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MONDAY EFFECT DURING DIFFERENT MARKET STATES: THE INTERNATIONAL EVIDENCE

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ABSTRACT

Monday effect, also known as the weekend effect, occurs when stocks display significantly lower returns on Monday. In this study, we investigate the influence of bull and bear market conditions on the Monday effect in nine major equity markets, namely, Australia, Canada, France, Germany, Hong Kong, Japan, Switzerland, United Kingdom, and United States. We analyze the daily returns of stock market indices of nine developed equity markets of the world. We employ regression model with indicator variables to test our hypotheses. Additionally, we use chi-square statistics based on heteroskedasticity consistent covariance estimates to test the significance of our hypotheses. We report four major findings. First, we find that Monday returns are negative and significant, that is the Monday effect exists, only during the bear market conditions. Interestingly, our second finding suggests that Monday effect does not exist during advancing market. In fact, our results show that Monday returns are positive and significant during the bull market. Third, we find that even if these anomalies exist, large standard deviation of daily returns may not provide any arbitrage opportunities. Finally, we provide evidence suggesting volatility of Monday returns is higher than that of non-Monday daily returns. This pattern is consistent for both, bear and bull, markets.

Keywords: *Monday effect, bear market, bull market*