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THE IMPACT OF BOND RATINGS ON EQUITY MARKET - MALAYSIAN EXPERIENCE

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Abstract

This research will examine the impact of bond ratings on market efficiency and stock returns. The study covered rating announcements from 1996 to 2001. Four types of rating announcements were covered namely initial announcement, reaffirmation, upgrades and downgrades. Each rating is categorized into investment grade and speculative grade. The mean adjusted model was used to determine the abnormal returns. The findings showed insignificant movement in abnormal returns for all type of ratings and also the sub-category of speculative and investment grades. The result also revealed that the market is efficient in semi-strong form as far as Malaysian market is concerned. Market players cannot accrue abnormal returns in the market by using the rating announcements as new information. This is because the information is relayed to them after a significant time lag.