

THE EFFECTS OF BREXIT ON THE UK CAPITAL MARKETS

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ABSTRACT

Purpose- This study attempts to identify the consequences that had the BREXIT referendum over the United Kingdom's Capital Markets. By reviewing the available studies done until now on this topic and the financial literature about the constant changes over the market we will try to analyze the impacts of the British Citizens' decision to leave the European Union on the capital market during the transition period.

Methodology- We estimate the UK policy uncertainty in front of such a problematic situation, and the results of such uncertainty about BREXIT in interaction with the volatilities caused in the financial markets by taking into consideration the pre and after BREXIT period, by analyzing data sets based on the statistics released by financial institutions to check the changes on levels and values of the Stock Exchange. Our main focus is on analyzing the volatility and market changes as a result of unexpected and new ongoing events. Hence we study the values of Abnormal Returns and their relevant statistical information derived from the political situation and policy uncertainties in the country..

Findings- An event study with 30 event windows for a portfolio of average abnormal returns of the top 10 selected constituents of the FTSE100 has been applied by using the GARCH model to measure the volatility. The shocking results of the referendum have affected negatively in the UK's stock exchange market, providing a high scale of volatility meaning that the market is beyond the normality levels where high risk is present. We notice that the larger influence of new announcements is set to be observed during the period of 5 trading days before and on the event day, while in the following 5 trading days after the announcement has been made the effect on volatility tends to diminish.

Conclusion- In general, it has been found that Brexit has created negative consequences over the market throughout our examination period.

Keywords: Brexit, abnormal returns, volatility, GARCH, FTSE 100

JEL Codes: F37, F65, G01

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