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The Effect of Global Political Events in the Arab Spring on Stock Returns: The Case of Turkey

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Abstract
International events or news have an effect on countries' internal and external policies and since this effect is reflected on the markets, the decisions of domestic and foreign investors are revised continually. This study aims to analyze the effect of international good and bad news related to Iraq, Iran and Syria that are located in the Arab spring region and are border to Turkey, on the returns of ISE-100 index The study utilized event study methodology, international news related to Iraq, Iran and Syria between 2010-2013 and the daily closing price data of MSCI Emerging Markets Index and ISE-100 index between 2010-2013 constituted the dataset. At the end of the study, it was found that only the Iran-related news had effect on ISE-100 index.
Keywords: The Arab Spring; News; Stock Return; Abnormal Return; Stock Market Performance.
JEL Classification Codes: G12; G14; F59.

Arap Baharındaki Küresel Siyasi Olayların Hisse Getirileri Üzerindeki Etkisi: Türkiye Örneği

Öz
Uluslararası önem düzeyine sahip olan olaylar ya da haberler, ülkelerin iç ve dış politikalarını etkilemekte ve bu etkilenme sonucunun piyasalara yansıması nedeniyle de yerli ve yabancı rasyonel yatırımcıların yatırım kararları sürekli revize edilmektedir. Bu çalışma; Arap Baharı sürecinin yaşandığı coğrafyada yer alan ve Türkiye'ye sınır olan ülkelerden Irak, İran ve Suriye ile ilgili uluslararası nitelikteki iyi ve kötü haberlerin, BİST-100 endeksinin getirileri üzerindeki etkisini incelemeyi amaç edinmiştir. Olay çalışması yönteminin kullanıldığı çalışmada; Irak, İran ve Suriye ile ilgili, 2010-2013 yılları arasında çıkan uluslararası nitelikteki haberler ile MSCI Gelişmekte Olan Piyasalar Endeksinin ve BİST-100 endeksinin 2010-2013 dönemindeki günlük kapanış fiyatları, veri olarak kullanılmıştır. Çalışma sonucunda; iyi ve kötü haber sahibi ülkelerden sadece İran kaynaklı haberlerin BİST-100 endeksi üzerinde etkili olduğunu ortaya koyan bulgular elde edilmiştir.
Anahtar Kelimeler: Arap Baharı, Haberler, Hisse Getirisi, Anormal Getiri, Piyasa Performansı.
JEL Sınıflandırma Kodları: G12, G14, F59.

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1. Introduction

Before making a decision to invest in share certificates, the real value of the shares must be identified by investigating many factors that may affect the value of the shares thought to invest. The overall economic, financial and political situations of the country are the factors that should be analyzed before making a decision about investments. Considering the overall economic, financial and political situation of the country as a factor that should be analyzed before giving an investment decision can be explained by the dividend model of Gordon (1962) as the basis of the analysis, which identifies the actual value of the shares.

$$P_0 = \frac{D_0 \times (1+g)}{k-g} \quad (1)$$

In the 1st Equation, P represents the actual value of the shares; k represents the expected rate of return from equity investments by the investor; g represents the dividend growth rate and D represents the earnings per share, respectively. Dividend payments, expected rates of return and growth rates that identify the real value of shares are greatly affected by the country's economic and financial circumstances (Flannery & Protopapadakis, 2002). The real value of the shares is sensitive to the economic and financial situation as well as the political situation of the country. In fact, the indicators or the news presenting the current political situation of a country related to political stability of the system (Annet, 2001), the government's response to the sudden policy changes (Minor, 2003, 20), conflicts between religious or social groups (Alon & Herbert, 2009, 129) and expectations related to political developments (Ada, Bolak & Süer, 2013, 23) will have either positive or negative effects on the earnings[1] and future plans of the companies by providing information about the reliability of the environment, in which the companies have invested. This effect will identify the real value of the shares by affecting the parameters given in the 1st Equation.

While making investment decisions on shares, the parameters, among the factors that should be analyzed by the investors, related to country's overall economic, financial and political situation provide information regarding the risks of the country for both domestic and foreign investors. The sovereign risk which includes all economic, financial and political risks of a country (Beers & Cavanaugh, 2008, 5), refers to the probability of failing of a country to fulfill its external debt obligations as a result of some events happening at a certain extent because of its activities (Kırankabeş, 2006, 1), and negatively affect the investments that will be made by both domestic and foreign investors in the country and stock prices in general (Huang, 1985; Erb, Harvey & Viskanta 1998; Cosset & Suret, 1995; Ferson & Harvey, 1997; Lobo 1999; Harvey, Solnik & Zhou, 2002; Mateus, 2004; Yapraklı & Güngör, 2007).

Despite the importance of the sovereign risk; first, the investors should examine the global conditions in case they are suitable to make investments before making a decision (Ercan & Ban, 2005, 121). In the globalizing world, the fast mobility of the capital, goods and labor has paved the way for all kinds of positive and negative events to spread quickly at an international level. This situation prevents investors from making investments after analyzing solely the sovereign risk, or all other systematic and unsystematic risks, but leads them to analyze the global risk factors as well while making investments. Global risk is defined as changes on returns of the financial instruments that caused by global events (Aydin, Başar & Coşkun, 2010, 567).

In this study; it was aimed to investigate the effect of international good and bad news related to Iraq, Iran and Syria, which are the countries border to Turkey and that have experienced the Arab Spring, on the ISE-100 index returns.

In the following sections of the study, the studies in the literature related to the subject, information regarding the data and methodology used for the study, the findings of the study and the conclusions reached in the study are presented, respectively.

2. Literature Review

Since stock prices are sensitive to a country's economic, financial and political situations and the indicators related to the country's economic, financial and political situations are embodied in sovereign risk, a lot of empirical studies have been made in order to determine the effect of sovereign risk on shares.

Erb, Harvey & Viskanta (1996) investigated the effect of country risks of 117 countries on the expected return of the stock market between the years of 1984-1995. In the study, in which the country risk index calculated by International Country Risk Guide (lCRG) was used, a negative relationship was found between country risk and stock market returns for all the countries.

In the studies of Huang (1985) and Lobo (1999), which investigate the effect of political risk element "elections" on stock returns, it was found that stock returns were generally negative in the election year, whereas positive in the following years. In the study, the volatility was found to be very high during the election periods; thus, it was accepted that the elections were considered to be an important source of uncertainty as a political risk factor for the stock markets.

Chen & Wei (1996) investigated the effect of political news in Hong Kong on the stock market volatility by using the GARCH model. In the study, the reliable shares were represented by the Hang Seng Index and Chinese shares were represented by the Red-Chip Index, respectively. As a result of the study; it was determined that the volatility of the shares in both indexes increased by the

increase in the number of political news; while there was a positive relationship between the positive and negative political news and the Hang Seng Index returns, whereas there wasn't a relationship between the political news and the Red-Chip Index returns.

In another study in Hong Kong, Kim & Mei (2001) investigated the effect of the political risk on the market by employing the "ARCH-jump filter" model and they have presented that the negative news in Hong Kong had an important effect on the market volatility and returns.

Yapraklı & Güngör (2007) investigated the relationship between the ISE-100 index and the economic, financial and political risks of the country in the period of 1986-2006. The economic, financial and political risk premium variables, used for the analyses, were obtained from the International Country Risk Guide (lCRG). As a result of Johansen-Juselius cointegration tests; a long-term relationship between the ISE-100 index and the economic, financial and political risks of the country was identified. According to Granger causality test results, there was causation identified caused by the economic and political risks towards ISE-100 index; however, there wasn't causation observed, caused by financial risk towards ISE-100 index. The regression results suggest that the economic, financial and political risks affected the stock prices negatively.

Fitzsimons & Sun (2012) investigated the political risk factors of the United Kingdom, Mexico, China and Iran on the returns and volatility of the market by using the GARCH model. The risks of the relevant countries were identified by the indexes calculated by International Country Risk Guide (lCRG) and as a result of the study; it was found that the less developed countries were exposed to political risk factors more than others.

The above-mentioned studies and the studies in the literature presented a sufficient number of findings, which showed that the economic, financial and political risks (country risk) have significantly negative effects on the stock prices; therefore the investors should analyze the factors affecting the relevant risk factors before finalizing an investment decision.

The results of the above-mentioned studies are also consistent with the assumption which suggests that the rational investors, who have sufficient information about the market revise their previous decisions by analyzing all the relevant data and information, avoid uncertainties (Gürsoy, 2012: 873). Uncertainty which investors avoid tends to increase significantly after international events such as the September 11^{th} terrorist attacks in the United States, the Cuban missile crisis, Gulf War and the oil crisis (Bloom, 2009, 2). The idea that international events may make changes on the financial instruments in the market, made studies that show the effect of global risks on stock returns possible. Several studies conducted on the mentioned issue are as follows:

Veraros, Kasimati & Dawson (2004) investigated the effect of the Olympic Games nomination, held in Athens in 2004, on the stock exchange markets of two finalists; Greece (winner) and Italy. As a result of the study, in which the event study method was used, it was presented that the nomination of Athens created a positive effect on the stock exchange of Greece, whereas there was no effect on the stock market of Italy.

As a result of the studies carried out by Athanassiou, Kollias & Syriopoulos (2006) on the stock exchange of Greece using the GARCH model; it has been presented that the stable security environment outside the country and the absence of geopolitical tensions are the most important factors reducing the volatility in the stock market.

Nguyen & Enomoto (2009) investigated the effects of seven international terrorist attacks on the stock exchange markets of Iran and Pakistan using the GARCH model. As a result of the study, it was determined that the attacks happened in Indonesia, Madrid, London and Iraq had negative effects on the market returns.

Liargovas & Repousis (2010) investigated the response of the shares of Greek Banks to three international attacks ((i) the attack of September 11th 2001 in New York, (ii) the train bombings in Madrid on March 11th, 2004, (iii) the London train bombings on July 7th, 2005, respectively). As a result of the study, in which the market model event study method was used, it revealed that only the attack of September 11th caused abnormal returns in the shares of the Greek Banks.

Apparently, in the literature, the effects of sovereign risk and the factors of sovereign risk on stock returns have been investigated sufficiently, whereas the studies investigating the effect of the global risks on stock returns are still at an insufficient level. Although there are some studies investigating the effects of the global risk factors on the stock returns, there is no study conducted yet that aims to investigate the effects of these factors on the stock market of Turkey. Therefore, the fact that relevant studies needed to be carried out in this area, was one of the most encouraging elements to conduct this study.

In this study; it was aimed to (i) fill the gap in the literature, (ii) measure the effect of global risk in general, and geopolitical risk in local on the stock market of Turkey and (iii) be among the first studies carried out in this area by investigating the effect of good and bad news related to Iraq, Iran and Syria, which are the countries border to Turkey and which experienced the Arab Spring, on the ISE-100 index returns between the years of 2010-2013.

3. Data and Methodology

In line with the objectives set out in this study; the international news related to Iraq, Iran and Syria, which are the neighboring countries of Turkey and are in the

region of Arab Spring, along with daily closing prices (in U.S. Dollars) of the MSCI[2] Emerging Markets Index and the ISE-100 index during the period 2010-2013 were used as the data of the research.

Arab spring is a public movement that ended dictatorships by a few months bloody struggle in a large region that includes North Africa and the Middle East and those dictatorships had lasted so long that tens of political leaders start and end their careers in world's most democratic countries during that period (Kibaroğlu, 2011, 26). The events happened in the above-mentioned region have affected the domestic and foreign policy of Turkey, which resulted in both domestic and foreign investors to revise their investment decisions as a result of the reflection of these events in Turkey.

To determine the response of rational investors, engaged in market transactions of Turkey, to the news related to the events happening in the above-mentioned region is possible only by measuring the effect of the news related to the Arab Spring region on the ISE-100 index. To this end, the very first data obtained in this study was the international news related to Iraq, Iran and Syria that are neighbors of Turkey and located in the region of Arab Spring. The relevant news archive was accessed through the official websites of BBC news service (*http://www.bbc.co.uk/turkce/*, 2014), Milliyet (*http://www.milliyet.com.tr/*, 2014) and Hürriyet (*http://www.hurriyet.com.tr/anasayfa/*, 2014). A total of 172 articles were used in the study, and the distribution of this news to the country and the publishing year were presented in Table 1.

Table 1: The Distribution of the News Related to the Relevant Countries by the Published Year

Countries	Years				Total
	2010	2011	2012	2013	
Iraq	14	16	8	10	48
Iran	23	11	13	12	59
Syria	5	17	13	30	65
				Total	172

It was ensured that the news, given in Table 1, had either positive or negative effects on the risk perception of both domestic and foreign investors. The news that had international importance were related to military, political and domestic safety contents in general and they were subject to good (+) or bad (-) news separation, which were given in Table 2.

Table 2: Samples of News Headlines Included in the Study

Date	Headlines of the News	Kind (+), (-)
24.08.2010	Attack in Iraq, 79 killed, 286 injured	-
18.05.2011	ESAD: "The crisis will have an end soon"	+
22.02.2011	Two Warships of Iran have entered to Suze Channel	-
13.01.2012	Iran has announced that it accepted to restart talks on recommendations about its nuclear program	+
22.02.2012	Attack in Iraq, 67 killed, 417 injured	-
29.12.2012	18 people were killed and 30 were injured by the "vacuum" and "barrel" bombings of warplanes of Syria to Tel Rifat town of Aleppo located in the north of the country.	-
22.09.2013	Attack in Iraq, 23 killed, 48 injured	-
24.11.2013	According to the agreement reached after intense negotiations in Geneva-Switzerland, Iran will stop a portion of its uranium enrichment activities by allowing more frequent inspections.	+
05.03.2013	Syrian rebels have taken the governor and other officials hostage after capturing a large part of City of Raqqa located in the north of the country.	-

The news (49 positive and 123 negative) were obtained from the neighbor countries of Turkey in order to save time and measure the effect of the risks caused by the geographical position of a country on domestic and foreign investors, especially.

In this study; it was aimed to determine the effect of either bad or good news on the ISE-100 Index and the response of the stock markets to these events by using the method of event study, which is a precise approach in these kinds of studies (Hendricks & Singhal, 2008, 781). In other words, in this study, it was investigated that whether or not abnormal returns may be received from ISE-100 index, compared to other international markets, before and after the news published related to the relevant countries.

Event study is an econometric approach used to measure the effect of certain events[3] (news) on the index or share subjected to analysis for a specific period and abnormal reactions of the markets to such events. The abnormal reactions of the events on the index refer to the abnormal returns of the relevant index (Abnormal Return – AR). Abnormal return is the portion of the normal returns, which is less or more than the expected return value, of the index subject to the study on the day of the event or on the following days (Saens & Sandoval, 2005, 311). Abnormal returns can be expressed as the 2nd Equation given at below.

$$ARit = Rit - \widehat{R}it \quad (2)$$

AR_{it} : The abnormal return of an index for the event of i in t days
R_{it} : The calculated real return of an index for the event of i in t days
$\widehat{R}_{it}=R_{mt}$: The market return[4] representing normal (expected) return of an index for the event of i in t days.

In this study, the actual return (R_{it}) of an index in the event of "i" in "t" days, which was used for the calculation of abnormal returns, was calculated logarithmically in order to get return distributions closer to the normal distribution (Equation 3). In the same way, the market return (R_{mt}), which represents the normal (expected) return of an index in the event of "i" in "t" days, within the same logic, was calculated logarithmically in order to get return distributions closer to the normal distribution (Equation 4).

$$R_{it}=\ln\left(\frac{I_t}{I_{t-1}}\right) \quad (3)$$

$$R_{mt}=\ln\left(\frac{M_t}{M_{t-1}}\right) \quad (4)$$

M_t : The closing price of MSCI emerging markets index in the day of t
M_{t-1} : The closing price of MSCI emerging markets index in the day of t-1
I_t : The closing price of ISE-100 index in the day of t
I_{t-1} : The closing price of ISE-100 index in the day of t-1

The course of daily closing prices of the indexes, subject to calculations given by the 3rd and 4th Equations during the period of 2010-2013, was given in Figure 1 for informational purposes. In the study, a total of 2,080 daily closing price indices have been used.

Figure 1: The Overall Status of ISE-100 and MSCI Emerging Markets Index in the Period of 2010-2013

Source: Oyak Yatırım (http://www.oyakyatirim.com.tr/tr/default.aspx, 2014)

In the event study method, primarily (i) the event, (ii) the day of the event announced to the public, (iii) and the event window should be identified[5] (Tuominen, 2005, 52). The news related to the country was considered as the event, and the event day was accepted as the day of the announcement of the news by the news service. The event window was identified as 5 stock market trading days (-5, +5) before and after[6] the event was announced publicly by news services.

In this study, after determining the events, announcement days and event windows, the abnormal returns of n pieces of the events (news) in the ISE-100 index within days (t-5, t-4, … t0, … t+4, t+5) specified in the event window were calculated one by one according to the 2nd Equation. Afterwards, the average abnormal returns were calculated by taking the average value of the abnormal returns for each of n different events (Equation 5).

$$AR_t = \frac{1}{n} \sum_{i=1}^{n} AR_{it} \qquad (5)$$

AR_t : The average abnormal return in t days
n : The number of the events
AR_{it} : The abnormal return of ISE-100 index for the event of i in t days

The t-test was found by the 6th Equation, in order to determine whether or not the average abnormal returns calculated by the 5th Equation were statistically significant, in other words, whether or not the hypothesis which suggested that the

abnormal returns were equal to zero, was acceptable (Hendricks & Singhal, 2008, 782).

$$t(AR_t) = \frac{1}{\sqrt{n}} \sum_{i=1}^{n} \frac{AR_{it}}{\sigma_i} \quad (6)$$

σ_i : The standard deviation of abnormal returns calculated for n events

In the study, in which the analyses were conducted using event study method, finally, the cumulative abnormal returns have been calculated by using the abnormal returns (Equation 7). The t-test, formulized by Equation 8 was used in order to determine whether or not the cumulative abnormal returns calculated are statically significant, in other words, whether or not the hypothesis which suggested that the cumulative abnormal returns were equal to zero, was acceptable (Hendricks & Singhal, 2008, 782).

$$CAR_{T_1}^{T_2} = \sum_{t=T_1}^{T_2} AR_t \quad (7)$$

The values of T_1 and T_2 in the 7th and 8th Equations represent the event windows, in which the cumulative abnormal returns will be calculated, and the periods of (-5, +5), (-2, +2), (-1, +1), (-5, 0), (-2, 0), (0, +2) and (0, +5) were included in the study, respectively.

$$t(CAR_{T_1}^{T_2}) = \sum_{i=1}^{n} \frac{\left(\sum_{t=T_1}^{t=T_2} AR_{it}\right) / \sqrt{\sum_{t=T_1}^{t=T_2} \sigma^2}}{\sqrt{n}} \quad (8)$$

As long as the "t" statistics calculated by Equation 6 and Equation 8 are greater than the critical values, given in the t percentage distribution table, corresponding to a significance level at 10%, 5% and 1% with a certain degree of independence, the hypothesis suggesting that the abnormal returns are equal to zero was rejected and it was accepted that the abnormal returns were statically significant. The same conclusion can be achieved by reviewing the probability value of the t statistics. In fact, the hypothesis which suggests that the abnormal returns are equal to zero was rejected and the abnormal returns calculated in the levels of 10%, 5% and 1% were accepted as statistically significant as long as the probability values of t statistics are smaller than 10%, 5% and 1%, respectively.

4. Findings

In this study, first of all, the internationally significant news related to the countries that have border to Turkey and located in the Arab spring region (Iraq, Iran and Syria) between 2010-2013 were classified into two groups; as good and

bad news for each country. Later on the ISE-100 index's abnormal returns were calculated 5 days before and 5 days after (10 days) the event day. The cumulative abnormal returns were found by using the average abnormal returns. The findings obtained as a result of the study have been given in Table 3. The interpretation of the findings, found statistically significant at the significance level of 1%, 5% and 10%, respectively, was discussed below.

According to the findings given in Table 3, it was observed that only the news related to Iran had an effect on the ISE-100 index among all other countries with bad and good news. Clearly, between the years of 2010-2013, the neighbor countries of Turkey; Iraq, Iran and Syria related good and bad news effected the average and cumulative abnormal returns of ISE-100 index for the period including five days prior to the event day and five days after the event day; however, only Iran made a statistically significant impact. The investors of ISE-100 index gained 0.6% and 0.5% of abnormal returns after two and three days of the publication of the good news related to Iran; whereas they gained only -0.6% of returns one day prior to the publication of the bad news and two days after the event day, respectively. The cumulative abnormal returns for (-2, +2) four days and (-2, 0) two days of ISE-100 index associated with the good news related to Iran were identified as 0.9% and 0.7%, respectively. This finding showed that the good news related to Iran had a positive effect on the stock market of Turkey. Similarly, The cumulative abnormal returns for four days (-2, +2) two days ((-1, +1) and (0, +2)) of ISE-100 index associated with the bad news related to Iran were identified as -1.3%, - 1% and - 1.1%, respectively. This finding shows that the bad news related to Iran had a negative effect on the stock market of Turkey.

Table 3: Effect of Good-Bad News Related to Iraq, Iran and Syria on the Returns of ISE-100 Index

Event Day	GOOD NEWS RELATED TO IRAQ		BAD NEWS RELATED TO IRAQ		GOOD NEWS RELATED TO IRAN		BAD NEWS RELATED TO IRAN		GOOD NEWS RELATED TO SYRIA		BAD NEWS RELATED TO SYRIA	
t	AR_t	$t(AR_t)$	AR_t	$t(AR_t)$	AR_t	$t(AR_t)$	AR_t	$t(AR_t)$	AR_t	$t(AR_t)$	AR_t	$t(AR_t)$
t_{-5}	-0.003	-0.5928	-0.004	-1.7441	-0.002	-0.8183	0.002	0.6911	-0.003	-0.7800	0.002	1.0328
t_{-4}	0.002	0.7891	0.002	0.9378	-0.001	-0.3075	0.000	-0.1734	0.001	0.2970	0.002	1.2409
t_{-3}	0.001	0.2277	0.003	1.4491	0.002	0.8831	0.001	0.4536	-0.003	-0.9286	0.001	0.4338
t_{-2}	-0.002	-0.4599	0.000	0.0649	0.001	0.2811	0.003	1.6280	-0.002	-0.4510	0.000	0.1907
t_{-1}	0.018	1.6854	0.001	0.2986	0.003	1.4202	-0.006	-1.7537***	0.004	0.9686	-0.002	-1.0322
t_0	0.005	1.1598	0.000	0.2391	0.003	1.2352	-0.004	-1.5625	-0.002	-0.7302	0.001	0.3292
t_1	-0.001	-0.2980	-0.002	-0.7221	-0.004	-1.3302	-0.001	-0.2957	0.000	0.0272	-0.002	-0.8714
t_2	-0.016	-1.6000	0.003	1.3859	0.006	3.3216*	-0.006	-2.1619**	-0.001	-0.3290	0.000	0.1469
t_3	0.011	2.1617	-0.002	-0.8252	0.005	1.8848***	0.004	1.5652	0.002	0.6016	0.004	1.5199
t_4	-0.004	-0.3705	0.002	0.8529	0.001	0.5003	-0.001	-0.6590	0.003	1.2299	0.000	-0.2343
t_5	0.015	1.6331	-0.001	-0.4373	-0.002	-0.8199	0.002	1.0699	-0.006	-1.6247	-0.002	-0.8163
Event Win.	$CAR_{T_1}^{T_2}$	$t(CAR_{T_1}^{T_2})$	$CAR_{T_1}^{T_2}$	$t(CAR_{T_1}^{T_2})$	$CAR_{T_1}^{T_2}$	$t(CAR_{T_1}^{T_2})$	$CAR_{T_1}^{T_2}$	$t(CAR_{T_1}^{T_2})$	$CAR_{T_1}^{T_2}$	$t(CAR_{T_1}^{T_2})$	$CAR_{T_1}^{T_2}$	$t(CAR_{T_1}^{T_2}$
(-5,+5)	0.0266	1.1695	0.0014	0.2026	0.0130	1.6969	-0.0070	-0.8246	-0.0070	-0.5769	0.0050	0.6656
(-2,+2)	0.0038	0.2318	0.0024	0.5377	0.0093	1.8122***	-0.0139	-2.2331**	-0.0019	-0.2241	-0.0024	-0.4709
(-1,+1)	0.0218	1.7791	-0.0007	-0.2038	0.0030	0.6799	-0.0108	-2.1308**	0.0016	0.2790	-0.0033	-0.9430
(0,+5)	0.0101	0.5502	0.0002	0.0289	0.0097	1.6382	-0.0064	-1.0365	-0.0032	-0.4100	0.0008	0.1398
(0,+2)	-0.0120	-1.0450	0.0017	0.5057	0.0055	1.3344	-0.0112	-2.3483**	-0.0031	-0.5756	-0.0012	-0.2783
(-2,0)	0.0207	1.6475	0.0011	0.3210	0.0071	1.7415***	-0.0067	-1.4080	-0.0009	-0.1265	-0.0007	-0.1900
(-5,0)	0.0214	1.5258	0.0016	0.3497	0.0065	1.1807	-0.0046	-0.7190	-0.0059	-0.6082	0.0047	0.9419

(*)Shows that the average and cumulative abnormal returns are statically significant at a significance level of 1%.
(**)Shows that the average and cumulative abnormal returns are statically significant at a significance level of 5%.
(***)Shows that the average and cumulative abnormal returns are statically significant at a significance level of 10%.

According to the findings; it was presented that the news related to Iran had either positive or negative effects on the risk perception of domestic and foreign investors in Turkey. The news related to Iran, rather than Syria and Iraq, affected the stock market of Turkey and the internationally good (bad) news related to Iran had a positive (negative) effect on the political risk of Turkey as well as on the ISE-100 index. The possible reasons why domestic and foreign investors care about Iran related news, but not the Syria and Iraq related are as follows: (i) the nuclear tension between Iran and the United States, (ii) Iranian-owned oil reserves, (iii) the fact that Iran is the 20th largest economy of the world and (iv) some political and economic reasons such as external trade volume between Iran and Turkey. The most important result of the study may be to reveal some findings, open to a debate, related to the reflection of political power struggle on the financial markets between Iran and Turkey in the Middle East.

5. Conclusion

Since stock prices are sensitive to a country's economic, financial and political circumstances and the indicators related to a country's economic, financial and

political circumstances are embodied in the sovereign risk, a lot of empirical studies were made, concerning the impact of sovereign risk on shares. The overall economic, financial and political status of a country is among the factors to be analyzed before making a decision to invest in shares; however, firstly the global conditions must be analyzed to see whether the country is good for investments. In the literature, the effects of sovereign risk and the factors of sovereign risk on the stock returns have been investigated sufficiently, whereas the studies investigating the effect of the global risks on stock returns are still at an insufficient level.

This study aimed at presenting the effect of internationally important events, occurring outside Turkey that can affect the risk perception of the investors, on the stock returns in the stock market of Turkey. The events happening outside Turkey and that might affect the risk perception of the investors were identified as the good or bad news related to Iraq, Iran and Syria. The effect of these events on the stock returns in the stock market of Turkey was determined by analyzing the abnormal returns of ISE-100 index. In this study, in which the event study method was used in order to calculate the abnormal returns; the international news related to Iraq, Iran and Syria, neighbors of Turkey and located in the region of Arab Spring, the daily closing prices (in U.S. Dollars) of the MSCI Emerging Markets Index and the ISE-100 index during the period 2010-2013 were used as data.

As a result, it was found that only Iran related good or bad news had effect on ISE-100 and the risk perception of domestic or foreign investors were also affected positively or negatively. In short, it was found that Iran related internationally significant good (bad) news had impact on both Turkey's political risk and ISE-100 index in a positive (negative) way.

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Notes

Note 1. Political risk is defined as the emerging possibility of a political event that can change the profitability of an investment (Cosset & Suret, 1995, 304).

Note 2. MSCI is the most well-known institution that calculates indices for world markets. The indices prepared by MSCI are accepted basic indices that measure global stock markets. The indices that have been calculated for the developed stock markets outside America since 1969, and have been calculated for developing markets since 1988 have given investors the chance to follow the performances of the stock markets they are interested in (http://garen.garanti.com.tr/03.html, 2014).

Not 3. The word of "event", which will be used in the following sections of the study will represent the good and bad news dealt with in this study.

Not 4. Some approaches that are frequently used to calculate the normal (expected) returns in the event studies are as follows; the market approach that uses capital asset pricing model and the arbitrage pricing model, the market-adjusted return approach and average adjusted return approach (Saens & Sandoval, 2005, 311). In this study, the market-adjusted return approach has been adopted for the calculation of normal (expected) returns and MSCI Emerging Markets Index returns were considered for the days indicated as Pantzalis, Stangeland & Turtle (2000) used in their studies as the market return. The MSCI Emerging Markets Index reflects the average of stock market index of 21 countries and accepted as the proxy variable of a portfolio formed in the stock markets of the world (Pantzalis, Stangeland & Turtle, 2000).

Not 5. If we employed the market approach that uses capital asset pricing model and the arbitrage pricing model or the average adjusted return approach to calculate the normal (expected) returns in the event study, we also must have determined the estimation window for the calculations of the returns.

Not 6. Normally, it is expected to have abnormal movements following the news. However, Chen & Wei (1996: 264) similarly stated that, some events may be the continuation of previously exposed news or the news service may announce the event a few days later than the actual day of the event. Therefore, the event window was determined as (-5, +5) instead of (0, +5).