

Impact of credit ratings on stock returns

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Abstrak

ABSTRACT

This study investigates whether a change in credit ratings lead to a change in daily excess stock returns. The sample includes daily stock price data for US firms listed on the Standard & Poors 500 from January 2006 to December 2015. Firms excess stock returns are compared with the market in a 14-day window around credit rating downgrades and upgrades. Our results are asymmetric, that is, there is a significant reaction to credit ratings downgrades but not to upgrades. In addition, we report weak evidence of upgrades in credit ratings since the 2008 global credit crisis leading to significant changes in security prices.