

The Impact of Analysts' Stock Recommendations on the Hong Kong Stock Market

Choudhry, T.¹, Nandi, M.², Jayasekera, R.³, Dassanayaka, G.⁴, Vigne, S.⁵

Analysts' recommendations play an important role in providing significant information to market participants in the stock market. This paper examines the short-term price impact of analysts' recommendations (upgrades, downgrades and initiations) on major stocks in the Hong Kong stock market from 2009 to 2014. Our findings show that on average, recommendation upgrades convey substantial and permanent information to the market and result in significantly positive abnormal returns. On the other hand, recommendation downgrades generate even larger price impacts surrounding the announcement day. This implies that recommendation downgrades deliver more significant information to the stock market than upgrades. Our results provide evidence in favour of the markets' significant reaction to predictions from stock analysts during and after the announcement day taking into account market conditions.

Keywords: Analyst recommendation, Downgrade, Upgrade, Hong Kong Stock Exchange

³Trinity Business School, Trinity College, Dublin, Ireland. (jayasekr@tcd.ie)