A Study of Factors Influencing Investor Expectations in the Capital Market

Yuxuan He[1,*]

[1]School of Economics and Finance, Guangdong University of Foreign Studies, Guangzhou, 510006, China

Abstract. This paper examines three key factors that influence investor expectations: company announcements, market seasonality and environment, and social and corporate governance (ESG). It shows that these factors individually and jointly have a significant impact on investor behavior and market dynamics. Corporate announcements serve as an important source of information that directly influences investor behavior and expectations, while market seasonality demonstrates cyclical patterns in investor expectations. Meanwhile, ESG investments reflect investors' concerns about corporate performance in environmental protection, social responsibility, and governance. While research on these factors has been more extensive, further research is needed to combine these factors with other market dynamics and to quantify their impact on long-term investment decisions and market trends. This study aims to provide a comprehensive understanding of the diverse factors that influence investor expectations by analyzing these factors in an integrated manner. This not only provides insights for investors and market analysts, but also provides important information for policymakers in guiding the market and formulating policies.

1 Introduction

In global financial markets, the formation and changes in investor expectations have a profound impact on market dynamics. Investment decisions, asset pricing and market volatility are largely driven by investors' expectations of future developments. These expectations not only reflect the interpretation of current market information, but also involve predictions of future trends. Understanding the key factors influencing investor expectations is therefore essential for predicting market direction, guiding investment strategies and shaping effective regulatory policies.

This paper focuses on three factors that primarily influence investor expectations: company announcements, market seasonality and environment, and social and corporate governance (ESG). Corporate announcements, such as earnings releases and major trades, are important sources of information for the market and directly affect investor behavior and expectations [1]. Seasonal factors, such as the holiday effect or the earnings cycle, have been shown to have a significant impact on stock returns and market volatility, revealing seasonal patterns in investor expectations [2]. Meanwhile, ESG investment, as an emerging investment trend, reflects investors' concerns about corporate performance in environmental protection, social responsibility, and governance, which are increasingly important factors influencing investment decisions and expectations [3].

While there has been extensive research on the factors affecting investor expectations, the existing literature still contains gaps or shortcomings in certain key areas. First, the immediate impact of corporate announcements on investor expectations has been widely recognized as an important source of market information. However, how to quantify the impact of these announcements on long-term investment decisions and market trends, especially when interacting with other market dynamics, has yet to be thoroughly investigated [1]. Second, although the effects of market seasonality are widely observed, research on how seasonality interacts with other market factors, especially in influencing investors' long-term expectations, remains limited [2]. For example, whether seasonality effects coincide with the timing of firm-specific announcements and how this overlap affects investor reactions and expectations remain to be explored in greater depth. Finally, ESG factors have become an important component of investment decisions in recent years. However, there has been insufficient research on how to combine the impact of ESG factors with traditional financial metrics and how these factors interact with seasonal patterns in the market and company announcements to influence investor expectations [3].

Therefore, the purpose of this study is to fill these research gaps by providing a comprehensive perspective on the multiple factors that influence investor expectations by considering company announcements, market seasonality, and ESG together. Through an in-depth analysis of corporate announcements, market seasonality, and ESG factors, this study will explore how these factors individually and collectively contribute to investor expectations and how they affect the overall

* Corresponding author: 20221704951@gdufs.edu.cn

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performance of the market. This comprehensive exploration not only provides investors and market analysts with a foundation of insights to help them better understand market dynamics and predict market movements, but also provides policymakers with important information on how to more effectively navigate markets and formulate policies. It also promotes a deeper understanding of financial market behavior and provides practical strategies and solutions for dealing with the constant changes in the markets.

2. Announcement

In the financial markets, Announcement refers to a formal statement issued by a company about its business, financial position, strategy or other important matters. These announcements usually cover a wide range of formats such as financial reports, major transactions, mergers and acquisitions, management changes, new product launches or the signing of major contracts. Corporate announcements play a vital role in the stock market and the financial ecosystem as a whole by serving as an important source of information in the market, conveying key information to investors, analysts and other market participants. These announcements directly influence investors' judgments and predictions about a company's future performance. For example, financial reports provide key data on a company's operational efficiency and profitability, helping investors to assess a company's value and growth potential. Announcements of major transactions or mergers and acquisitions, on the other hand, may signal a significant shift in the company's business, with implications for the company's future market position and competitiveness. Management changes may reflect a change in the company's strategic direction or the stability of its internal management, which in turn affects investors' perceptions of the company's governance structure and decision-making efficiency. Because these announcements provide critical information about a company's current situation and future prospects, they play a central role in the investor decision-making process. Investors rely on this information to construct and adjust their investment strategies, assess investment risks, and make buy, hold, or sell decisions. As a result, company announcements not only affect the performance of individual stocks, but may also have a wide-ranging impact on the market as a whole, including share price volatility, market sentiment and investment trends.

The impact of corporate announcements on market reactions has been a central theme in the field of financial research. Historically, major corporate announcements, such as acquisitions, mergers, or significant financial changes, have often led to dramatic stock price fluctuations. For example, research has analyzed how an earnings warning announcement by a large company significantly affects its stock price in a short period of time, which in turn affects the market performance of the entire industry [1]. In addition, announcements about management changes often have an immediate impact on investor confidence and future expectations of the company, which is reflected in the movement of stock prices and increased trading volume [1]. Theoretically, information asymmetry and market efficiency are two key concepts to explain the impact of corporate announcements. The information asymmetry theory suggests that announcements can reduce information asymmetry due to the inequality of information between company management and external investors, thus affecting investor expectations and behavior. Market efficiency theory, on the other hand, emphasizes how information from announcements is quickly reflected in stock prices, revealing the market's ability to absorb and react to new information [1]. Existing studies have shown the diversity of the impact of corporate announcements on the stock market. On the one hand, positive announcements, such as earnings reports that exceed expectations, usually lead to an increase in stock prices, while negative news may lead to a decrease in stock prices [1]. On the other hand, market reaction to announcements is also affected by factors such as investor sentiment, market environment and complexity of announcement content. In addition, it is also found that even expected announcements may trigger asymmetric responses in the market, suggesting that the market's reaction to announcements depends not only on the content of the announcements themselves, but is also related to the expectations and interpretations of market participants [1].

Corporate announcements have a significant impact on investors' information acquisition, processing and expectation formation. Corporate announcements provide investors with key information about a company's operations, financial position, and strategic direction. For example, increased stock market volatility and changes in stock market returns can affect investors' expectations. These changes are usually communicated through company announcements, allowing investors to adjust their stock market expectations based on the content of the announcements [4]. Company announcements play a key role in shaping investor expectations. For example, the delivery and accuracy of information during the IPO process and the pricing mechanism of the IPO have an impact on investors' expectations. Investors use these announcements to assess the value of the firm and the market opportunity and form their expectations for the future [5]. Positive and negative announcements have different impacts on investors' expectations. Positive announcements usually enhance the market's confidence in the firm, while negative announcements may lead to a decline in confidence. For example, executives' share reductions are often seen as a signal of less optimism about the company's future, which may lead to a decline in investor expectations [6]. Notably, even small announcements may generate disproportionately large reactions in the market, reflecting the market's sensitivity to information [7].

3 Seasonality

Seasonality is a prominent phenomenon in financial markets and refers to regular changes in market performance over a specific period of time. These changes involve not only stock price volatility and trading volumes, but also seasonal patterns in investor sentiment and expectations. For example, as described by Stephen J. Ciccone, the January effect reveals an increase in investor optimism at the beginning of each year, which typically leads to an increase in investment in stocks of high uncertainty companies [7]. This seasonal fluctuation in optimism reflects the expectations and hopes of market participants for the new year. Seasonal effects can also be observed around specific holidays or vacations, such as the Christmas effect noted by Todd Feldman and Alan Jung. It was found that around Christmas, the market volatility index (VIX) usually decreases, showing the stability of the market during this period [8]. Understanding seasonality is crucial for investors as it helps them to predict and explain the performance of the market at different times. Awareness of seasonal patterns allows investors to better tailor their investment strategies and use these patterns to optimize investment decisions. In addition, an in-depth understanding of seasonal factors helps investors and market analysts to more accurately assess market risks and opportunities. However, seasonal effects are not always predictable and their impact may vary depending on other market dynamics. Therefore, when utilizing seasonal patterns in making investment decisions, investors also need to consider other factors affecting the market, such as macroeconomic conditions and company-specific events.

Seasonal variation in financial markets is more than a simple repetition of patterns; it profoundly reflects the complex interplay of market dynamics and investor psychology. Specific holiday effects and tax policy changes provide a unique perspective to understand this complexity. Changes in consumer behavior triggered by holidays such as Christmas and Black Friday not only alter the short-term financial performance of the retail and consumer goods industry, but also influence the sentiment and expectations of the market as a whole. Such changes go beyond mere sales figures; they reflect the far-reaching impact of cultural and social factors on economic activity. For example, the reduction in market volatility over the Christmas period may be related to investors' reduced trading behavior during the holiday season, but just as importantly this period is usually accompanied by increased optimism and consumer confidence. This seasonal trend is not only a numerical change, but also a sign of the psychological state of the market [8]. During major retail events such as Black Friday, it can observe how investors react quickly to market information. Short-term fluctuations in the stock market are not only a reaction to actual sales data, but also a reflection of consumer behavior and expectations of market trends. This situation shows how seasonal events can be a catalyst for investor sentiment and expectations, which in turn influence their investment decisions [2]. Seasonal changes in tax policy, on the other hand, reveal how investors find a balance between macroeconomic policies and micro personal finances. The year-end phenomenon of tax-loss harvesting not only affects the performance of individual stocks, but also reflects how investors make trade-offs between tax optimization and market performance expectations. This pattern of behavior reflects the market's adaptability and flexibility in the face of structural economic incentives.

It is important to note that in financial markets, investor reaction to seasonal information is often complex and variable, and investors may underreact to predictable seasonal information. This is particularly true for seasonal events that have historically had high returns. For example, during China's Double Eleven shopping festival, investors often fail to adequately predict the potential impact of this seasonal event, despite the fact that the historical performance of the retail industry has typically shown significant earnings growth [9]. This underreaction may stem from investors focusing too much on recent data and ignoring long-term seasonal trends. In addition, investors may fail to accurately capitalize on investment opportunities arising from seasonal events due to misinterpretation of market information. Despite the relatively obvious seasonal patterns, many investors still start adjusting their portfolios only after the events have occurred, missing out on the expected peaks in returns. This phenomenon suggests that even in the face of predictable seasonal events, investors' behavior remains limited by their ability to process and interpret patterns of market information. Moreover, this lack of response reflects a general market misunderstanding of seasonal effects. In many cases, investors may incorrectly believe that the effects of seasonal events have been fully absorbed by the market, thereby underestimating the actual impact of these events on stock prices and market dynamics.

In financial markets, investors and market analysts develop more effective investment strategies by utilizing an in-depth understanding of seasonality. The use of seasonal analysis is not limited to identifying market trends over a specific period of time, but extends to risk management and optimization of investment decisions. By analyzing phenomena such as the Christmas effect and the "double 11" phenomenon, investors are able to predict market performance over a specific period of time and adjust their portfolios to maximize returns or minimize risk. The use of seasonal analysis in investment decision-making highlights the importance of a thorough understanding of market dynamics. Investors need to focus not only on short-term market fluctuations, but also consider long-term trends and cyclical patterns. For example, an investor may buy stocks that are expected to perform well during a particular holiday or event in advance, with a view to profiting from the anticipated price increase. Similarly, understanding seasonal changes in tax policy can help investors plan their trades to optimize tax implications. In addition, the impact of seasonality on investor expectations and market performance highlights the importance of understanding market cycles and investor behavior patterns. By tapping into seasonal patterns, market analysts are able to provide more accurate market forecasts and investment

recommendations. This deeper understanding provides investors with the foundation to make informed decisions in a complex market environment. Understanding and applying seasonal knowledge is not only a key component of effective market analysis, but also an important tool in developing investment strategies. As the market environment continues to change, adapting to and utilizing these seasonal patterns will be a key factor in investment success.

4 Environmental, social and corporate governance (ESG)

ESG has become an important topic in the contemporary investment world, addressing a company's performance and practices in terms of environmental protection, social responsibility and internal governance. The concept of ESG goes beyond traditional financial metrics to incorporate a company's long-term sustainability and ethical responsibility into its assessment criteria. ESG is critical for investors, companies and the market as a whole. For investors, ESG provides a more comprehensive framework for assessing a company's long-term value and risk, especially in the face of global challenges such as climate change and social inequality. At the same time, companies can improve their market competitiveness, attract responsible investment and contribute to long-term financial performance through active ESG practices. For the market as a whole, emphasizing ESG standards encourages more sustainable and ethical business practices and contributes to a more robust and transparent economic system.

Research in recent years has provided insights in the area of ESG investing, particularly on how investor attitudes toward ESG affect expectations about company performance and investment returns. Researchers have found that investors' views on ESG investing depend heavily on their personal beliefs and values, and that their ESG beliefs significantly drive their portfolio allocations. On the one hand, some investors tend to increase the proportion of ESG investments in their portfolios due to a high level of concern about ESG-related issues, such as climate change. On the other hand, those investors who lack specific ESG beliefs may be conservative about the performance of their ESG investments, anticipating that these investments may not achieve market average returns [10]. While companies with high ESG ratings may benefit from a reduced cost of capital and positive investor preferences, these factors may also lead to lower expected returns for investors. This suggests that investors may face a trade-off between financial returns and social responsibility when choosing ESG investments [11]. This reflects the market's uncertain perception of the risks of ESG investments, as well as the lower expected returns that may result from highly rated ESG stocks due to their popularity. Of course, there are also studies that show a rising value assessment of ESG investments by investors. By analyzing investors' valuations of ESG-oriented index funds, the study reveals their preference for both the financial and non-financial benefits of ESG, and investors' willingness to pay higher fees for ESG funds, reflecting their recognition of the long-term value of ESGs and their high expectations of their financial and non-financial benefits. At the same time, this increase in valuation over time shows investors' growing interest in ESG [12]. Laura Starks et al. show that long-term investors prefer companies with high ESG ratings compared to short-term investors, which further emphasizes the fact that long-term investors place particular value on a company's ESG performance. The fact that these investors tend to choose companies with strong ESG ratings suggests that they believe that these companies are able to create more value over the long term [11].

In modern financial markets, ESG factors are having an increasingly significant impact on investor expectations, which directly influences market dynamics. The rise of ESG has changed the way investors assess the value and potential risks of companies, which in turn has had a profound effect on market performance. First, elevated ESG ratings are often viewed as an indicator of a company's long-term sustainability, triggering positive investor expectations about the future performance of these companies. For example, companies with high ESG ratings typically attract more investors who are looking for long-term investments and are socially responsible due to their sustainable and responsible business practices. These investors tend to perceive high ESG-rated companies as delivering stable returns and reduced risk over the long term [12]. However, such positive expectations do not come without a price. High investor expectations for ESG investments may lead to higher market valuations for these stocks, which in turn reduces expected future returns. Investors' enthusiasm for ESG investments may have pushed up the prices of the underlying stocks, but this has also increased the cost of investing in these stocks, which may lead to lower returns in the long run [10]. In addition, investors' willingness to pay higher fees for ESG funds suggests that they expect higher total returns from ESG investments before fees. This phenomenon reflects investors' confidence in the long-term value-creating potential of ESG investments, despite the presence of possible lower returns in the short term [13]. The popularity of ESG investments has also sparked a discussion about overall market trends. Long-term investors are more inclined to invest in companies with high ESG ratings and show more patience in the face of short-term market volatility [11]. This trend suggests that the market is increasingly recognizing ESG as an important factor in assessing the long-term value and risk of a company. ESG factors affect market performance by influencing investor expectations and, in turn, market performance. This impact is reflected not only in share prices and trading volumes, but also in investors' assessment of a company's long-term performance and risk management capabilities. As ESG becomes increasingly important in investment decisions, so does the market's focus on sustainable and responsible business practices.

5 Conclusion

This paper provides a comprehensive analysis of three core factors that influence investor expectations: company announcements, market seasonality and environment, and social and corporate governance (ESG). It finds that these factors play a key role in shaping investor behavior and market performance. Corporate announcements provide key market information, market seasonality reveals expected cyclical changes, and ESG factors reflect investors' concerns about sustainability and ethical responsibility. However, there are limitations to this study, especially in considering other factors that influence investor expectations, such as macroeconomic indicators, political events, and technological innovations. In addition, the analysis in this paper is mainly based on theories and existing literature studies, which may lack an in-depth examination of real-time market data and recent trends.

Future research should focus on exploring a wider range of influencing factors, including changes in the global economic environment, policy adjustments and technological advances. Analytics using big data and artificial intelligence technologies could provide new perspectives for understanding the impact of these factors on the market. In addition, studying how different types of investors react to these factors and how these reactions manifest themselves in different market environments is an important direction for future research. These efforts will contribute to a deeper understanding of the complex mechanisms that influence investor expectations and provide market participants with more precise guidance and strategies in the dynamically changing financial markets.

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