The Impact of Bond Ratings
On Market Efficiency and Stock Returns

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The Impact of Bond Rating Announcements on Market Efficiency and Stock Returns

Abstract

This paper examines the impact of bond rating announcements by Rating Agency of Malaysia (RAM) on market efficiency and stock returns in Malaysia. Four types of announcements were selected for the study viz. initial assignments, reaffirmations, upgrades and downgrades for the period ranging from 1996 through 2001. Each of the rating categories is sampled according to investment, speculative and summary levels. The market model was used in determining abnormal returns for the study.

A statistically insignificant reaction was found for all the four categories of rating announcements in all the sub-samples in terms of abnormal returns and stock returns for the event window period. The results suggest that the evidence supports market efficiency in the semi-strong form in the Malaysian market. However, evidence also suggests that one would not profit by taking positions based on rating announcements by RAM as it does not appear to provide new information to the market but merely providing information already available in the market place.