government meetings.

The main intuition from the government put channel is that if the stock market has performed poorly in the past, investors believe that the government has the incentive to intervene the market and announces stimulus plan during top government meetings to boost the stock market. Having this belief, the investors may act in advance and buy stocks before the actual government meeting. Under the government put channel, lower stock return before the meetings will lead to higher pre-Govt return.

To test the government put channel, we run regression of our pre-Govt return on the stock return during accumulation period which is from day -7 to day -4 for all top government meeting in the post-2009 sample. The coefficient is insignificant around 0.004 with an R-squared value close to zero. When using stock returns from the previous month, which is days -27 to -7, to predict pre-Govt returns, the coefficient is -0.28 but remains insignificant. In contrast, our proxy for market uncertainty, stock volatility during the accumulation period, explains a significant portion of the pre-Govt return with an R-squared value around 22%. It's clear from the Table 10 that the dominant channel behind the significant positive pre-Govt after 2009 is the heightened uncertainty channel instead of the government put channel. There may be few top government meetings providing stimulus plan to protect the financial market from crashing, but it's not the main reason why our pre-Govt return is significant in the post-2009 sample.

We further separate all the government meetings into the unscheduled meeting which is the Politburo Econ and the pre-scheduled meetings which includes Two Session and Plenary

Session and repeat the same regression as before. The results for this subsample mirror those of the full sample: past stock returns do not predict pre-Government returns, while accumulation volatility remains a significant predictor. The heightened uncertainty channel is particularly pronounced in the pre-scheduled meetings, yielding a higher R-squared value of around 37%, compared to approximately 15% for the unscheduled meetings.

3.4 Macro Announcements and Pre-M2 Returns in China

In this Section, we explore the pre-announcement return of the M2 announcements and investigate the extent to which the heightened uncertainty channel can also help to explain the pre-M2 drift. Extending our analysis beyond the aggregate stock market, we also examine the cross-sectional pricing impact of both the government meetings and the M2 announcements, using the pre-announcement returns of the three risk factors commonly used as the equity market benchmark in China. Specifically, we use the market, size, and value portfolios from the China Stock Market & Accounting Research Database (CSMAR). The market factor is the return of the aggregate stock market over the riskfree rate, the size (SMB) factor is the difference in return between small- and big-cap stocks, while the value (HML) factor is the difference in return between high and low book-to-market stocks.

3.4.1 The Pre-M2 SMB Drift

Using the same definition, we measure the pre-Govt return of a portfolio over the 48-hour window prior to the announcement of top government meetings. Panel A of Table 11 reports the pre-announcement returns of the three risk factors. In the case of top government meetings, we observe a positive and significant pre-announcement drift of 47 basis points in the market factor, similar in magnitude to the pre-Govt return of the SSE index. By contrast, the pre-Govt return for the SMB and HML factors, the pre-Govt return is small in magnitude and statistically insignificant. This suggests that top government meetings play a crucial role in the aggregate market, with equal importance on the cross-sectional stocks. In other words, the pre-Govt drift is system-wide, not driven by the performance of a group of stocks.

Measuring the pre-M2 return of a portfolio over the 48-hour window prior to the M2 announcements, Panel A of Table 11 reports the pre-M2 returns for the three risk factors. Consistent with our findings for the SSE Index, there is no statistically significant pre-M2 drift in the market factor. By contrast, the pre-M2 return for the SMB factor is 36 basis points and significant and the pre-M2 return for the HML factor is -26 basis points and also significant, indicating that the small and growth stocks are more sensitive to the M2 announcements. In China, smaller stocks often align with growth stocks, which helps explain

the contrasting value of the pre-M2 drift for the SMB and HML factors. Our result indicates that the pre-announcement drift before the M2 announcements documented by Guo et al. (2023) is primarily driven by small stocks.

In Panel B of Figure 3, we plot the time series of the pre-M2 SMB cumulative return against all trading days as well as the days outside the pre-M2 and post-M2 window. From 2009 through 2022, the cumulative return of the SMB factor is substantial, at around 130%, much stronger than the performance of the aggregate market. Against this backdrop, we plot in red the cumulative return of the SMB factor earned during the pre-M2 window. While the pre-M2 window accounts for only a small fraction of the total number of trading days, the pre-M2 accumulative return accounts for a substantial portion of the full-sample cumulative return. Moreover, the pre-M2 SMB cumulative return increases steady while the SMB returns realized on other days fluctuates significantly, indicating different economic driving forces behind the two types of returns. During the boom and bust of the Chinese stock market in 2015, the SMB return drops dramatically whereas the pre-M2 SMB return, represented by the red line, exhibits a steady upward drift. The SMB factor seems to lose its power after 2017 and the cumulative return steadily decreases until the beginning of 2021. In contrast, our pre-M2 SMB return remains elevated over the same period. Given their unique exposure to the M2 announcements, our result also provides the suggestive evidence that a fraction of the risk in small stocks is related to the liquidity and financing condition in China's economy.[26]

3.4.2 Pre-M2 SMB Returns and Market Uncertainty

Given the significance of the pre-M2 SMB return, we further further investigate the extent to which the variation in the pre-M2 SMB returns be explained by the market uncertainty. The results are summarized in Panel B of Table 11. Focusing on top government meetings, the economic significance of the predictive regression is such that 1% increase in the accumulation-period market volatility prior to a government meeting predicts an increase of 1.8% in pre-Govt market returns. The R-squared of this predictive regression is 22%, an unusually high number for predicting returns at this high frequency. For the cross-sectional portfolios such as SMB and HML, the accumulation-period volatility has some predictability for the respective returns, but the results are much weaker, indicating the unique importance of the government meetings on the aggregate stock market.

Focusing next on the M2 announcements, we find that the accumulation-period volatility cannot explain the pre-M2 market return but is significant in explaining the pre-M2 SMB

[26] Lee et al. (2023) shows the higher average returns in small stocks is due to greater exposure to IPO regulatory risk through their shell value.

and HML factor return. The economic significance of this regression is similar to that for the pre-Govt return on the aggregate market. Specifically, 1% increase in the accumulation-period volatility prior to an M2 announcement predicts an increase of 1.29% in pre-M2 SMB returns. The R-squared of this predictive regression is 25%, also unusually high. This result for the pre-M2 SMB return parallels that for the pre-Govt market return, suggesting the presence of heightened anticipation by small-cap stocks for the M2 announcements, similar to the heightened anticipation by the aggregate market for top government meetings.

Contrary to its unique predictability for the pre-Govt market returns and the pre-M2 SMB returns, under non-devent days, the market volatility is not predictive for future factor returns. As further robustness check, we replace the average realized volatility with average iVIX index in Panel C. The result is similar with Panel B that an increase in the iVIX level during accumulation period will leads to higher pre-Govt market return as well as the pre-M2 SMB return. The R-square value of iVIX level to explain the pre-Govt market return decreases to 12% but remains economically important. The R-square value of iVIX level to explain the pre-M2 SMB return is 25%, the same magnitude as the realized volatility in Panel B.

To further illustrate the positive relationship between the pre-M2 SMB return and market volatility, Panel B of Figure 5 plots all M2 announcements between January 2009 and December 2022. Notably, the stock market crash of 2015 plays a significant role in shaping this positive correlation.[27] Under such volatile market condition, the M2 announcements hold significance as they provide insights into the liquidity condition and financing environment in Chinese market. Small stocks in China, characterized by greater shell value, exhibit heightened sensitivity to regulatory and liquidity risks (Lee et al., 2023). Consequently, these small stocks experience a more pronounced pre-M2 return compared to larger stocks during the volatile stock market conditions in 2015.

4 Conclusions

In this paper, we document, for the first time, the existence of a positive pre-announcement drift before the announcement of top government meetings in China, a finding that parallels the pre-announcement drift before the FOMC announcements in the U.S. Similar to the FOMC case, the average post-announcement returns for Chinese government meetings are on average small and insignificant. To highlight the uniqueness of the pre-announcement drift before top government meetings, we compare it with the pre-announcement market

[27]The positive relationship between the pre-M2 SMB return and market volatility still holds after excluding the observations in 2015.

returns associated with important macroeconomic indicators in China, such as M2, CPI, and GDP. In contrast to the significant pre-Govt drift, the pre-announcement market return for macroeconomic indicators is statistically insignificant.

Our study reveals that heightened uncertainty is the primary mechanism not only for the pre-FOMC drift in the U.S. but also for pre-Govt drift in China. By sorting Chinese government meetings after 2009 into high and low uncertainty groups based on the market volatility estimated during the accumulation period, we find that the average pre-Govt return is significantly positive in the high uncertainty group and close to zero in the low uncertainty group. Focusing on the heightened uncertainty channel, we further analyze institution trading behavior before the announcements of government meetings. We find that institutional investors significantly over-sell shares of stocks in the SSE Index five days before the announcement of government meetings and then come back to the market and over-buy two days before the announcement, when the resolution of the heightened uncertainty begins.

In addition to the heightened uncertainty channel, we also provide evidence of an information channel. When the market volatility during accumulation period is high, the resolution of heightened uncertainty channel dominates and the pre-Govt return is significantly positive and not correlated with post-Govt return. By contrast, when the market volatility during the accumulation period is low, the information leakage channel dominates — the pre-Govt return disappears and the pre-Govt return can positive predict the post-Govt return.

Interestingly, prior to 2009, we do not find evidence of heightened uncertainty where the realized volatility can't explain the pre-Govt return, However, we discover ample evidence of information leakage where the pre-Govt is predictive of post-Govt return and the R-squared of the predictive regression is over 26%.

Focusing on macroeconomic announcements in China, we find that, while there is no significant pre-announcement drift in the overall stock market before M2 announcements, a notable pre-M2 drift is observed in the SMB portfolio, suggesting that small-cap stocks are more responsive to M2 announcements. Additionally, our findings support the heightened uncertainty channel as an explanation for the pre-M2 drift in the SMB portfolio. Specifically, just as the realized market volatility during the accumulation period can predict the pre-Govt drift in the aggregate market, it can predict the pre-M2 drift in the SMB portfolio. The R-squared's of these two predictive regressions are 22% and 25%, respectively.

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Table 1: Summary Statistics of Daily Stock Returns and Volatility in China

Panel A: Returns on the Aggregate Market and Small-Minus-Big Portfolio

Daily SSE Returns (%)						Daily SMB Returns (%)					
day	obs	mean	std	min	max	day	obs	mean	std	min	max
GOV[-7]	95	-0.15	1.42	-6.62	4.44	GOV[-7]	95	0.17	1.00	-2.53	2.84
GOV[-6]	95	0.10	1.32	-4.14	5.45	GOV[-6]	95	0.10	1.15	-4.42	5.92
GOV[-5]	95	-0.39	1.38	-5.27	3.24	GOV[-5]	95	0.10	1.10	-3.59	5.33
GOV[-4]	95	0.10	1.55	-8.86	3.06	GOV[-4]	95	-0.19	1.02	-4.46	1.82
GOV[-3]	95	0.07	1.16	-3.10	4.17	GOV[-3]	95	0.13	0.99	-4.36	2.27
GOV[-2]	95	0.21	1.28	-3.69	4.22	GOV[-2]	95	-0.04	1.16	-4.84	3.30
GOV[-1]	95	0.21	1.26	-3.72	5.94	GOV[-1]	95	0.02	1.07	-4.15	2.42
GOV[0]	95	0.10	1.47	-4.67	5.45	GOV[0]	95	0.17	1.08	-3.20	2.48
GOV[+1]	95	-0.13	1.20	-5.58	2.66	GOV[+1]	95	0.19	0.81	-4.18	1.94
M2[-7]	168	0.25	1.27	-5.95	4.22	M2[-7]	168	0.01	1.06	-6.88	2.65
M2[-6]	168	0.21	1.36	-7.31	5.94	M2[-6]	168	-0.12	1.27	-9.08	2.06
M2[-5]	168	0.10	1.38	-5.36	5.55	M2[-5]	168	0.05	1.34	-7.58	5.33
M2[-4]	168	0.09	1.35	-6.08	4.65	M2[-4]	168	0.13	0.93	-3.54	2.95
M2[-3]	168	0.02	1.44	-5.75	5.60	M2[-3]	168	0.17	0.83	-2.55	2.43
M2[-2]	168	0.09	1.17	-4.14	4.44	M2[-2]	168	0.15	0.91	-2.77	3.17
M2[-1]	168	0.07	1.11	-4.50	4.80	M2[-1]	168	0.21	0.87	-2.40	5.92
M2[0]	168	0.13	1.19	-3.61	3.48	M2[0]	168	0.11	1.09	-6.03	5.33
M2[+1]	168	-0.09	1.26	-5.29	3.18	M2[+1]	168	0.03	1.03	-4.28	2.01
Full Sample	3403	0.02	1.36	-8.87	5.94	Full Sample	3403	0.04	1.00	-9.08	5.92

Panel B: Market Realized Volatility and iVIX Index

SSE Intraday Volatility (%)						iVIX (%)					
	obs	mean	std	min	max		obs	mean	std	min	max
GOV[-7]	95	0.90	0.50	0.30	3.46	GOV[-7]	59	22.88	7.45	10.25	51.17
GOV[-6]	95	0.95	0.54	0.36	3.02	GOV[-6]	59	22.93	7.50	10.24	50.29
GOV[-5]	95	0.97	0.62	0.26	3.88	GOV[-5]	59	23.07	7.45	10.27	46.57
GOV[-4]	95	0.93	0.56	0.29	3.30	GOV[-4]	59	22.73	7.13	10.16	42.46
GOV[-3]	95	0.96	0.72	0.27	5.39	GOV[-3]	59	22.89	7.18	9.67	42.24
GOV[-2]	95	0.88	0.45	0.26	2.90	GOV[-2]	59	22.59	7.01	10.10	42.10
GOV[-1]	95	0.94	0.63	0.32	5.10	GOV[-1]	59	22.40	6.84	9.75	42.20
GOV[0]	95	0.94	0.49	0.29	2.92	GOV[0]	59	22.95	7.07	9.37	41.93
GOV[+1]	95	0.97	0.63	0.30	4.30	GOV[+1]	59	22.83	7.03	9.23	41.30
Full sample	3403	0.94	0.57	0.26	6.78	Full sample	1918	22.97	7.54	8.52	59.34

Panel C: Pairwise Correlations Between Daily Returns, and Daily Changes in Volatility and iVIX

	Full sample		GOV[-5]		GOV[-2]		GOV[0]	
	ΔiVIX	Return	ΔiVIX	Return	ΔiVIX	Return	ΔiVIX	Return
ΔVol	**0.26**	**-0.26**	**0.43**	**-0.35**	0.06	**-0.50**	0.16	**-0.24**
ΔiVIX	1.00	**-0.14**	1.00	**-0.47**	1.00	-0.17	1.00	-0.07
Return	-0.14	1.00	-0.47	1.00	-0.17	1.00	-0.07	1.00

Reported in Panel A are daily returns on the Shanghai Stock Exchange (SSE) Index and the small-minus-big (SMB) portfolio around the announcements of top government meetings and M2, dated respectively by Gov[-n] and M2[-n]. Day 0 indicates the event day when the announcement is made, day -n and +n indicates n days before and after the event, respectively, and full sample includes all trading days. Reported in Panel B are the realized stock volatility and the iVIX Index. Panel C reports the pairwise correlations between daily SSE returns, daily changes in volatility and iVIX, with significant correlations in bold. The sample period is from January 2009 to December 2022, except for iVIX, which starts from February 2015.

Table 2: The Pre-Announcement Returns in China

	Two-Day SSE Returns (%) Before the Announcements								
	obs	mean	t-stat	std	min	25%	50%	75%	max
Panel A: Chinese Government Meetings									
Gov Meeting	95	**0.42**	**2.22**	1.85	-6.07	-0.74	0.26	1.33	5.53
(Excl. Top/Bottom 1%)	93	**0.44**	**2.53**	1.66	-3.98	-0.74	0.26	1.32	4.88
Two Sessions	14	0.07	0.13	2.16	-3.98	-1.06	-0.15	0.94	4.88
Plenary Session	22	0.37	1.27	1.37	-1.58	-0.51	0.24	1.01	3.42
Politburo Econ	59	**0.52**	**2.06**	1.94	-6.07	-0.63	0.29	1.57	5.53
Politburo Other	92	-0.04	-0.20	2.00	-11.21	-0.84	0.20	1.10	4.01
Panel B: Chinese Macro Announcements									
GDP	56	-0.06	-0.24	1.81	-6.82	-0.90	0.07	1.07	3.88
M2	168	0.16	1.29	1.60	-4.36	-0.75	0.14	0.98	7.04
CPI	168	-0.02	-0.13	1.99	-7.38	-0.97	-0.06	1.08	5.86
Trade	161	0.08	0.46	2.08	-6.09	-1.18	0.02	1.23	10.05
PMI	168	-0.05	-0.36	1.86	-9.93	-0.83	0.06	0.94	4.36
VAI	154	-0.01	-0.11	1.67	-6.82	-0.96	-0.05	0.98	4.79
Retail Sales	142	-0.03	-0.21	1.68	-6.82	-0.96	-0.10	0.98	4.79
Panel C: Others (Two day return)									
SLF	85	-0.23	-1.54	1.38	-5.68	-0.83	-0.14	0.53	2.96
MLF	110	-0.05	-0.31	1.71	-8.91	-0.58	0.11	0.95	3.41
Others	2331	-0.01	-0.12	1.99	-16.81	-0.96	0.05	1.07	9.91

Reported in Panel A are the pre-announcement returns (i.e., pre-Govt) realized over a 48-hour window before the top government meetings in China, which include Two Sessions, Party Congress and Plenums, and econ-focused Politburo meeting. For comparison, the pre-announcement return for the non-econ Politburo meeting is also reported. The second row of Panel A further excludes the top 1% and bottom 1% of pre-Govt stock market return. Reported in Panel B are the pre-announcement returns (i.e., pre-Macro) realized over a 48-hour window before the announcements of key macro indicators in China. Panel C includes the pre-announcement return for SLF (Standing Lending Facility) and MLF (Medium-term Lending Facility) of PBOC. As a benchmark, Panel C also reports the full-sample two-day SSE returns excluding the macro announcement days and the five-day window around top government meetings. The stock market return is in percentage and based on the SSE index. The sample period is from January 2009 to December 2022.

Table 3: Sorting by Accumulation-Period Market Volatility and iVIX

Panel A: Returns and Volatility sorted by Accumulation Volatility

	Govt Meeting				M2 Announcements				Others			
	All	High	Low	H-L	All	High	Low	H-L	All	High	Low	H-L
Accumulation Period												
Ret	-0.34	-0.72	0.03	-0.75	**0.65**	0.63	**0.67**	-0.03	-0.01	-0.13	**0.11**	**-0.24**
	[-1.12]	[-1.27]	[0.13]	[-1.23]	**[2.97]**	[1.58]	**[3.74]**	[-0.08]	[-0.16]	[-1.25]	**[2.29]**	**[-2.11]**
Vol (sorting var)	0.94	1.28	0.60	0.67	0.94	1.28	0.60	0.67	0.94	1.26	0.62	0.64
Pre-Announcement Period												
Ret	**0.42**	**0.91**	-0.06	**0.96**	0.16	0.11	0.21	-0.10	-0.01	-0.04	0.03	-0.08
	[2.22]	**[2.74]**	[-0.34]	**[2.62]**	[1.29]	[0.53]	[1.55]	[-0.40]	[-0.12]	[-0.62]	[0.82]	[-0.95]
Vol	0.91	1.18	0.65	0.52	0.89	1.15	0.63	0.53	0.94	1.21	0.67	0.54
Sharpe	**0.23**	**0.4**	-0.08	**0.48**	0.1	0.06	0.17	-0.11	0	-0.02	0.02	-0.04
	[2.2]	**[2.66]**	[-0.52]	**[2.28]**	[1.3]	[0.53]	[1.55]	[-0.72]	[-0.12]	[-0.62]	[0.81]	[-1.02]
Post-Announcement Period												
Ret	0.10	0.33	-0.13	0.46	0.13	**0.33**	-0.06	**0.39**	-0.02	-0.05	0.01	-0.06
	[0.64]	[1.54]	[-0.63]	[1.54]	[1.44]	**[2.07]**	[-0.73]	**[2.16]**	[-0.72]	[-0.98]	[0.30]	[-1.01]
Vol	0.94	1.15	0.74	0.41	0.89	1.13	0.66	0.47	0.95	1.22	0.67	0.55

Panel B: Returns and iVIX sorted by Accumulation iVIX

	All	High	Low	H-L	All	High	Low	H-L	All	High	Low	H-L
Accumulation Period												
Ret	-0.56	-0.94	-0.18	-0.75	0.33	0.37	0.29	0.08	-0.02	-0.12	0.08	-0.20
	[-1.51]	[-1.33]	[-0.80]	[-1.02]	[1.02]	[0.65]	[0.96]	[0.12]	[-0.24]	[-0.88]	[1.20]	[-1.33]
iVIX (sorting var)	22.90	28.43	17.37	11.06	23.27	28.77	17.77	11.00	22.90	28.10	17.70	10.40
Pre-Announcement Period												
Ret	**0.62**	**1.03**	0.22	**0.82**	0.14	0.21	0.07	0.14	-0.05	-0.08	-0.03	-0.05
	[3.32]	**[3.27]**	[1.20]	**[2.25]**	[0.82]	[0.73]	[0.37]	[0.42]	[-0.96]	[-0.80]	[-0.53]	[-0.45]
iVIX	22.61	27.72	17.50	10.22	23.10	28.28	17.91	10.38	22.91	27.83	17.98	9.86
Post-Announcement Period												
Ret	0.08	0.22	-0.07	0.29	0.01	0.02	0.001	0.02	-0.01	-0.03	0.01	-0.03
	[0.46]	[1.26]	[-0.23]	[0.86]	[0.09]	[0.11]	[0.01]	[0.09]	[-0.26]	[-0.38]	[0.16]	[-0.41]
iVIX	22.93	27.96	17.91	10.05	22.96	27.95	17.98	9.97	22.91	27.78	18.05	9.73

Announcements are sorted by the accumulation-period market volatility and iVIX into "High" and "Low" groups, containing above- and below-median announcement days respectively. The accumulation period covers day -7 to -4 before the announcement. The pre-announcement period is the 48-hour window before the announcements. The post-announcement period is the day of the announcement. The daily realized volatility is estimated using intra-day 5 minutes returns on the SSE Index. Reported in the squared brackets are the t-stat's of the estimates. The sample period is from January 2009 to December 2022.

Table 4: Sorting by Accumulation-Period Market Volatility

Returns and Volatility sorted by Accumulation Volatility						
	Politburo Econ			Politburo Non-Econ		
	All	High	Low	All	High	Low
Accumulation Period						
Ret	-0.53	-0.7	-0.35	-0.14	-0.55	0.26
	[-1.49]	[-1.11]	[-1.06]	[-0.54]	[-1.13]	[1.31]
Vol (sorting var)	0.96	1.31	0.62	0.91	1.21	0.61
Pre-Announcement Period						
Ret	**0.52**	**0.94**	0.12	-0.04	-0.09	0.01
	[2.06]	**[2.09]**	[0.52]	[-0.19]	[-0.24]	[0.09]
Vol	0.94	1.23	0.67	0.9	1.18	0.63
Post-Announcement Period						
Ret	0.08	0.13	0.03	-0.03	-0.1	0.04
	[0.38]	[0.46]	[0.1]	[-0.23]	[-0.44]	[0.37]
Vol	0.99	1.17	0.81	0.92	1.19	0.65

Politburo Econ and Politburo Non-Econ Meetings are sorted by the accumulation-period market volatility into "High" and "Low" groups separately, containing above- and below-median announcement days respectively. The accumulation period covers day -7 to -4 before the announcement. The pre-announcement period is the 48-hour window before the announcements. The post-announcement period is the day of the announcement. The daily realized volatility is estimated using intra-day 5 minutes returns on the SSE Index. Reported in the squared brackets are the t-stat's of the estimates. The sample period is from January 2009 to December 2022.

Table 5: Resolution of Uncertainty

Sorting Variable = Accumulation-Period Market Volatiltiy, Measured Over GOV[-7,-4]									
	High Volatility			Low Volatility			High-Low		
	ΔVol (%)	ΔiVIX (%)	Return (%)	ΔVol (%)	ΔiVIX (%)	Return (%)	ΔVol (%)	ΔiVIX (%)	Return (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
GOV[-7]	0.01	-0.15	-0.26	-0.005	0.03	-0.09	0.01	-0.22	-0.16
	[0.16]	[-0.48]	[-0.93]	[-0.17]	[0.23]	[-0.78]	[0.08]	[-0.66]	[-0.54]
GOV[-6]	0.08	0.14	0.19	-0.003	-0.21	0.08	0.09	0.3	0.12
	[1.25]	[0.31]	[0.80]	[-0.12]	[-1.59]	[0.61]	[1.26]	[0.66]	[0.47]
GOV[-5]	0.07	0.71	-0.80***	-0.02	-0.18	-0.06	0.09	0.93*	-0.74***
	[0.98]	[1.56]	[-3.19]	[-0.77]	[-1.51]	[-0.47]	[1.14]	[1.96]	[-2.66]
GOV[-4]	-0.05	-0.54*	0.11	-0.01	-0.22*	0.06	-0.04	-0.31	0.04
	[-0.64]	[-1.76]	[0.36]	[-0.44]	[-1.90]	[0.62]	[-0.44]	[-0.95]	[0.11]
GOV[-3]	0.08	0.34	0.24	-0.003	0.04	-0.13	0.08	0.31	0.35
	[0.86]	[0.67]	[1.03]	[-0.13]	[0.38]	[-1.44]	[0.89]	[0.59]	[1.45]
GOV[-2]	-0.24***	-0.65***	0.43*	0.06*	-0.01	-0.06	-0.30***	-0.63**	0.48*
	[-3.08]	[-2.89]	[1.79]	[1.81]	[-0.09]	[-0.53]	[-3.53]	[-2.52]	[1.81]
GOV[-1]	0.12	-0.47	0.42*	0.02	0.07	-0.03	0.1	-0.52*	0.42
	[1.31]	[-1.61]	[1.78]	[0.49]	[0.69]	[-0.26]	[1.07]	[-1.72]	[1.61]
GOV[0]	-0.09	0.47**	0.33	0.08	0.63***	-0.15	-0.16	-0.14	0.48
	[-1.02]	[2.06]	[1.61]	[1.57]	[2.94]	[-0.69]	[-1.64]	[-0.44]	[1.64]
Const	0	0	0.01	0	0	0.02	0	0	0.01
	[0.04]	[0.05]	[0.23]	[-0.47]	[-0.07]	[0.77]	[-0.45]	[-0.04]	[0.42]
R-sqrd (%)	0.86	1.08	0.09	0.1	0.42	0.05	0.96	1.49	0.95
obs	3396	1910	3402	3396	1910	3402	3396	1910	3402

Reported are the daily changes of realized volatility, iVIX as well as the return of SSE index. Government meetings are sorted into high and low volatility groups by the accumulation-period volatility, measured by the average realized volatility from day -7 to -4 before the announcement. The high-volatility group contains the above-median market volatility meetings, while the low-volatility group includes the rest. ΔVol is the daily change of realized volatility and ΔiVIX is the daily change of iVIX. GOV[-i] equals 1 if it is the i-th trading day before the government meetings. The sample period for ΔVol and Return is from January 2009 to December 2022 while that for ΔiVIX is from February 2015 to December 2022. ***Significant at 1%, **significant at 5%, *significant at 10%. T-statistics are based on standard errors that are Newey-West (1987) adjusted with 4 lags, and are reported in brackets.

Table 6: Institutional Trading Around the Government Meetings

	Sorting Variable = Market Volatiltiy Measured Over GOV [-7,-6]					
	High Volatility		Low Volatility		High-Low	
	Return (%)	BSI (std)	Return (%)	BSI (std)	Return (%)	BSI (std)
	(1)	(2)	(3)	(4)	(5)	(6)
GOV[-7]	-0.25	-0.16	-0.08	-0.03	-0.15	-0.12
	[-0.89]	[-0.99]	[-0.81]	[-0.32]	[-0.52]	[-0.64]
GOV[-6]	0.23	0.08	0.03	0.05	0.21	0.04
	[1.04]	[0.37]	[0.20]	[0.47]	[0.81]	[0.16]
GOV[-5]	-0.78***	-0.56***	-0.09	-0.07	-0.69**	-0.48**
	[-3.32]	[-2.62]	[-0.61]	[-0.72]	[-2.48]	[-2.05]
GOV[-4]	0.11	-0.003	0.06	0.11	0.04	-0.1
	[0.37]	[-0.01]	[0.52]	[0.96]	[0.13]	[-0.40]
GOV[-3]	0.16	-0.21	-0.06	-0.01	0.21	-0.19
	[0.70]	[-0.77]	[-0.60]	[-0.16]	[0.86]	[-0.67]
GOV[-2]	0.43*	0.37***	-0.07	0.12	0.49*	0.25
	[1.86]	[2.58]	[-0.51]	[1.37]	[1.86]	[1.55]
GOV[-1]	0.30	-0.002	0.09	0.04	0.19	-0.05
	[1.22]	[-0.01]	[0.90]	[0.54]	[0.73]	[-0.21]
GOV[0]	0.15	0.02	0.03	0.04	0.12	-0.01
	[0.79]	[0.18]	[0.12]	[0.39]	[0.40]	[-0.08]
Const	0.01	0.01	0.02	0	0.01	0
	[0.40]	[0.20]	[0.61]	[-0.16]	[0.41]	[0.06]
R-sqrd (%)	0.76	0.63	0.03	0.06	0.79	0.69
N	3402	2909	3402	2909	3402	2909

This table reports the trading behavior before the announcement of the Chinese Government meetings. BSI is the buy-sell imbalances defined as the aggregate buy trading volume minus the sell trading volume with orders larger than 1 million RMB. Buy-sell imbalances is normalized to have a mean of 0 and a standard deviation of 1. GOV[0] equals to 1 when the equity market opens to the announcement of the government meetings. GOV[-i] equals 1 if it is the i-th trading day before the Government meetings. The government meetings are sorted by the market volatility over GOV[-7,-6] into high and low volatility group, containing the above- and below-median meetings respectively. The sample period for Return is from January 2009 to December 2022 while for BSI is from January 2011 to December 2022 due to the availability of the order flow data. ***Significant at 1%, **significant at 5%, *significant at 10%. T-statistics are based on standard errors that are Newey-West (1987) adjusted with 4 lags, and are reported in brackets.

Table 7: Institutional BSI and Baidu Search Index before the Politburo Meetings

			Panel A: Politburo Econ		
	ΔBaidu[-5]	ΔBaidu[-4]	ΔBaidu[-3]	ΔBaidu[-2]	ΔBaidu[-1]
const	7.83	6.6	-2.33	14.56**	287.99***
	[1.14]	[0.49]	[-0.72]	[2.06]	[3.12]
BSI[-5]	-31.17***	-28.94*	-2.34	-21.47***	-75.44
	[-3.33]	[-2.00]	[-0.15]	[-2.86]	[-1.33]
N	52	52	52	52	52
R-sqrd (%)	23.39	9.43	0.34	13.73	2.63
			Panel B: Politburo Non-Econ		
	ΔBaidu[-5]	ΔBaidu[-4]	ΔBaidu[-3]	ΔBaidu[-2]	ΔBaidu[-1]
const	-4.06**	0.56	-0.84	11.46**	53.03***
	[-2.16]	[0.16]	[-0.31]	[2.55]	[4.92]
BSI[-5]	-1.3	-0.75	-1.11	1.78	5.94
	[-0.87]	[-0.44]	[-0.72]	[0.54]	[0.46]
N	80	80	80	80	80
R-sqrd (%)	0.48	0.07	0.25	0.21	0.55

This table reports the regression coefficients of explaining the daily change of Baidu search index of "Poliburo meeting (政治局会议)" using the institution BSI at day -5. Panel A is for Politburo Econ meeting with economic theme while Panel B is for Politburo meeting with other focus. The sample period is from January 2011 to December 2022 due to the availability of the order flow data. ***Significant at 1%, **significant at 5%, *significant at 10%. T-statistics are based on standard errors that are Newey-West (1987) adjusted with 4 lags, and are reported in brackets.

Table 8: The Predictability of Institution BSI

	Panel A: BSI_{t-2}						Panel B: SSE Return$_{t-2}$					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
BSI_{t-6}	0.17***		0.17***				0.07		0.07			
	[2.71]		[2.68]				[1.43]		[1.35]			
BSI_{t-5}		0.17***		0.19***	0.19***	0.18***		0.07		0.09*	0.09*	0.07
		[3.30]		[3.47]	[3.46]	[3.30]		[1.57]		[1.88]	[1.87]	[1.58]
GOV[0]			0.22***	0.17**					0.13	0.03		
			[2.62]	[2.35]					[0.94]	[0.25]		
GOV[0]*BSI_{t-6}			-0.08						0.1			
			[-0.73]						[0.51]			
GOV[0]*BSI_{t-5}				-0.40***						-0.46***		
				[-3.36]						[-3.46]		
HGOV[0]					0.22*						0.17	
					[1.81]						[0.69]	
HGOV[0]*BSI_{t-5}					-0.45***						-0.53***	
					[-2.94]						[-2.92]	
LGOV[0]						0.12						-0.09
						[1.42]						[-0.64]
LGOV[0]*BSI_{t-5}						-0.18						-0.13
						[-0.79]						[-0.62]
Const	0	0	-0.01	-0.01	-0.01	0	0	0	0	0	0	0
	[-0.03]	[-0.03]	[-0.29]	[-0.36]	[-0.27]	[-0.12]	[0.12]	[0.13]	[-0.03]	[-0.06]	[-0.11]	[0.17]
R-sqrd (%)	2.98	3.04	3.13	3.72	3.72	3.09	0.28	0.31	0.32	0.71	0.78	0.32
N	2913	2913	2913	2913	2913	2913	2913	2913	2913	2913	2913	2913

The predictability of the lagged institution BSI for future institution BSI and SSE returns is reported in Panel A and B, respectively. The dummy variable GOV[0] equals 1 for the day of the government meeting announcement, and GOV[0]*BSI_{t-5} picks up the institution BSI on GOV[-5]. HGOV[0] equals 1 if the government meeting belongs to the high volatility group, using the market volatility over GOV[-7,-6] as the sorting variable, and HGOV[0]**BSI_{t-5} picks up the intitution BSI on HGOV[-5]. The sample period is from January 2011 to December 2022 due to the availability of the order flow data. ***Significant at 1%, **significant at 5%, *significant at 10%. T-statistics are based on standard errors that are Newey-West (1987) adjusted with 4 lags, and are reported in brackets.

Table 9: The Information Channel

Dependent Variable: Post-Govt SSE Returns				
	Pre-2009 Sample	Post-2009 Sample		
		Full	Low Vol	High Vol
Const	-0.26	0.08	-0.1	0.38**
	[-1.06]	[0.58]	[-0.59]	[2.20]
Pre-Govt Return	**0.26****	0.04	**0.29****	-0.06
	[2.66]	[0.41]	**[2.13]**	[-0.57]
R-squared (%)	26.56	0.3	5.24	0.81
N	38	95	47	47

Reported are the regression coefficients of predicting post-govt SSE returns using pre-govt SSE returns. The first column reports the government meetings from November 2002 to December 2008 and the second column includes all government meetings from January 2009 to December 2022. The government meetings after 2009 are sorted by the accumulation-period market volatility from day -7 to day -4.The low volatility sample contains government meetings with below median market volatility during the accumulation period and the high volatility sample captures the rest.

Table 10: The Government Put Channel

Dependent Variable: Pre-Govt SSE Returns									
	All Govt Meetings			**Politburo Econ**			**Pre-Scheduled Meetings**		
Const	0.42*	0.42*	0.42**	0.53*	0.53*	0.49**	0.26	0.27	0.33
	[1.81]	[1.81]	[2.34]	[1.93]	[1.92]	[2.22]	[0.75]	[0.75]	[1.15]
Return [-27,-7]	-0.28			-0.49			0.31		
	[-0.33]			[-0.61]			[0.39]		
Return [-7,-4]		0.004			0.06			-0.04	
		[0.06]			[0.52]			[-0.44]	
Accu vol			1.73***			1.55***			1.98***
			[6.72]			[6.05]			[3.90]
R-squared (%)	0.23	0	21.89	0.79	0.63	15.3	0.22	0.78	36.61
N	95	95	95	59	59	59	36	36	36

Reported are the regression coefficients of predicting pre-govt SSE returns using past SSE returns during accumulation period or during last month. All variables in this table are demeaned. In addition to the full sample of top government meetings, we further divide the sample based on whether it's pre-scheduled to the public. Politburo Econ Meetings are unscheduled while Two Sessions, Party Congress and Plenums are pre-scheduled meetings. The sample period is from January 2009 to December 2022.

Table 11: The Pre-Govt and Pre-M2 Returns for the Market, Size, and Value Portfolios

Panel A: Pre-Announcement Return of Risk Factors

	Govt Meetings					M2 Announcement					Others			
	SSE	MKT	SMB	HML		SSE	MKT	SMB	HML		SSE	MKT	SMB	HML
mean	**0.42**	**0.47**	-0.02	-0.05	mean	0.16	0.16	**0.36**	**-0.26**	mean	-0.01	0.04	**0.06**	**0.001**
	[2.22]	**[2.39]**	[-0.09]	[-0.37]		[1.29]	[1.34]	**[3.25]**	**[-3.09]**		[-0.12]	[1.02]	**[1.92]**	**[-0.07]**
obs	95	95	95	95	obs	168	168	168	168	obs	2331	2331	2331	2331

Panel B: Predicting Pre-Ann Return on Accu-Period Volatility

	Govt Meetings					M2 Announcement					Others			
	SSE	MKT	SMB	HML		SSE	MKT	SMB	HML		SSE	MKT	SMB	HML
Const	-1.20***	-1.21***	-1.02**	0.54*	Const	-0.25	-0.12	-0.86***	0.43	Const	0.21	0.19	0.23	-0.17
	[-4.00]	[-3.75]	[-2.21]	[1.79]		[-0.72]	[-0.37]	[-2.76]	[1.57]		[1.24]	[1.21]	[0.93]	[-1.16]
Accu vol	1.73***	1.80***	1.06*	-0.63	Accu vol	0.44	0.3	1.29***	-0.73**	Accu vol	-0.23	-0.16	-0.18	0.18
	[6.72]	[5.70]	[1.77]	[-1.59]		[1.03]	[0.75]	[3.60]	[-2.31]		[-1.13]	[-0.84]	[-0.64]	[1.10]
R-sqrd	22%	22%	9%	6%	R-sqrd	2%	1%	25%	14%	R-sqrd	0.34%	0.17%	0.35%	0.77%
obs	95	95	95	95	obs	168	168	168	168	obs	2331	2331	2331	2331

Panel C: Predicting Pre-Ann Return on Accu-Period iVIX

	Govt Meetings					M2 Announcement					Others			
	SSE	MKT	SMB	HML		SSE	MKT	SMB	HML		SSE	MKT	SMB	HML
const	-1.04**	-0.89**	-1.70*	1.27*	const	-0.69	-0.43	-1.95***	1.28**	const	0.58*	0.56*	-0.09	-0.11
	[-2.28]	[-2.02]	[-1.80]	[1.89]		[-0.91]	[-0.61]	[-2.67]	[2.34]		[1.69]	[1.75]	[-0.19]	[-0.39]
Accu iVIX	0.07***	0.07***	0.08	-0.06*	Accu iVIX	0.04	0.02	0.10***	-0.07***	Accu iVIX	-0.03*	-0.02	0.001	0.01
	[3.17]	[3.01]	[1.62]	[-1.94]		[0.96]	[0.71]	[2.88]	[-2.84]		[-1.66]	[-1.55]	[0.12]	[0.47]
R-sqrd	14%	12%	13%	15%	R-sqrd	3%	1%	25%	19%	R-sqrd	0.99%	0.79%	0.01%	0.15%
obs	58	58	58	58	obs	94	94	94	94	obs	1260	1260	1260	1260

Reported in Panel A are the pre-announcement returns on the Shanghai Stock Exchange Index (SSE), market (MKT), size (SMB), and value (HML) portfolios, using government meetings, M2 announcements and other days. The Fama-French three factors for Shanghai stock exchange are obtained from CSMAR and the construction of MKT is different from the SSE index but contains very similar information. The pre-announcement returns are regressed on the accumulation-period volatility of the aggregate market (Accu Vol) in Panel B and on the accumulation-period iVIX (Accu iVIX) in Panel C. The sample period is from January 2009 to December 2022 in Panel B and from February 2015 to December 2022 in Panel C. ***Significant at 1%, **significant at 5%, *significant at 10%. Reported in the squared brackets are the respective t-statistics, computed using standard errors that are Newey-West (1987) adjusted with 4 lags.

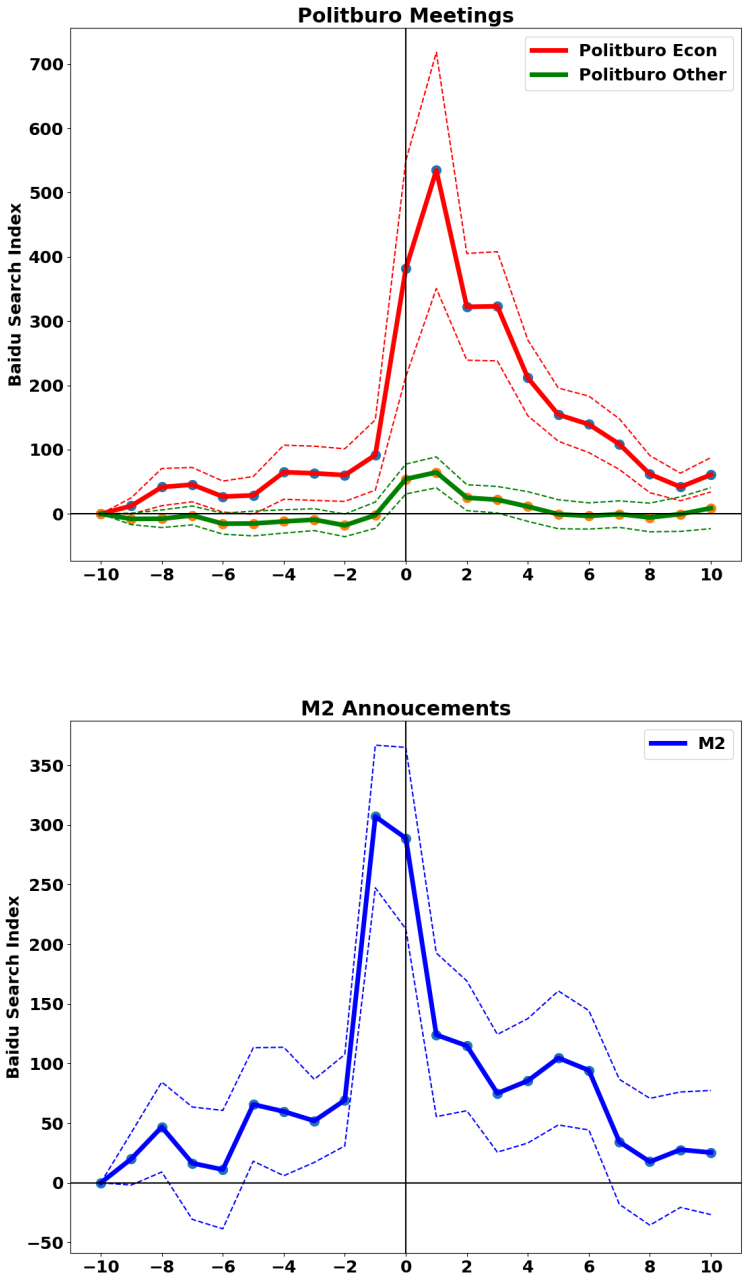

Figure 1: Baidu Search Index. The figure plots the average cumulative change of Baidu search index of "Politburo meeting (政治局会议)" around the Politburo meeting announcement and "M2" around M2 announcements in calendar days. Day 0 is the actual meeting day for Politburo meeting and announcement day for M2 announcements. The red solid line of the plot captures the average cumulative change of Baidu search index around Politburo Econ meeting with economic theme while green line is for Politburo Other meeting. The blue line is for M2 announcements. The dotted line denote the point-wise 95% confidence bands. The sample period is from January 2009 to December 2022.

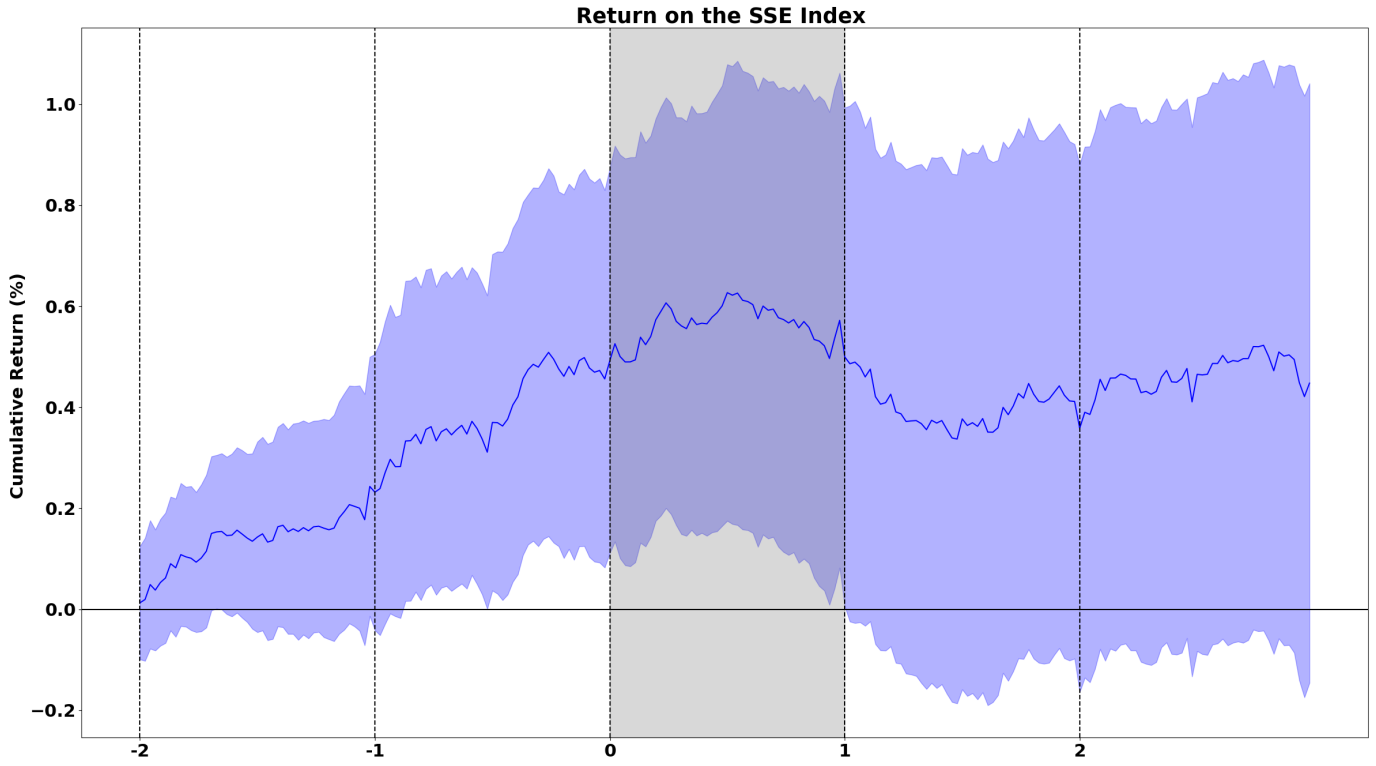

Figure 2: Cumulative Chinese Stock Market Returns around Government Meetings. This figure shows the average cumulative returns over 5-minute blocks on the SSE Composite Index on five-day announcement window. The solid blue line of a plot captures the average cumulative returns across all five-day windows. The Chinese Government meeting announcement day, when the equity market in the trading hours first has access to the announcement, is centered in the middle and shown by the grey-shaded area. The blue shaded areas denote the point-wise 95% confidence bands. The sample period is from January 2009 to December 2022.

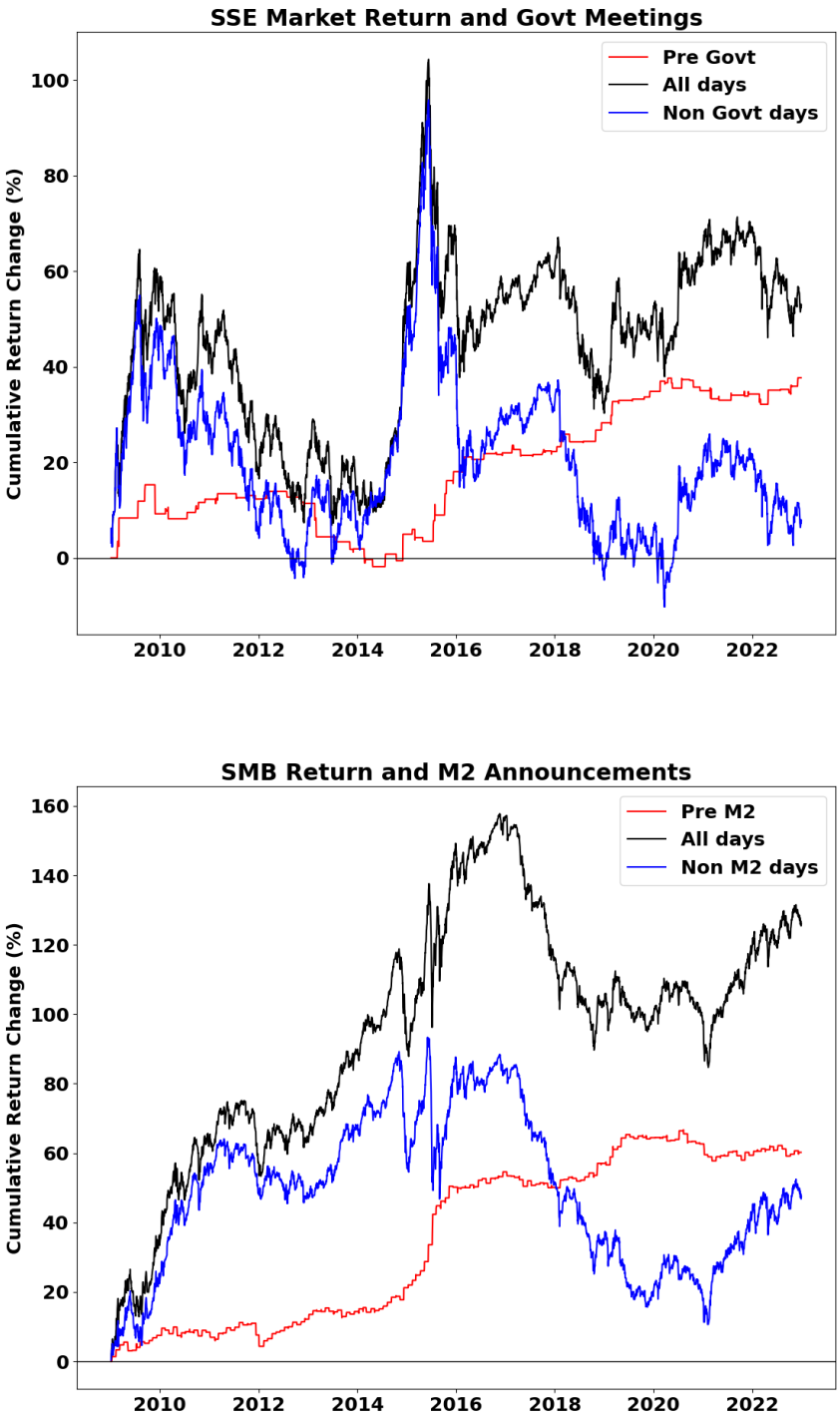

Figure 3: Time Series of Cumulative Pre-Announcement Return. This figure documents the cumulative pre-announcement drift over time. The black line shows the actual evolution of the SSE index (SMB factor) in Panel A (B). The red line shows a hypothetical time series that is constructed by taking into account only the pre-announcement drift that were realized in the 2-day window before the Government meeting in Panel A and the M2 announcement in Panel B. The return that occurred on all days outside of this window are set to zero. The blue line shows a hypothetical time series that is constructed by taking into account only the return that occurred on days outside the pre-announcement 2-day window and the post-announcement window. The sample period is from January 2009 to December 2022.

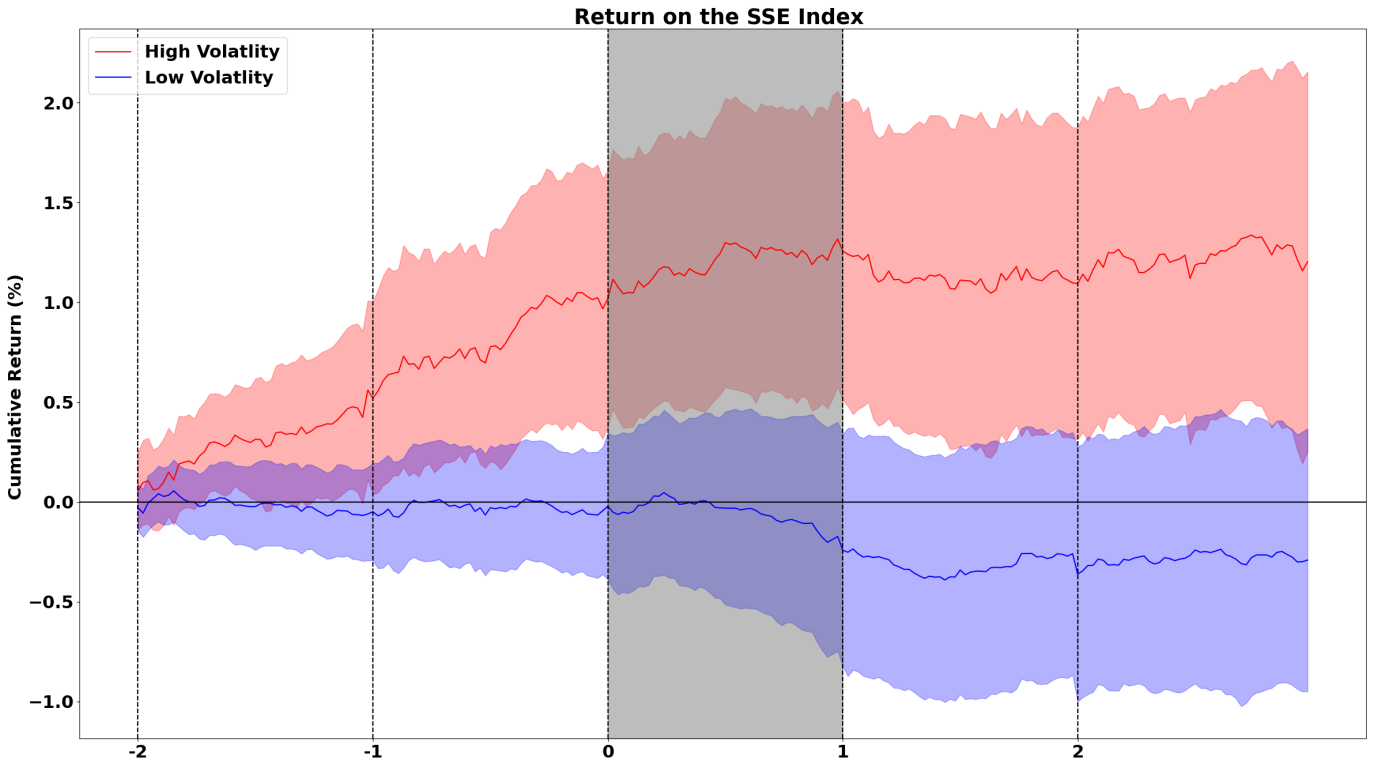

Figure 4: Average Cumulative Returns around High and Low Uncertainty Government Meetings. Chinese Government meetings are sorted by average daily realized stock volatility in the accumulation period, with "High" containing Government meetings ranked top 50% in average realized intra-day stock volatility and "Low" containing the rest. Day 0 is the Government meeting announcement day. The sample period is from January 2009 to December 2022.

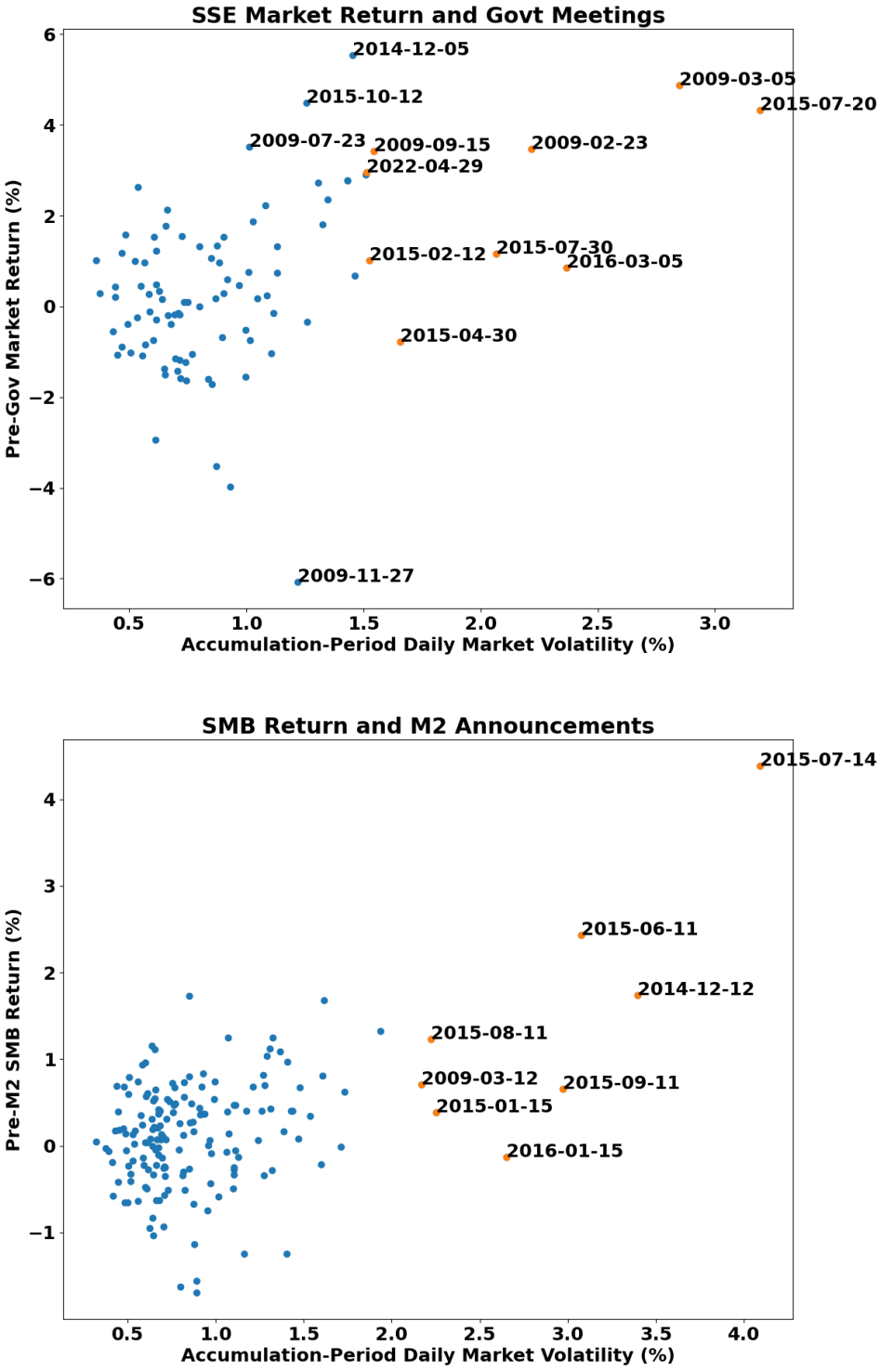

Figure 5: Pre-Announcement Return and Accumulation-Period Volatility. The pre-announcement returns are plotted against the aggregate market volatility measured over the accumulation period from day -7 to -4 before the event day. The top panel plots the pre-Govt returns of the aggregate stock market and the bottom panel plots pre-M2 SMB portfolio returns. Dates associated with some of the highest market volatility are marked in orange. The sample period is from January 2009 to December 2022.

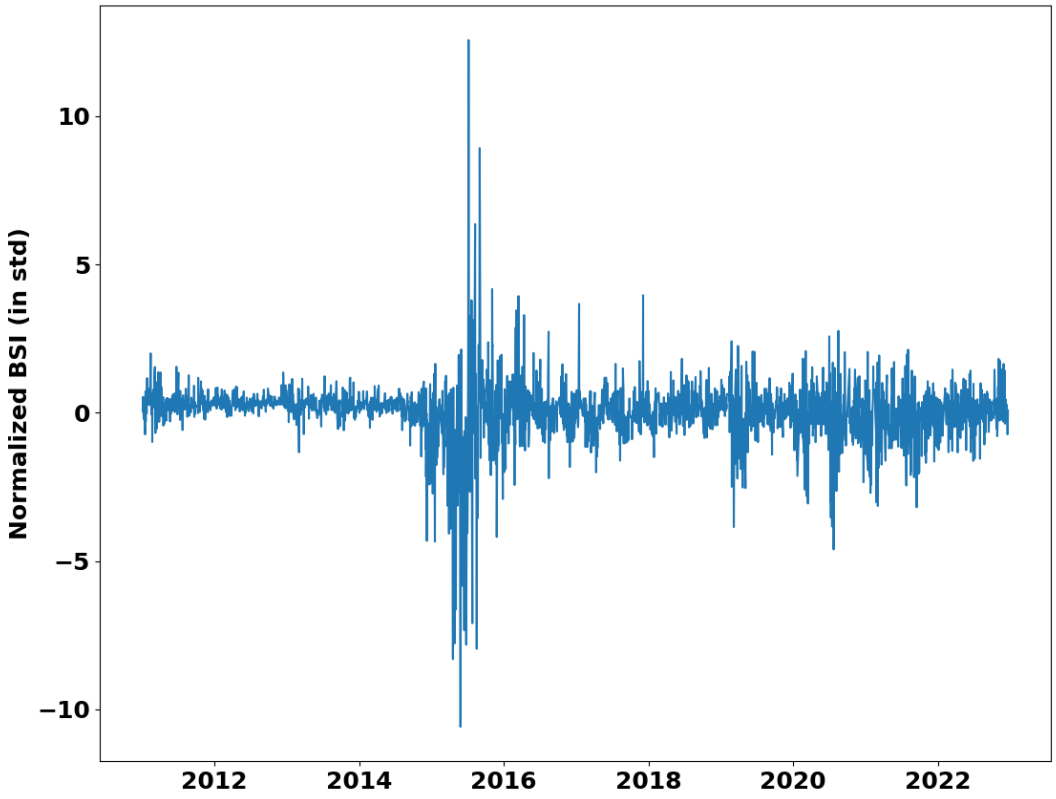

Figure 6: Institutional Buy-Sell Imbalance. The figure plots the time-series pattern of Institution buy-sell imbalance. Institution BSI is the buy-sell imbalances defined as the aggregate buy trading volume minus the sell trading volume with orders larger than 1 million RMB. Buy-sell imbalances is normalized to have a mean of 0 and a standard deviation of 1. The sample period BSI is from January 2011 to December 2022 due to the availability of the order flow data.

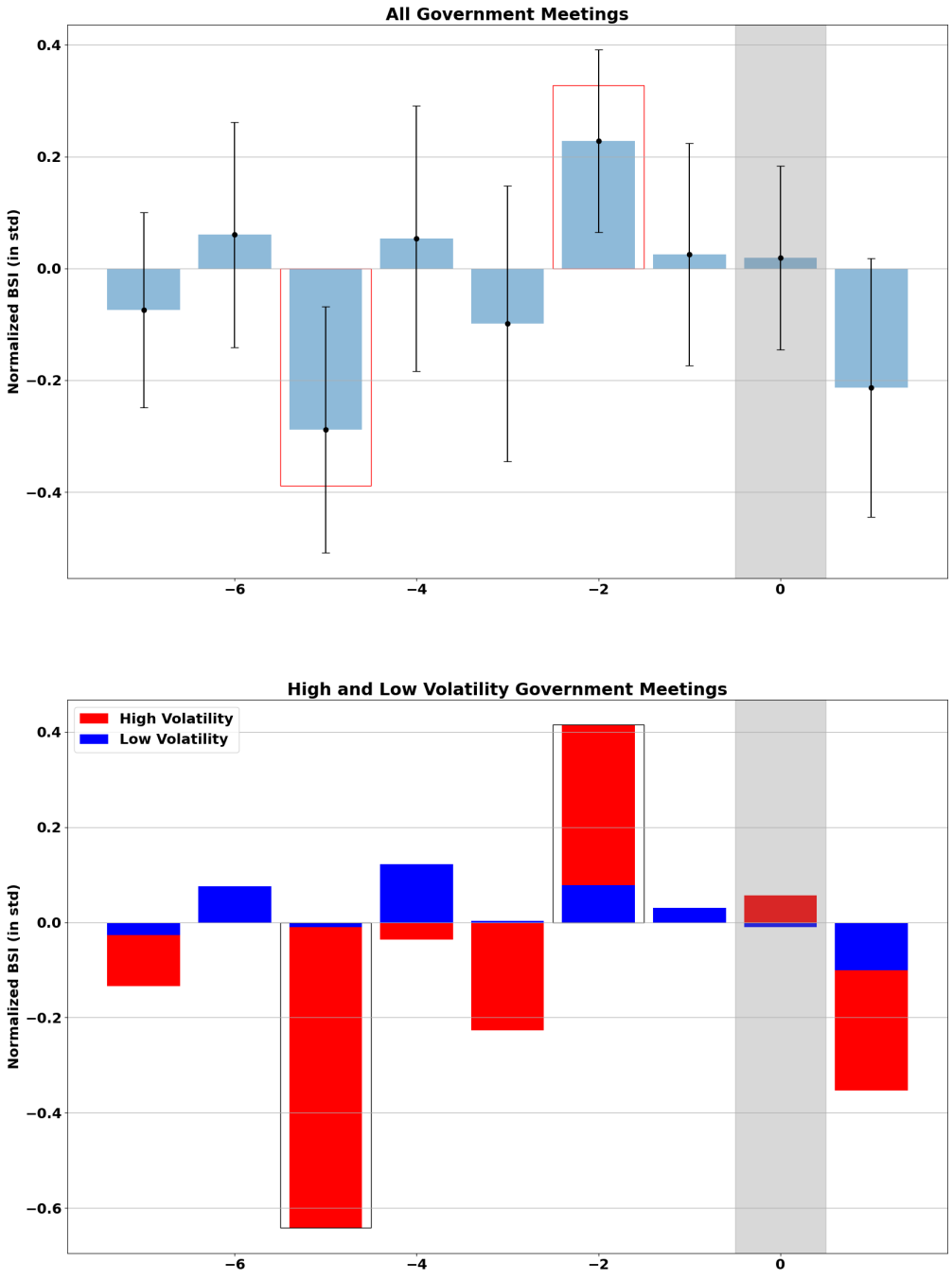

Figure 7: Institutional Trading Around the Government Meetings. The figure plots regression coefficient of institutional BSI around the Government meetings. Panel A plots the coefficient of BSI on $\mathbb{I}_t(\text{Govt}_{t+i})$ which captures the difference of institution buy-sell imbalance between Government meetings window and other days. We also separate the Government meetings into high and low uncertainty group. High uncertainty Government meetings is the top 50% in average realized stock volatility during day -7 to day -6 before the announcement and low uncertainty Government meetings containing the rest. The red bar in Panel B plots the coefficient of BSI for high uncertainty Government meetings while the blue bar is for low uncertainty Government meetings.

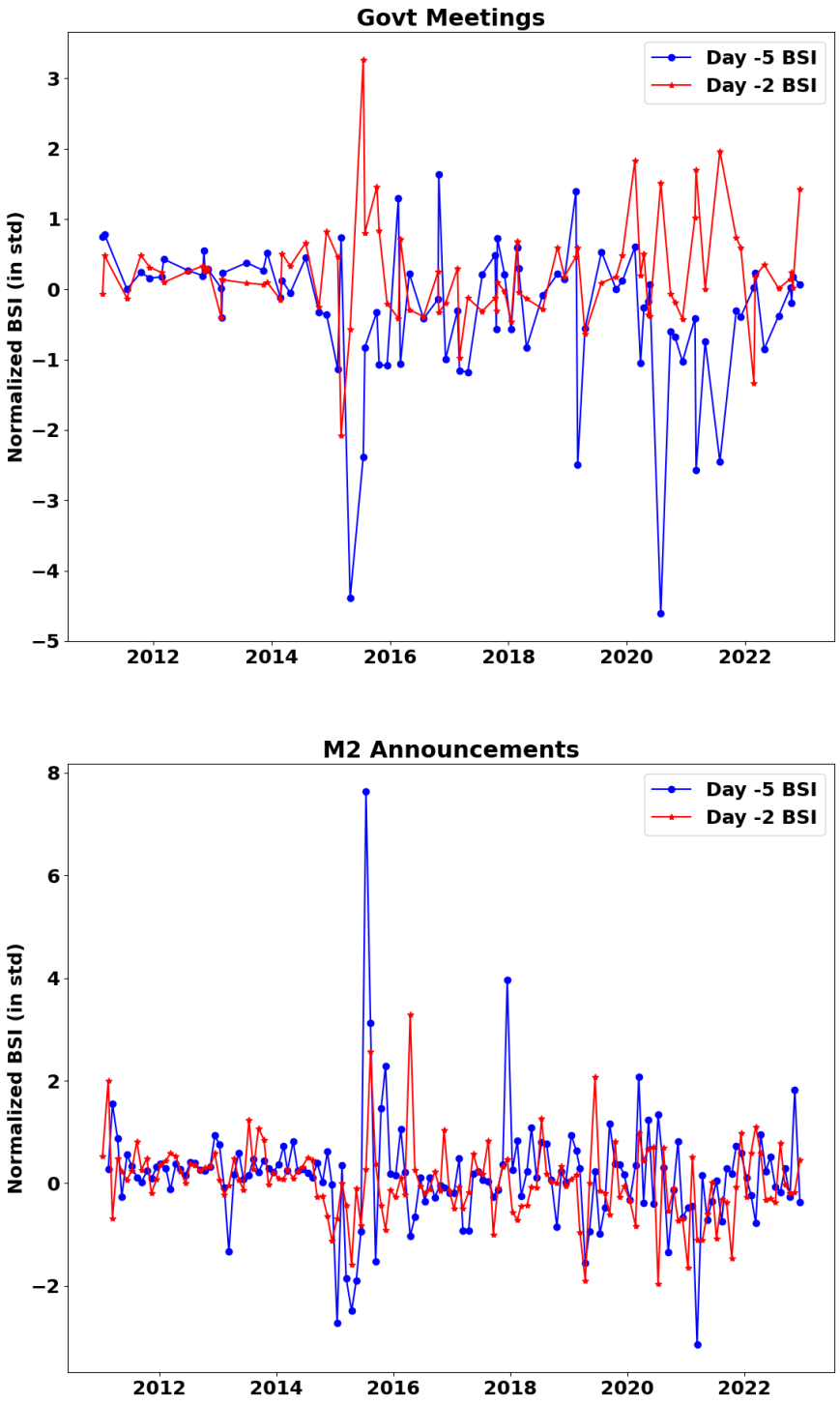

Figure 8: Institutional Trading Before the Announcements of Govt and M2. The figures plot the time-series pattern of normalized institution buy-sell imbalance (BSI) before the announcements of government meetings and M2. The blue line is the normalized BSI five days before the announcements and the red line is two days before the announcements. The sample period is from January 2011 to December 2022.

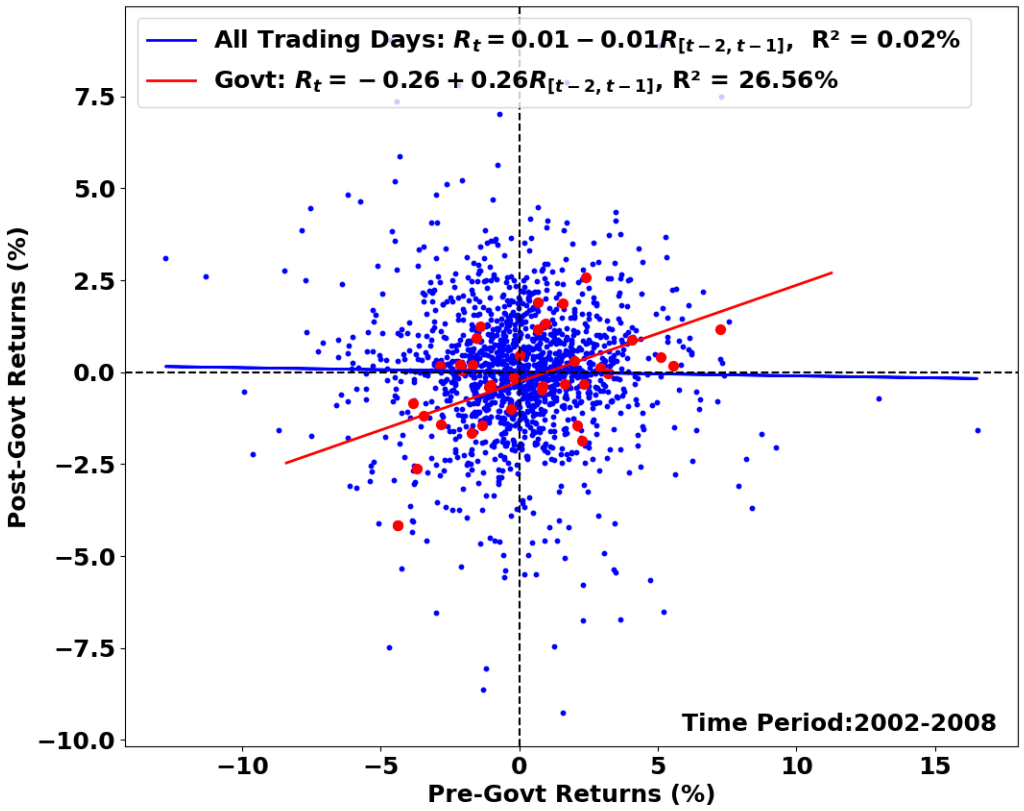

Figure 9: Pre- and Post-Announcement Return. The pre-announcement returns are plotted against the post-announcement return for top government meeting in red and for all trading days in blue. The red line reports the predictability of pre-Govt return on post-Govt return and the blue line repeats the same regression for all trading days. The sample period is from November 2002 to December 2008.

Internet Appendix

A Politburo Meetings, Econ vs Non-Econ

This section compares and contrasts the presence of econ and non-econ Politburo meetings, which are otherwise identical in the sense that they are on the same monthly schedule, unannounced to the public in advance, and attended by the same group of top leaders in China. And yet, the market's anticipation differs significantly. As illustrated in Figure 1, prior to the econ Politburo meetings, the Baidu search index exhibits a noticeable increase four days before the meeting. By contrast, the Baidu search index only begins to rise on the actual day of the non-econ Politburo meetings. Associated with the heightened anticipation of the econ-focused Politburo meetings is the significant pre-Govt drift of 52 basis points. Likewise, associated with the lack of markets' anticipation of the non-econ Politburo meetings is the absence of a significant pre-Govt drift. Taking advantage of these two types of Politburo meetings, we produce our main results in a more clean setting without involving other types of top government meetings.

First, we investigate the institutional investors behavioral prior to the Politburo meetings in Table A1. Leading up to the econ Politburo meeting, institutional investors are the net sellers of the SSE five days ahead and then become net buyers two days before. Consistent with the heightened uncertainty channel, as institutional investors net sell on day -5, in anticipation of the impending event, the SSE return drops on average by -0.51%. However, this pattern doesn't exist before the non-econ Politburo meetings. Effectively, institutional investors price these two types of government meetings differently, treating the impending econ Politburo meetings as a serious event while ignoring the non-econ Poliburo meetings.

We further investigate whether the over-selling before the Politburo Econ meetings can predict the subsequent over-buying in Table A2. As shown in the first column, the past BSI's are in general positively predictive of future BSI's, indicating that institutional BSI's are positively auto-correlated on normal days. Against this established empirical pattern, the BSI on day -5 before the econ Politburo meetings can significantly predict the BSI on day -2 with a significant negative coefficient, indicating that the over-sell on day -5 is indeed informative of the over-buy on day -2. By contrast, this pattern also doesn't exist before the non-econ Politburo meetings. It reflects the unique trading environment leading up to the econ Politburo meetings, which is absent for the non-econ Politburo meetings.

Table A1: Institutional Trading Around the Government Meetings

	Politburo Econ		Politburo Non-Econ	
	Return (%)	BSI (std)	Return (%)	BSI (std)
	(1)	(2)	(3)	(4)
GOV[-7]	-0.04	-0.07	-0.16	0.09
	[-0.22]	[-0.70]	[-1.19]	[1.05]
GOV[-6]	0.01	-0.04	0.06	0.1
	[0.08]	[-0.24]	[0.41]	[0.70]
GOV[-5]	-0.51***	-0.34**	-0.2	-0.12
	[-2.82]	[-2.16]	[-1.13]	[-1.06]
GOV[-4]	-0.05	0.01	0.07	-0.06
	[-0.21]	[0.05]	[0.49]	[-0.66]
GOV[-3]	0.09	-0.17	0.05	-0.04
	[0.66]	[-0.93]	[0.42]	[-0.37]
GOV[-2]	0.22	0.28**	-0.22	-0.14
	[1.19]	[2.54]	[-1.49]	[-0.91]
GOV[-1]	0.27*	0.01	0.13	-0.12
	[1.87]	[0.13]	[0.97]	[-0.91]
GOV[0]	0.07	0.02	-0.05	-0.02
	[0.31]	[0.17]	[-0.39]	[-0.21]
Const	0.01	0	0.02	0.01
	[0.56]	[0.17]	[0.89]	[0.29]
R-sqrd (%)	0.37	0.41	0.21	0.02
N	3402	2909	3402	2909

This table reports the trading behavior before Politburo Econ and Politburo Non-Econ Meetings respectively. BSI is the buy-sell imbalances defined as the aggregate buy trading volume minus the sell trading volume with orders larger than 1 million RMB. Buy-sell imbalances is normalized to have a mean of 0 and a standard deviation of 1. GOV[0] equals to 1 when the equity market opens to the announcement of the Politburo Econ (Non-Econ) meetings. GOV[-i] equals 1 if it is the i-th trading day before the Politburo Econ (Non-Econ) meetings. The sample period for Return is from January 2009 to December 2022 while for BSI is from January 2011 to December 2022 due to the availability of the order flow data. ***Significant at 1%, **significant at 5%, *significant at 10%. T-statistics are based on standard errors that are Newey-West (1987) adjusted with 4 lags, and are reported in brackets.

Table A2: The Predictability of Institution BSI

	Dependent Variable: BSI_{t-2}				
const	0	-0.01	0	-0.01	0
	[-0.03]	[-0.20]	[0.15]	[-0.29]	[0.11]
BSI_{t-5}	0.17***			0.18***	0.17***
	[3.30]			[3.42]	[3.20]
Econ[0]		0.29***		0.23**	
		[2.63]		[2.46]	
Non-Econ[0]			-0.14		-0.11
			[-0.90]		[-0.76]
Econ[0]*BSI_{t-5}				-0.36***	
				[-2.61]	
Non-Econ[0]*BSI_{t-5}					0.06
					[0.36]
R-sqrd (%)	3.05	0.14	0.05	3.55	3.1
N	2913	2913	2913	2913	2913

The predictability of the lagged institution BSI for future institution BSI. The dummy variable Econ (Non-Econ)[0] equals 1 for the day of the Politburo Econ (Non-Econ) announcements, and Politburo Econ (Non-Econ)[0]*BSI_{t-5} picks up the institution BSI on Politburo Econ (Non-Econ)[-5]. The sample period is from January 2011 to December 2022 due to the availability of the order flow data. ***Significant at 1%, **significant at 5%, *significant at 10%. T-statistics are based on standard errors that are Newey-West (1987) adjusted with 4 lags, and are reported in brackets.

B Predicting Pre-Govt Returns with Market Volatility

Given the importance of heightened uncertainty channel, we will analyze the full sample of top government meetings from November 2002 to December 2022 to explore the impact of heightened uncertainty on stock market returns. Due to the presence of missing and low-quality high-frequency data prior to 2004, we employ an exponentially weighted moving average (EWMA) model where the decay factor is set to be 0.94, using daily stock returns to estimate realized volatility. For each meeting, we calculate the average EWMA volatility over the accumulation period starting seven days and ending four days before the announcement. We also check the robustness of our result by using the intra-day stock volatility and the results will hold.

To capture the time-series variation of the heightened uncertainty channel, we perform a 5-year rolling window regression of predicting the pre-Govt and post-Govt returns by accumulation-period realized volatility. In Figure B1, the red line represents the regression coefficient for predicting the pre-Govt with accumulation-period volatility in the top panel and the dashed vertical line divides the sample into pre-2009 and post-2009 periods.

From pre-2009 sample to post-2009 sample, the regression coefficient of accumulation-

period volatility to explain pre-Govt return jumps from insignificant negative value to significant positive value at around 0.06. Figure B1 shows that pre-Govt returns are sensitive to the past market volatility after 2009 and indicates that the heightened uncertainty channel becomes crucially important at explaining the pre-Govt return after 2009. This time-series change reflects the growing influence of the uncertainty channel and is linked to the significantly positive pre-Govt returns after 2009. An potential reason behind the emergence of the heightened uncertainty is the 4 Trillion Yuan stimulus plan, announced at the State Council meeting. After this impactful stimulus plan, the Chinese stock market believes the central government plays a even bigger role in the economy and the financial market, paying much more attention ahead of the regularly held top government meetings ever since.

This finding of realized volatility as a key driver of pre-announcement returns is unique to the top government meetings. We also repeat the same rolling window regression for post-Govt in green and for all trading days in blue in Figure B1. In contrast to the stock return before the top government meetings, realized volatility shows no significant predictive power for stock market returns after the top government meetings or on regular trading days, as evidenced by the insignificant regression coefficients.

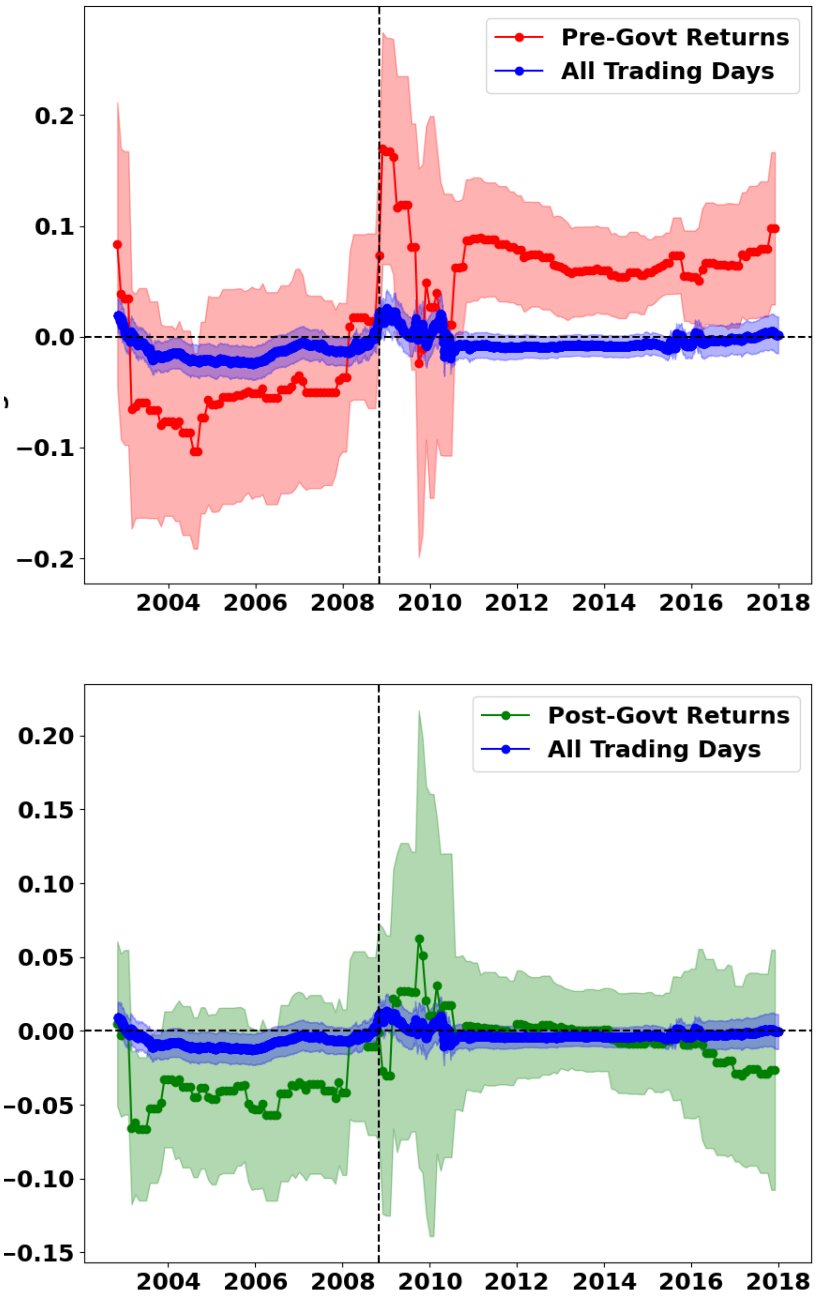

Figure B1: Rolling Window Regression of Heightened Uncertainty Channel. Reported are the regression coefficients of predicting pre-Govt and post-Govt SSE returns using accumulation period market volatility with 5-year rolling window. The time in the x-axis marks the beginning of the rolling window. We calculate the stock market realized volatility using daily return by EWMA method with 0.94 decay factor. The red line is the regression result for the pre-Govt returns, green line is for post-Govt return while the blue line represents all trading days. The sample period is from November 2002 to December 2022.