**Credit Rating Changes and Stock Market Reaction in the Kingdom of Bahrain**

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**ABSTRACT**

Between 2014 and 2015, the oil price almost halved. Since then, it has fallen a further 40%. Consequently, Moody's Investors Service has downgraded Bahrain's long-term issuer rating from Baa3 to Ba1with a negative outlook and placed it on review for further downgrade. In this context, previous literature reaches no agreement about the impact of credit rating changes on stock prices. Some studies indicate that credit rating changes do not affect stock prices, while others conclude they do. Therefore, this study aims to examine whether credit rating change has a significant impact on Bahraini stock prices. We conducted an event study to analyze stock market reaction to such news in the Kingdom of Bahrain. Even though Bahrain has witnessed a series of sovereign downgrades over the past five years, the latest downgrading event in February 17, 2016, has been followed by a credit rating downgrade of its banking sector in March 7, 2016. Hence the choice of the sample period of the event study includes both these downgrading events over the period of study from January 2, 2014 till March 22, 2016. Three sectors were selected from the Bahrain all share index: banks, service and industrial. The findings of the study reveal that sovereign rating downgrade hassome mixed pre-announcement and post-announcement effects and credit rating downgrade provides useful information. Overall, the results indicate that downgrades and negative outlook announcements have an adverse impact on long-term equity returns, but little impact on short-term performance.

**Key words**: Credit Rating Changes, Sovereign, Stock prices, Event Study, Bahrain Stock Market

**JEL Classification Code:** G14, G18, G29