How 'Spillover' Effects Can Skew AI Securities Class Actions

By **Erik Johannesson, Olivia Wurgaft and Nguyet Nguyen** (May 1, 2026)

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From fiscal years 2019 to 2024, there has been an approximately 700% increase in artificial intelligence-related disclosures in Form 10-K filings from S&P 500 firms. By 2024, most AI-related discussions appeared under "Risk Factors," suggesting that firms increasingly view AI as a potential material source of risk as AI adoption proliferates across sectors.[1]

Consistent with this trend, securities litigation related to AI has also increased. In 2025, AI-related filings accounted for more than 40% of the "Current Trend" securities class action matters, according to Stanford Law School's Securities Class Action Clearinghouse report.[2]

Against this backdrop, recent events suggest that when AI-related news hits the market, it can shift expectations not only about the company at issue but also about related industries and, at times, the broader market.

For economists and litigators relying on event studies to isolate the price impact of news, spillover effects — i.e., when news about one company affects the value of others — introduce additional complexity: An industry or market index used as a return benchmark may reflect the market's reaction to the very information the event study seeks to measure.

Event study evidence is often central in securities litigation at class certification and beyond. In an environment where firm-specific news can have broader market implications, the task of parsing out the price impact of news or statements requires careful consideration; otherwise, estimated price impact may be over- or understated.

In this article, we use real-world examples to illustrate economic spillover effects, discuss their implications in the AI era and outline practical considerations for experts and litigation counsel.

Primer on Event Study Methodology

Event studies are widely used in securities cases to evaluate price impact and loss causation. In a typical event study, an expert first estimates how a company's stock typically moves with its industry and the broader market.

This is typically done through a regression analysis over an estimation period. The regression estimates the stock's sensitivity, on average, to movements in its industry and the broader market.

The relationships estimated from the regression analysis are then applied to the actual industry and market returns observed on the event date to calculate the company's predicted return. The predicted return reflects how the stock would be expected to perform

based on market and industry forces, absent firm-specific news.

The difference between the predicted return and the observed return provides an estimate of the stock's abnormal return. Under certain conditions, this abnormal return can be used as a measure of the price impact of an event of interest.

Industry indices used in event studies typically include firms within the same sector or subindustry. Experts often include an industry index in the regression analysis to control for industrywide factors that affect all firms in the sector.

This approach rests on an assumption that the industry index on the event date primarily reflects sectorwide conditions — that is, factors unrelated to the event affecting the company being studied.

As we illustrate below, this assumption might warrant closer examination in settings where firm-specific news has broader market effects.

How Firm-Specific News Moves Industry Peers

Firm-specific events can have implications beyond the firm itself if the new information leads investors to reassess not only the affected firm, but also economically related companies.

Empirical research documents such spillover effects across a range of events and economic contexts. Studies show that one firm's earnings forecasts or results can affect the stock prices of industry peers,[3] that take-private announcements of a firm can increase the valuation of its industry rivals,[4] and that initial public offerings can affect the stock price of competing firms.[5]

To illustrate, consider Intel Corp.'s disclosure on July 23, 2020, of significant delays in its next-generation chip manufacturing technology.[6]

Intel's stock price fell sharply following the announcement. At the same time, the stock price of Advanced Micro Devices Inc., one of Intel's main competitors, rose, reflecting expectations that Intel's setback could strengthen AMD's competitive position.[7]

A contrasting dynamic is illustrated by Biogen Inc. and Eli Lilly & Co. in June 2021, whereby positive news for one company was followed by an increase in the stock price of its peer.

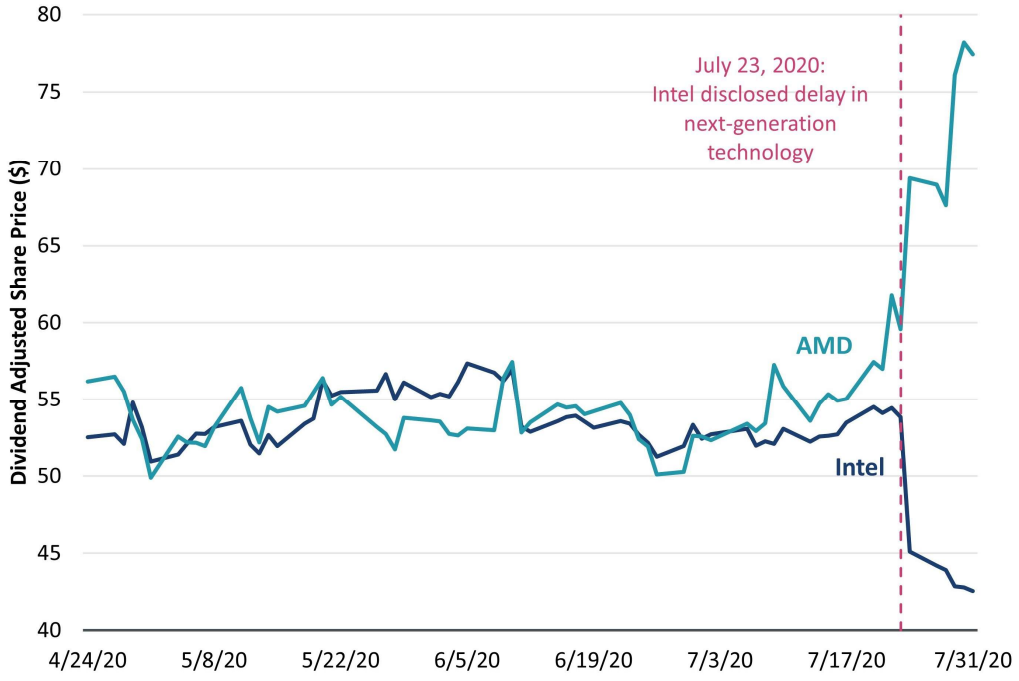
On June 7, 2021, Biogen's stock price surged following news that the U.S. Food and Drug Administration had approved its drug to treat Alzheimer's disease.[8] Eli Lilly, which was developing a similar Alzheimer's therapy, also saw its stock price rise, as investors viewed the FDA's decision to approve Biogen's drug as improving prospects for competing drugs.[9]

In both examples — Intel/AMD and Biogen/Eli Lilly — news concerning one firm conveyed information relevant to its peers. Figures 1 and 2 illustrate these spillover dynamics using daily[10] and intraday[11] data, respectively, showing that both the subject company and its peer responded almost immediately following the news.

Figure 1: Daily Price Per Share

Intel and AMD Daily Price per Share ($)

April 24, 2020 - July 31, 2020



Biogen and Eli Lilly Daily Price per Share ($)

March 19, 2021 - June 14, 2021

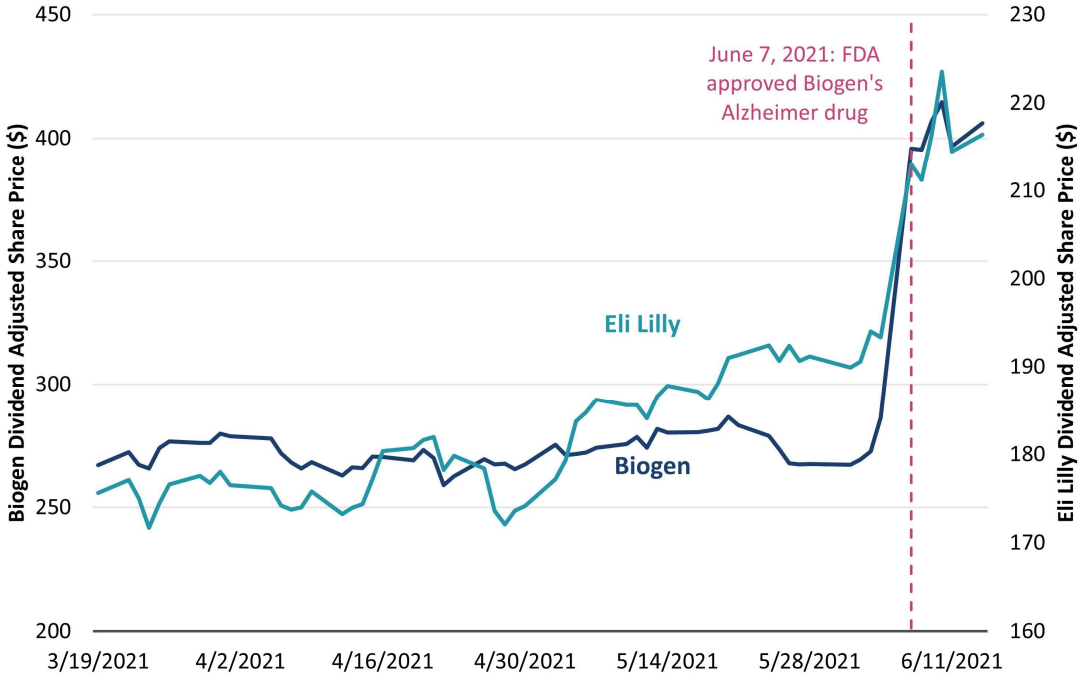
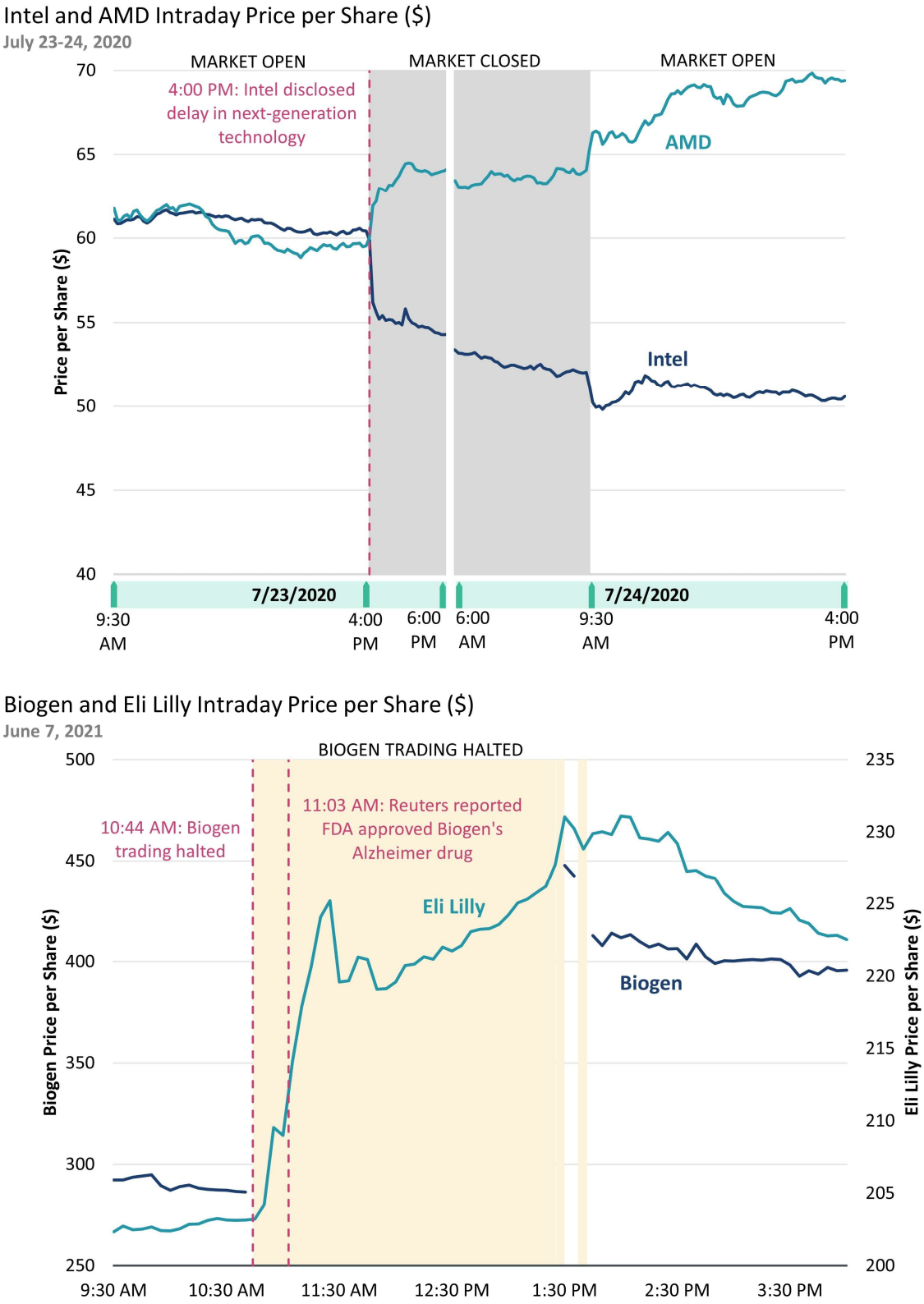


Figure 2: Intraday Price Per Share



These examples illustrate spillover effects in relatively more discrete settings, in which firm-specific news affects direct competitors. In some cases, spillover effects can be broader, extending to a wider set of firms, even across sectors. In the current AI era, this dynamic can be more amplified, as new developments often have implications across multiple firms and industries simultaneously.

For example, in early February 2026, Anthropic PBC introduced an AI-based legal workflow plugin for Claude/Cowork, aimed at tasks such as document review, risk flagging, nondisclosure agreement triage and compliance tracking.[12] Anthropic's announcement was followed by declines in the shares of Thomson Reuters, RELX and Wolters Kluwer, consistent with a reassessment of the competitive outlook for publishing and legal software companies.[13]

This example highlights that AI-related disclosures can have ramifications not only for direct peers, but also for firms connected through indirect or cross-industry channels.

Why This Matters in Securities Class Actions

When spillover effects such as those illustrated above are present, the task of isolating the price impact of news can become even more challenging. In such cases, failing to consider the unique circumstances of the case in an event study can distort the estimated abnormal returns, potentially overstating or understating the event's true price impact.

Returning to the Intel-AMD example, if Intel's negative news caused AMD's stock price to rise, the return of an industry index that includes AMD will be higher relative to a scenario in which AMD is unaffected by the Intel news. If Intel's stock historically exhibited a positive relationship with the industry index, the expected return model may produce a higher-than-warranted predicted return for Intel on the event date.

The estimated abnormal return for Intel in this scenario may appear more negative than it economically was. In other words, the abnormal return might be overstated.

The reverse can also occur. Positive news for a company may increase the price of peer firms, such as in the Biogen-Eli Lilly example, causing the industry index to increase. In that case, part of the true price impact of the news event might be incorrectly attributed to the industry index rather than to the news event itself. The estimated abnormal return might therefore be understated.

In the current AI environment, contamination issues arising from spillovers might be more salient and need to be assessed on a case-by-case basis.

AI-related developments, such as model releases, regulatory changes or shifts in competitive positioning, may carry implications that extend across firms and even across sectors. As a result, industry and market indices may increasingly reflect reactions to the same information that an event study seeks to isolate.

In such settings, treating these indices as unaffected benchmarks may warrant closer scrutiny, as doing so could lead to inaccurate estimates of price impact.

Conclusion

Event studies remain central to expert analyses of price impact, loss causation and damages in securities litigation. As this article illustrates, in some cases, careful consideration of industry and market dynamics — and how they affect event study model specification — can play a critical role in an expert's analysis aimed at isolating the price impact of company-specific news.

While spillover contamination is not a new issue, it can be more pronounced in the current AI environment. As AI-related developments increasingly reshape competitive expectations, information about one firm may be rapidly incorporated into the valuations of peers, raising the risk that commonly used benchmarks reflect part of the same price impact an event study analysis seeks to isolate.

Even when spillover effects are present, whether additional considerations and adjustments are necessary is a case-specific empirical question. Where appropriate, experts may consider sensitivity and robustness by evaluating alternative specifications, such as excluding affected peers, constructing different industry indices, developing an expected-return model for the industry index itself, testing a market-only model or examining intraday price movements.

Parsing out the price impact of firm-specific information is not a mechanical exercise but one that requires economic judgment. In settings where spillover effects are plausible, the challenge is not only selecting an appropriate benchmark but ensuring that the event study model meaningfully separates firm-specific effects from broader market and industry responses.

Addressing this issue proactively — through economic reasoning and sensitivity, and robustness analyses — can strengthen the credibility and reliability of the analysis. Experts and legal counsel alike should consider this issue at an early stage to reduce avoidable methodological disputes and ensure that the event study framework aligns with the economic realities of the case.

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