# Over-Attributing Price Movements to Cash Flows *

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**ABSTRACT**

This paper documents that equity analysts revise their forecasts about *long-term* earnings—earnings beyond two years—to rationalize observed stock price movements, even when the price movements are driven by shocks that are identified by economists as unrelated to fundamentals. These forecast revisions initially overreact to price movements but subsequently revert. The forecast revisions are also often delayed relative to price movements, further indicating that they are responding to, rather than driving, price movements. Our findings indicate that the observed high correlation between stock or stock market returns and changes in subjective valuation implied by analysts' earnings growth forecasts reflects, in part, reverse causality from prices to beliefs. We estimate this channel and find that it accounts for approximately one-third of the stock-level correlation and for approximately half of the market-level correlation. Assuming that analyst forecasts are a good proxy of investor beliefs, this channel provides a possible microfoundation for inelastic demand.

*JEL classification*: G02, G12
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