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REGULAR ARTICLE

Bond rating changes and stock returns: evidence from the Spanish stock market

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Abstract This study analyzes the effect of corporate bond rating changes by international agencies on stock prices. This topic has not yet been analyzed for the Spanish stock market, despite the growing importance of ratings in Spanish financial markets. On an efficient market, rating changes will only have an effect if they contain some new information. The results from an event study indicate that rating actions cause significant negative abnormal returns in issuing firms around the date of the announcement. This evidence indicates an informational effect related to downgrades, which supports the hypothesis that credit rating agencies provide information that may reduce the asymmetric information problem between firms and investors. In the case of upgrades, our results are compatible with a redistribution of wealth between bondholders and owners or with the reputation hypothesis.

Keywords Credit rating agencies · Rating changes · Event study · Stock returns · Nonparametric methods

JEL Classification G12 · G14 · C34

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