Do Index Additions Generate Information Spillovers? Evidence from Shared Analyst Coverage

Quan Gan, Yanlin Liu, Juan (Jane) Luo and Limin Xu

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Abstract

This study examines whether index additions generate information spillovers beyond the added firm through shared analyst coverage. Using a comprehensive sample of S&P 500 index additions, we show that investor reactions to analyst forecast revisions increase not only for index-added firms but also for non-added firms covered by the same analysts. We argue that index additions attract investor attention and market scrutiny, thereby heightening analysts' visibility and reputational incentives and inducing their greater effort in information production. Due to economies of scope within analysts' coverage portfolios, this increased effort improves forecast quality for non-added firms. Consistent with this mechanism, we find that index additions increase investor attention, reduce forecast errors, boost revision frequency, and improve price efficiency for both added and non-added firms. The spillover effects are stronger when index additions represent larger reputational shocks, when analysts operate under stronger incentive conditions, and when analyst forecasts provide greater informational value. Our findings identify a previously unexplored positive externality of index inclusion and underscore the role of analyst coverage networks in shaping firms' information environments.