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Abstract

I argue that the slow diffusion of industry information is a leading cause of the lead-lag effect in stock returns. I find that the lead-lag effect between big firms and small firms is predominantly an intra-industry phenomenon. Moreover, this effect is driven by sluggish adjustment to negative information, and is robust to alternative determinants of the lead-lag effect. Small, less competitive and neglected industries experience a more pronounced lead-lag effect. The lead-lag effect is related to the post-announcement drift of small firms following the earnings releases of big firms within the industry.

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