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The effect of Brexit on the European stock market

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ABSTRACT

The paper analyses market reaction to three different events related to Brexit, i.e. the announcements of the referendum date (20 February 2016), the referendum result (23 June 2016) and the election of Theresa May as Prime Minister (11 July 2016). We study the impact of these announcements on stock prices of UK companies belonging to export- and import-oriented industries. We also investigate the influence of previous events on stock prices of European companies belonging to the same sectors. Our results show that the announcement of the referendum date and the election of Theresa May as Prime Minister were not perceived by financial markets as elements of political uncertainty. However, in the days before the referendum, a high level of uncertainty on the result emerged, and investors priced it as an uncertain political event. Stock market performance around these events depends more on industry factors than on firm-specific characteristics, both for UK and EU companies. The only exception is company size, which positively affects investor reaction.

KEYWORDS Brexit; event study; stock market reaction; import; export

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