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Seasonality in the Saudi stock market: The Hajj Effect

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Highlights:

- Religious beliefs and sentiments influence volatility of returns.
- No significant impact found on mean returns of Tadawul index.
- Impact of the Hajj period on volatility of the Saudi market (Tadawul Index) is observed.

Abstract

This study focuses on the influence of the Hajj pilgrimage on the Saudi stock market. Stock returns data of the Tadawul All-Shares Index (TASI) and several sector indices from January 2010 to August 2014 are used to examine the impact of the Hajj pilgrimage on the return and volatility of the stock indices. Using the ARMA(p,q)-GARCH(1,1) model, the results show that while the Hajj period has an insignificant negative influence on the mean return of the TASI and the sector indices, a significant increase in volatility is observed for the TASI and all the sector indices, except for the retail, agriculture and food and the petrochemical sectors. The increase in volatility is contrary to what has been found in prior studies but is consistent with the expectation that reduced participation due to religious beliefs and sentiments increases volatility of returns. This study contributes to the scant literature on cultural/religious anomalies in Islamic stock markets. The result being contrary to prior studies indicate that a deeper understanding of this stock market anomaly and the sentiments behind it is required.

Keywords: Stock Markets; investor behavior; GARCH; Market Anomalies

JEL Classification: G1; G110; C580; G120

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