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Sheikh Tanzila Deepty*
Associate Professor, Department of Finance, Faculty of Business Studies, University of Dhaka, Dhaka, Bangladesh.
Email: tanziladeepty@du.ac.bd
*Corresponding author

Md Saimum Hossain
Assistant Professor, Department of Finance, Faculty of Business Studies University of Dhaka, Dhaka, Bangladesh.
Email: saimum@du.ac.bd

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Stock Price Reaction to Earnings Announcements in an Emerging Market: Evidence from the Dhaka Stock Exchange

Abstract

This paper examines whether stock prices react to quarterly earnings announcements in Dhaka Stock Exchange (DSE), which has sparse analyst coverage and limited disclosure infrastructure. We have followed event study framework (applying market-model and CAPM) for 154 non-financial listed firms. By analysing multiple full-event and post-event windows, our results show that stock prices in DSE do not react immediately to the quarterly earnings announcement, but rather do so gradually, consistent with gradual information diffusion. Meanwhile, our quarter-based univariate tests show statistically significant difference between CARs of Q2 and Q3 in post-event windows, whereas investors' response to Q2 earnings news is higher than in other quarters. This paper also provides empirical evidence that DSE investors consider available information in the Textile industry to be most value-relevant.

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1. Introduction

To assess capital market efficiency, financial economics research has been exploring share price reaction to earnings announcements for decades. Among all corporate disclosures, quarterly earnings announcements are preferred to be observed by market participants as they provide up-to-date signals of firm's financial conditions, hence create greater incremental information value (Basu et al., 2013; Beaver et al., 2018). In an efficient market, stock prices are expected to react to such announcement and incorporate it immediately (*Efficient Market Hypothesis*) (Ball and Brown,1968; Fama, 1970). In contrast, investors' reactions are expected to be none or delayed (*post-earnings announcement drift)* in markets with information asymmetry (Foster et al., 1984; Ball and Bartov, 1996). While extant literature largely focuses on developed markets, investors' reactions in emerging markets are less explored. These two markets differ due to information asymmetry, market

imperfection, thin trading, regulatory deficits (Alford et al., 1993; Alzahrani and Skerratt, 2010), among others. Accordingly, Dhaka Stock Exchange (DSE) offers a valid empirical context to examine the investors' behaviour in an emerging market surrounding a quarterly earnings announcement. Hence, we examine research questions, which are still under debate: Do stock prices react to quarterly earnings announcements in an emerging market? If yes, is this reaction immediate or delayed/persistent? Moreover, we explore a novel question: If stock prices react to quarterly earnings announcements, how are these returns distributed across time and industries?

Dhaka Stock Exchange (DSE), the premier bourse in the country, is characterised predominantly by retail investor participation, small market capitalisation, limited foreign participation, a lack of stringent accounting regulations, and high information asymmetry (Haque and Imam, 2025). The information transmission system in this market is opaque due to underdeveloped infrastructure (Sochi, 2018). Hence, the price adjustment process subsequent to the release of any material public information is often very slow or irrational in DSE (Sochi, 2018). Unlike the developed markets where a dense network of financial analysts, institutional investors, and sophisticated intermediaries contributes to the rapid dissemination and interpretation of corporate disclosures (Bartov et al., 2000; Healy and Palepu, 2001; Su, 2003; Lang et al., 2004; De Franco et al., 2009), DSE's information transmission system is characterised by a lack of a professional intermediary like the financial advising industry (Chowdhury et al., 2021) and low analyst coverage as comprehensive analyst forecast databases comparable to those available in the United States are severely limited. Such kind of information processing inefficiency is also directly tied to the market's demographic composition. Retail investors overwhelmingly dominate the DSE, accounting for approximately 80% to 99.6% of total equity market participation (Haque and Imam, 2025; Sochi, 2018). Despite these limitations, earnings announcements are routinely disclosed to the public, usually within a month of the quarter's closing date, in the form of DSE News notifications. Both quarterly earnings and annual reports are published on the company websites. While there exists some limited research on how stock prices in DSE react to different relevant informational events like dividend announcements (Zahan and Rana, 2020), corporate press releases (Xia et al., 2023), among others, there exists a serious lack of research documenting the stock price adjustment around announcements of earnings by publicly listed companies in Bangladesh or similar emerging economies. Accordingly, based on the theoretical and contextual grounding, this study's specific objectives are as follows:

(i). To test whether there exists gradual price adjustment rather than instant incorporation in an emerging market like the Dhaka Stock Exchange (DSE).

(ii). To identify whether the abnormal returns surrounding quarterly earnings news vary across quarters.

(iii). To measure whether there are industry-level differences in the price adjustment in DSE.

We analyse how share prices respond to quarterly earnings news of all listed firms in DSE, excluding financial firms,

services, and utilities. We have manually constructed a novel dataset of 766 firm-quarter observations from 154 listed firms for the sample period 2023 to 2025. Building on the methodological foundations of Brown and Warner (1985) and MacKinlay (1997), we employ an event-study design to compute cumulative abnormal returns (CARs) using the Market Model and Capital Asset Pricing model (CAPM) around announcement dates. We limit sample period to 2023-2025 to avoid pooling earnings announcement reactions across different floor price restriction regimes in DSE. Administrative constraints on pricing may lead to biased estimations regarding price adjustment. Bangladesh Securities and Exchange Commission (BSEC) imposed a market-wide floor price in response to COVID-19-related market volatility in 2020. Another phase of such restriction was imposed in 2022, referred to as floor price regime-2022. These interventions were continued and relaxed in phases.

Initially, we estimate full event windows: (-5, +5), (-10, +10), and (-30, +30) trading days surrounding the quarterly earnings announcement dates. Later, we focus on post-event windows as well: (0, +5), (0, +10) and (0, +30), as post earnings announcement drift (PEAD) is evident in full-window results. Our results show that CARs of the event windows (-10, +10) and (-30, +30) are positive and statistically (and economically) significant (1.11% and 3.34%, respectively). It indicates that Bangladesh capital market does not react immediately, rather it reacts gradually, to the quarterly earnings announcement. Meanwhile, as per our expectation regarding existence of PEAD, CARs for the event windows (0,+10) and (0,+30) are positive and statistically (and economically) significant (0.99% and 2.74%, respectively). Such a pattern is consistent with gradual information diffusion or underreaction, as suggested by Bernard and Thomas (1989, 1990) and Hong and Stein (1999). Alternative interpretations include information leakage prior to the formal announcement date, confounding corporate events within broader windows, or market-wide movements that coincide with the event period. Extant literature on DSE also supports this pattern of reaction surrounding dividend announcements (Hossain et al., 2006; Rabbani, 2017). However, our results remain consistent while we repeat our analysis using CAPM.

Meanwhile, our quarter-based univariate test results suggest that difference in means for CARs surrounding Q2 and Q3 earnings announcements are statistically significant for all post-event windows, while CARs surrounding Q2 announcement is higher among all quarters. For availability of incremental information content, investors respond more to Q2 earnings news. Whereas Q1 reporting is preliminary and less conclusive, and Q3 reports have reduced content. We have also developed an industry-based distribution of CARs. Our results reveal that CARs in Textile industry are positive and statistically significant across all event windows. Hence, Bangladesh investors consider available information within Textile industry to be value-relevant, which is the largest industry in Bangladesh.

Our contribution to the extant literature is threefold. First, we provide empirical evidence that earnings news is gradually adjusted in stock prices rather than immediately, and it persists over time in DSE. Hence, post-earnings announcement drift is evident in DSE surrounding

quarterly earnings announcements. Second, we assess the quarterly influence on CARs to identify which quarter's earnings news creates more value. Finally, we have measured industry-based CARs to see which industry has more value-relevant earnings news. Hence, we provide novel empirical evidence on post-announcement drift, quarterly influence on CARs, and industry-effect on CARs distribution surrounding earnings announcement. Moreover, our results are consistent across alternative measures and unbiased from partial relaxation of floor price restrictions in 2023, hence robust.

The remainder of this paper is structured as: section 2 covers theoretical framework; section 3 presents a detailed and relevant literature review; section 4 discusses the methodology and empirical results. Finally, we wrap up this paper in section 5 with a conclusion.

2 Theoretical Framework

The Efficient Market Hypothesis (EMH) can be considered to be the theoretical foundation of research on earnings announcements. This theory lends the benchmarks for understanding how financial markets process information. According to this theory, stock prices should incorporate all publicly available information rapidly and without systematic bias in a semi-strongly efficient market (Fama, 1970). Therefore, corporate disclosures like earnings announcements contain public information pertinent to the value of the firm and should be reflected in stock prices immediately upon release. As a consequence, abnormal returns should occur only within a narrow window surrounding the disclosure event. Empirical research from the likes of Ball and Brown (1968) and Beaver (1968) strongly supports the relevance of information on earnings. The relevance is demonstrated through the effect such information has on stock returns, trading volumes, volatility etc.

On the issue of information, theories like the Signaling theory offers an important perspective with regards to the assumption of information asymmetry that the financial markets operate under. While EMH predicts rapid price adjustment to new information, Spence (1973) argues that when one party possesses superior private information, it may transmit signals to convey its underlying type or quality. In corporate settings, managers typically have access to more information about firm performance compared to outside investors. Morris (1987) postulate that earnings announcements may function as signals through which corporate managers communicate information about the firm's financial condition and future prospects.

Although earnings announcements are important information events for stock prices, there is a body of empirical evidence that suggests that the adjustments in the price is not always instantaneous. One such widely documented anomaly is called "post-earnings-announcement drift" (PEAD), as shown by Bernard and Thomas (1989, 1990). Such patterns are inconsistent with the semi-strong form of market efficiency and suggest that investors may incorporate earnings information gradually rather than immediately.

Several theoretical explanations have been put forward to explain such delay in price adjustment. Behavioral finance theories like Kahneman and Tversky's (1979) work on bounded rationality focus on the role of heuristics individual investors rely on and cognitive biases when processing

complex information. This has the possibility of systematic deviations from fully rational expectations. Behavioral biases like overconfidence and self-attribution can lead to underreaction to public information and overreaction to private signals, as argued by Daniel et al. (1998). Other researchers concluded that predictable return patterns can be found based on investor overreaction and subsequent correction (De Bondt & Thaler, 1985).

Another influential theoretical explanation called the gradual information diffusion model was proposed by Hong and Stein (1999). This model argues that different types of investors process information at different speeds. As per this theory, some market participants react immediately to new information while others adjust their beliefs more slowly. As information gradually spreads across different groups of investors, stock prices adjust incrementally over time. This generates events like momentum and drift, as observed in empirical studies.

Institutional characteristics of financial markets include a second category of explanations. Researchers argued that the presence of information intermediaries such as financial analysts, institutional investors, and financial media can facilitate the dissemination and interpretation of corporate disclosures (Healy and Palepu, 2001). When these intermediaries are active and functioning properly, new information is likely to be incorporated into prices more rapidly. The professionals mentioned before help interpret accounting signals and transmit them to the broader market (Bartov et al., 2000; De Franco et al., 2015). In contrast, markets characterised by limited analyst coverage, low institutional participation, and weaker information infrastructures may experience slower information diffusion and therefore delayed price adjustment (Hong and Stein, 1999; Morck et al., 2000).

These theoretical explanations suggest that the stock price adjustment speed following earnings announcements is likely to vary across markets depending on their information environments and investor composition. In the developed markets, a dense network of analysts and institutional investors help interpret corporate disclosures to accelerate price discovery. In contrast, emerging markets are often characterised by thinner information infrastructures and greater information asymmetry. This, among other things, slows down the incorporation of accounting information into prices.

3 Literature Review

3.1 Earnings Announcements as Value-Relevant Informational Events

There exists a substantial body of research indicating that earnings announcements are a major informational event affecting stock prices. This branch of research started with the seminal studies of Ball and Brown (1968) and Beaver (1968). In these studies, they find evidence that accounting earnings convey economically meaningful information to audiences in capital markets. Ball and Brown (1968) was first to show that stock returns react systematically against the sign and magnitude of earnings news. This phenomenon likely shows that investors interpret accounting performance as signals about firm value. Such kind of insight was complemented by the findings of Beaver (1968) that trading volume and return volatility increase sharply around

earnings announcement dates.

After this initial discovery, there were methodological advances by subsequent researchers. Event-study methodologies were proposed by Brown and Warner (1985) as a way to reliably detect abnormal returns associated with corporate disclosures. Later, MacKinlay (1997) came up with a comprehensive framework for implementing event-study analysis. These developments established earnings announcements as an important empirical setting for testing information efficiency.

Research has also examined factors affecting the magnitude of stock price reactions to earnings news. Firm characteristics such as risk, growth prospects, earnings persistence etc. were found to be some those factors (Collins and Kothari, 1989). To quantify the degree of the surprise related to the level of abnormal return, Foster et al. (1984) introduced the standardised unexpected earnings (SUE) measure. Easton and Zmijewski (1989) further find that accounting measurement properties influence the interpretation of earnings signals.

Although literature establishes that accounting earnings announcements contain significant informational value, a broader question arises pertaining to the speed of reaction. Theory of Efficient Market Hypothesis (Fama, 1965) postulates that the speed should be immediate, if the market is semi-strong form efficient. However, empirical research has repeatedly documented delayed or gradual adjustment patterns.

3.2 The case of delayed price adjustment

In the context of reaction of stock prices to earnings announcements, delayed or gradual adjustment of price remains one of the most widely documented anomalies. This was first shown by Bernard and Thomas (1989, 1990) that the abnormal returns continued for several weeks or months following the announcement. This persistence contradicts the semi-strong form of market efficiency. Subsequent researchers like Bartov et al. (2000) find that the magnitude of the delayed adjustment (also known as post-announcement earnings drift) increases when analyst forecasts are more scattered. The insight is pertinent to the role of information intermediaries as disagreement among them slows market's ability to process earnings information. Moreover, firms with lower analyst coverage and institutional ownership face such delayed effect (Mendenhall, 2004). This highlights the role of information environments in shaping market reactions.

Delayed or gradual price adjustment is also found in the broader asset pricing literature through "momentum effects" in stock returns. Momentum effects are defined as stocks with strong past performance tend to continue outperforming in the short (Jegadeesh and Titman, 1993). Part of this persistence is attributed to investors' tendency to misinterpret the persistence of accrual and cash-flow components of earnings (Sloan, 1996).

Much of the developed-market literature examines delayed price adjustment using analyst-forecast based measures of earnings surprises. However, such data are often unavailable in many emerging markets. Consequently, some studies instead examine the broader timing and distribution of abnormal returns surrounding earnings announcements.

3.3 Market Microstructure and Price Adjustment Mechanisms

There are several mechanisms found in a growing body of research that seeks to explain why markets may fail to incorporate earnings information immediately. One important mechanism relates to information intermediaries. These intermediaries include critical stakeholders like financial analysts, institutional investors, and financial media. They play a major role in interpreting corporate disclosures and disseminating information to broader market participants. Research has shown that greater analyst coverage improves the information environment of firms and enhances the speed with which information is incorporated into stock prices (Lang et al., 2004).

Limits to arbitrage and trading frictions constitute another mechanism. Due to these limits and frictions, investors are unlikely not be able to correct mispricing by taking advantage of arbitrage opportunities. As found by Holthausen and Verrecchia (1988) and Kim and Verrecchia (1991a, 1991b), trading frictions and temporary deviations from fundamental values can stem from varied interpretations of public information. In addition, a decline in liquidity and widening of bid-ask spread have also been reported around earnings announcements by Lee et al. (1993).

Behavioral explanations have provided complementary support to these structural factors. Such explanations include cognitive biases like conservatism and representativeness. Researchers have argued that these cognitive biases lead to underreaction to new information (Barberis et al., 1998). Taking differences in investor behavior into account, Hong and Stein (1999) develop a model of gradual information diffusion across different investors groups. This phenomenon is known to generate return momentum and delayed price adjustment. Empirical studies have supported these predictions. On the behavioral front, investor attention span has been a focus of research. Cognitive fatigue and weekend distraction were mentioned to be causes for underreaction. Through a study of announcements made on Fridays, DellaVigna and Pollet (2009) proved that stocks exhibit significantly lower immediate price responses and substantially higher delayed drift. Researchers like Hirshleifer et al. (2009) expanded this concept that investor distraction weakens immediate reactions to earnings announcements and amplifies subsequent drift. Connecting to this issue, it was found that limited attention caused predictable lags in price adjustments across economically linked customer-supplier firms (Cohen and Frazzini, 2008). In other evidence, Da et al. (2011) demonstrate that stocks receiving less investor attention exhibit stronger post-announcement return patterns.

Therefore, the aforementioned literature suggests that delayed price adjustment can arise from a combination of informational frictions, behavioral biases, and structural characteristics of financial markets that affect how investors process and disseminate new information.

3.4 Stock Price Reactions to Earnings Announcements in Emerging and Developing Markets

Although bulk of the evidence on earnings announcement effects comes from the developed markets, emerging markets provide an important setting to see whether similar informational patterns sustain under different institutional conditions.

Emerging markets have been characterised by weaker regulatory frameworks, lower disclosure quality, and uneven investor protection (Bekaert and Harvey, 2000). Such institutional characteristics increase information asymmetry and may slow the incorporation of firm-specific information into prices.

Showing that stock returns in emerging markets tend to exhibit higher synchronicity, Morck et al. (2000) suggest that firm-specific information is incorporated into prices less efficiently. Bai et al. (2016) found that increased analyst coverage reduced stock return synchronicity in China after regulatory reforms strengthening the institutional environment. Within these institutional contexts, earnings announcements have often been associated with abnormal returns in emerging markets by investors. Early emerging market study done by Su (2003) found that Chinese domestic A-share investors respond slowly to earnings news. Such slow reactions led to abnormal returns following the earnings announcement event. Similar outcome (massive underreaction to positive news and vice versa) was observed by Alzahrani and Skerratt (2010) in the Saudi market as it lacked active financial analysts and dominated by retail investors. This also aligns with Syed and Bajwa (2018).

In the South Asian context, in India, statistically significant cumulative abnormal returns around quarterly earnings announcements were reported by examining NIFTY 50 index composite stocks by Jagannathan and Cheshire (2022). This was corroborated by Harshita et al. (2018) and Sehgal and Bijoy (2015) as both of these studies reported existence of delayed price adjustment despite controlling for relevant variables. Similarly, based on evidence from Karachi Stock Exchange where there is a lack of benchmark analyst forecasts, Iqbal and Farooqi (2014) found asymmetric market reactions to earnings surprises. However, no such study could be found on the Bangladesh market.

Literature in this section points to the fact that earnings announcements are informationally important events in emerging markets too. However, the speed and efficiency of price adjustment as a reaction to such events may be moderated by factors like institutional constraints, limited analyst coverage, and the composition of market participants. Therefore, when examining emerging market reactions to earnings announcements, these institutional factors are particularly relevant because information intermediaries are scarce and investor composition is retail dominated in such markets.

3.5 Bangladesh Market Context and Research Gap

Developed markets tend to have a dense network of analysts, institutional investors, and financial intermediaries that help interpret and disseminate corporate disclosures (Lang et al., 2004; Healy and Palepu, 2001). However, the Bangladeshi equity market operates with a much thinner information infrastructure. The information transmission system has been characterised to be relatively underdeveloped due to opaque disclosure environment and uneven dissemination of financial information. There is a real lack of analyst coverage of listed firms and comprehensive analyst forecast databases too. In addition, the market is dominated by significant retail trading activity. Prior studies report that individual investors

account for between approximately 80% and 99% of market participation (Haque and Imam, 2025; Sochi, 2018). Markets characterised by high retail participation tend to exhibit slower information diffusion because individual investors often lack the resources and incentives required to process complex accounting disclosures quickly. Therefore, in the absence of strong financial intermediary networks and retail investor dominance, investors are most likely to rely heavily on public announcements. That is why it is argued that earnings announcements are likely to be seen as an important information signal available to market participants.

The market is also affected by interventions by the regulator like ”floor price restrictions” that made the price discovery mechanisms difficult in recent years (between 2020 and 2023).

Therefore, the Dhaka Stock Exchange is a particularly interesting setting, given its unique institutional characteristics, to examine how emerging markets process accounting information. However, despite such potential, systematic empirical evidence examining how stock prices react to earnings announcements in Bangladesh remains scarce. Most existing studies focus on other corporate events, leaving open the question of whether quarterly earnings disclosures generate immediate price reactions or whether price adjustment occurs gradually over time.

There is rather limited empirical research examining informational efficiency in the Bangladesh capital market compared to other emerging economies. Extant literature primarily covers impact of dividend announcements and macroeconomic or political events rather than earnings disclosures. Prior studies have found significant abnormal returns surrounding dividend and bonus share announcements (Ahsan et al., 2013; Zahan and Rana, 2020). Examining stock price reactions to corporate press releases, Xia et al. (2023) have found positive disclosures create favourable market reactions, and vice versa. Similarly, abnormal returns were documented by Roy and Khan (2021) around national elections. However, Hossain (2017) found no abnormal returns when examining impact of mandatory regulator-forced stock splits on prices. Collectively, these studies suggest that disclosure events do affect investor behaviour in the DSE.

Therefore, the Dhaka Stock Exchange provides a useful setting for examining how accounting information is incorporated into prices in an emerging market environment characterised by informational frictions. How markets react to earnings announcement in this context can therefore contribute to the broader literature on informational efficiency.

On that note, this study tries to ascertain whether quarterly earnings announcements generate statistically significant abnormal returns in the Dhaka Stock Exchange and if it does, then over what window.

3.6 Hypothesis Development

Given the Efficient Market Hypothesis and the aforementioned empirical literature, our paper examines whether DSE stock prices respond significantly to quarterly earnings announcements. The reaction is expected to be instantaneous under the semi-strong form of the Efficient Market Hypothesis; meaning that the abnormal returns should be concentrated within a narrow event window surrounding the announcement date.

However, as documented in the literature, if informational frictions, behavioral biases, or institutional constraints slow the incorporation of earnings information into prices, stock returns are likely to exhibit gradual adjustment. Accordingly, this study sets out the following hypotheses:

H_0: Cumulative abnormal returns (CARs) surrounding quarterly earnings announcements are not significantly different from zero.

H_a: Cumulative abnormal returns (CARs) surrounding quarterly earnings announcements are significantly different from zero.

4.0 Methodology and Empirical Results

4.1 Sample and Data

Our sample consists of all publicly listed Bangladesh firms listed on the Dhaka Stock Exchange (DSE), excluding financial firms, services, and utilities. For this event-analysis framework, this paper analyses stock returns surrounding the firms' quarterly announcement events from 2023 to 2025. We limit our sample period to post-floor price regime-2020 and 2022 intentionally to avoid diluted inference generated from mixed microstructure conditions across the structural break. Moreover, our contemporaneous timeframe provides consistent and verifiable disclosure records; with sufficient event observations. We gather quarterly announcement dates from the DSE archives (https://dsebd.org/data_archive.php), which are the officially recorded "post-date" of each firm's quarterly financial news (Q1, Q2, Q3) on the DSE website. The daily closing prices of market index and all sample firms' stocks are also collected from DSE. DSEX[1] index is considered as market index. Finally, our sample comprises of 766 firm-quarter observations for 154 listed Bangladesh firms.

Table 1: Industry-wise Earnings Announcement

Industry	Earnings Announcement (%)
Food & Allied	14.52
Jute	1.67
Textile	35.22
Pharmaceuticals & Chemicals	21.21
Paper & Printing	3.86
Cement	5.14
Tannery	4.37
Ceramics Sector	3.60
Miscellaneous	10.41

Table 1 shows the industry-wise distribution of earnings announcement events for our sample firms. We follow the industry classification of DSE, and our sample firms are from eight major industries: Food & Allied, Jute, Textile,

[1] DSEX replaced DGen from 27th January 2013

Cement, Tannery, Pharmaceuticals and Chemicals, Paper and Printing, and Ceramics. Other small-scale manufacturing industries are collectively referred as Miscellaneous. In this paper, earnings announcement events are largely from the textile industry (35.22%) and the Pharmaceuticals and Chemicals industry (21.21%).

4.2 Cumulative Abnormal Returns (CARs)

We have applied event study framework to assess market reactions surrounding quarterly earnings announcements. In finance literature, event study is widely applied to estimate abnormal returns surrounding any relevant events/issues, such as dividend announcements (Khanal and Mishra, 2017; Ham et al., 2019), IPOs (Bradley et al., 2003), COVID-19 Pandemic (Mamun and Siddiqua, 2023), among others. However, we have applied standard market model to calculate abnormal returns. For robustness checks, we repeat all analyses using abnormal returns calculated via CAPM.

4.2.1 CARs Estimation Using Standard Market Model

According to the Market Model (Brown and Warner, 1985), the expected return E(R) of firm *i* at time *t* can be stated as:

$$\boldsymbol{E(R_{it}) = \alpha_i + \beta_i E(R_{mt})} \text{ ..... (i)}$$

Then we measure the firm's abnormal return (AR) using the market model parameters of the following equation:

$$\boldsymbol{AR_{it} = R_{it} - \alpha_i - \beta_i R_{mt}} \text{ ..... (ii)}$$

Here, $\boldsymbol{AR_{i,t}}$ is the abnormal stock return on day *t* of the business firm *i*, whereas the stock return on day *t* for firm *i* is $\boldsymbol{R_{i,t}}$ and the market return on day *t* is . We consider the stock return as the logarithmic return on the stock price. For the market index return, we use the logarithmic return of the Dhaka Stock Exchange Broad Index (DSEX). To estimate the market model parameters α and β, we consider a 250-day estimation period preceding the event window. First, we analyse full event windows: (-5, +5), (-10, +10), and (-30, +30) trading days surrounding the quarterly earnings announcement dates. As post-announcement drift is evident in empirical results, we expand our study by analysing post-event windows as well: (0, +5), (0, +10) and (0, +30). Hence, this paper captures whether investors' reaction is immediate/nearly immediate, short- to medium and/or persistent to quarterly earnings announcement of Bangladesh listed firms.

4.2.2 CARs Estimation Using CAPM

Applying CAPM increases investment's parameter estimation efficiency as this model measure beta-coefficient along with risk premium (Shanken and Smith, 1996) we focus on how an appreciation of the contributions to capital markets research over the past three decades can help managers make better business decisions. The efficient markets hypothesis holds that a market is efficient if it is impossible to profit by trading on available information. If capital markets were completely efficient, then the market value of the firm would reflect the present value of the firm's expected future net cash flows. This has several important implications for corporate finance. First, managers should maximize the current market value of the firm. Second, there is no benefit to manipulating earnings per share. Third, security returns are meaningful measures of firm performance. Fourth, if new securities are issued at market prices that

reflect an unbiased assessment of future payoffs, then concerns about dilution are eliminated. Finally, the extent to which financial markets fall short of this ideal of efficiency still places an upper bound on such concerns. While we would not argue that inefficiencies are totally absent from financial markets or that investors always react appropriately to economic events, our analysis suggests two things. First, systematically detecting or exploiting discrepancies between current price and true value in connection with widely recognized information asymmetries between managers and investors is not a straightforward task. Second, identifying the extent to which returns exceed a normal level of compensation for risk and other investment characteristics (such as liquidity. We measure firm's abnormal return (AR) using this 1-factor model parameters of the following equation:

$$AR_{it} = (R_{it} - Rf_t) - \alpha_t - \beta_t (Rm_t - Rf_t) \ldots. (iii)$$

Here, Rf_t is the risk-free interest rate on day *t*. We consider the risk-free rate as the logarithmic return of the cut off yield of 91 days T.Bill, collected from Bangladesh Bank website (https://www.bb.org.bd).

4.3 Empirical Results

4.3.1 CARs Estimation Using Standard Market Model

Table 2 reports the CARs of our sample firms for quarterly earnings announcements. In panel A: we report the estimated CARs of full event windows. Although the CAR value for the event window (-5, +5) is positive (0.27%), it is statistically insignificant. Meanwhile, the CAR values for the event windows (-10, +10) and (-30, +30) are positive and statistically (and economically) significant (1.11% and 3.34%, respectively). It indicates that the quarterly earnings announcement has no short-term/immediate (11 days) effect on stock returns, but it has a strong mid-term (21 days) and long-term/persistent (61 days) effect. Hence, the Bangladesh capital market does not react immediately, but rather gradually, in response to quarterly earnings announcement. CAR's standard deviation for longer windows is higher as it includes more trading days, hence more market noise.

Table 2: Descriptive Statistics of CARs during 2023 to 2025 (Market Model)

Panel A: Full event window surrounding earnings announcement

CARs	Obs	Mean	Median	Std. Dev.	Min	Max
CAR (-5, +5)	766	0.0027	0	0.0805	-0.3060	0.3782
CAR (-10, +10)	766	0.0111***	0.0011	0.1081	-0.5564	0.4445
CAR (-30, +30)	766	0.0334***	0.0173***	0.1803	-0.8291	0.9153

Panel B: Post-event window surrounding earnings announcement

CARs	Obs	Mean	Median	Std. Dev.	Min	Max
CAR (0, +5)	766	0.0015	-0.0001	0.0601	-0.2210	0.2914
CAR (0, +10)	766	0.0099***	0.0014*	0.0770	-0.3825	0.4250
CAR (0, +30)	766	0.0274***	0.0108***	0.1174	-0.6102	0.5363

*, **, *** indicate significance at 10%,5% and 1% level, respectively. Calculated abnormal returns are winsorised at the 1% and 99% tails

As post-announcement drift is evident in panel A, we expand our analysis by focusing on post-event windows and present results in panel B of Table 2[2]. Statistical and economic significance remain almost same as Panel A. CAR values for the event windows (0, +10) and (0, +30) are positive and statistically (and economically) significant (0.99% and 2.74%, respectively). Markedly, CARs of post event windows are lower than full event windows. Abnormal returns can start generating before the formal earnings announcement date due to information leakage and efficient investor anticipation. Extant literature on DSE also supports this pattern (Hossain et al., 2006; Rabbani, 2017).[3]

4.3.2 Quarter-based CARs for Different Event Windows

To assess the quarterly influence on CARs, we conduct a univariate test between quarterly CARs of different event windows. Results are reported in Table 3. Columns (1), (2) and (3) show the quarterly mean CARs for the Q1, Q2 and Q3, respectively. Column (4) presents the difference of the mean of the 1st and 2nd quarters' CARs, Column (5) presents the difference of the mean of the 1st and 3rd quarters' CARs, and Column (6) presents the difference of the mean of the 2nd and 3rd quarters' CARs.

Table 3: Quarter-based CAR for different event windows (Market Model)

CARs	Q1	Q2	Q3	Difference in means (Q1, Q2)	Difference in means (Q1, Q3)	Difference in means (Q2, Q3)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Full event window surrounding earnings announcement						
CAR (-5, +5)	-0.0053	0.0086	0.0023	-0.0139	-0.0076	0.0062
CAR (-10, +10)	0.0093	0.0080	0.0142	0.0013	-0.0049	-0.0062
CAR (-30, +30)	0.0104	0.0397	0.0475	-0.0293*	-0.0371**	-0.0078
Panel B: Post-event window surrounding earnings announcement						
CAR (0, +5)	-0.0006	0.0072	-0.0027	-0.0078	0.0021	0.0099*
CAR (0, +10)	0.0102	0.0167	0.0022	-0.0065	0.0080	.0145**
CAR (0, +30)	0.0105	0.0510	0.0195	-0.0404***	-0.0090	.0314***

*, **, *** indicate significance at 10%,5% and 1% level, respectively. Calculated abnormal returns are winsorised at the 1% and 99% tails.

Panel A of Table 3 shows quarterly CARs of full event windows. CARs of only (-30, +30) window have statistically significant quarterly influence as CARs surrounding 1st quarterly earnings announcement has significant difference with CARs surrounding 2nd and 3rd quarterly earnings announcement in long-

[2] We have also checked event window (0, +2) to see the immediate after earnings announcement effect, and see the CARs are statistically insignificant.

[3] We repeat the analyses based on median CAR values, and results remain consistent.

full window. As investors consider Q1 earnings announcement as preliminary and less conclusive, market response is a bit muted. Rather, Q2 and Q3 earnings announcements contain strong basis for estimating annual profitability and future prospect, hence surrounding these announcements CARs are higher.

Panel B of Table 3 shows quarterly CARs of post- event windows. Notably, difference in means for CARs surrounding Q2 and Q3 earnings announcements are statistically significant for all post-event windows. Markedly, CARs surrounding Q2 earnings announcement is consistently higher. This pattern reveals that investors react more on Q2 earnings for availability of incremental information content, while Q3 earnings announcements have reduced information content.

4.3.3 Industry-based CARs for Different Event Windows

To explore the industry effect, we develop an industry-based CARs distribution. The findings are presented in Table 4.

Table 4: Industry-based CARs for different event windows

Industry	obs	CARs					
		(-5, 5)	(-10, 10)	(-30, 30)	(0, +5)	(0, +10)	(0, +30)
Food & Allied	112	-0.0141**	0.0059	0.0298	-0.0108**	0.0008	0.0168
Jute	11	-0.0009	-0.0500*	0.0097	-0.0197	-0.0268	0.0120
Textile	271	0.0169***	0.0187***	0.0463***	0.0111***	0.0188***	0.0396***
Pharmaceuticals & Chemicals	162	0.0013	0.0049	0.0264*	0.0021	0.0083*	0.0226***
Paper & Printing	29	-0.0052	0.0203	0.0571	-0.0041	0.0122	0.0454*
Cement	40	0.0058	0.0137	0.0456*	0.0016	0.0037	0.0066
Tannery Industries	34	-0.0172*	0.0129	0.0095	-0.0055	0.0139	0.0304
Ceramics Sector	28	0.0032	0.0196	0.0579*	0.0037	0.0159	0.0548**
Miscellaneous	79	-0.0091	0.0041	-0.0017	-0.0078	-0.0017	0.0056

*, **, *** indicate significance at 10%,5% and 1% level, respectively. Calculated abnormal returns are winsorised at the 1% and 99% tails.

Results of Table 4 shows that CARs of Textile industry are positive and statistically significant for all (full and post) event windows, demonstrating consistently favourable market reaction. Hence, Bangladesh investors consider available information within Textile industry as value-relevant, which is not temporary, rather persists across short and long windows. Our results are consistent with extant literature on DSE, which suggests that our textile sector is the largest industry in Bangladesh, mostly financed by general investors and generates relatively the highest return (Hasan, 2011; Zaman and Rahman, 2019;

Sharif et al., 2024). Markedly, most of the industries of our sample have positive and significant CARs in post-event window (0, +30). It complies with the results of Table 2, reflecting post-announcement drift and delayed market adjustment pattern of DSE surrounding quarterly earnings announcement.

4.3.4 Robustness Check: CARs Estimation Using CAPM

We repeat the CARs estimation by applying 1-factor model (CAPM). Table 5 shows the summary statistics of the CARs, which are estimated using CAPM. Results of univariate tests between CARs of quarters are reported in Table 6. Both of the tables suggests that the results are consistent with results of market model (in Table 2 and 3, respectively).

Table 5: Descriptive Statistics of CARs during 2023 to 2025 (CAPM)

CARs	Obs	Mean	Median	Std. Dev.	Min	Max
CAR (0, +5)	766	0.0027	0.0004	0.0600	-0.2194	0.2925
CAR (0, +10)	766	0.0124***	0.0037***	0.0773	-0.3798	0.4273
CAR (0, +30)	766	0.0342***	0.0180***	0.1174	-0.6029	0.5432

*, **, *** indicate significance at 10%,5% and 1% level, respectively. Calculated abnormal returns are winsorised at the 1% and 99% tails

Table 6: Quarter-based CAR for different event windows (CAPM)

CARs	Q1	Q2	Q3	Difference in means (Q1, Q2)	Difference in means (Q1, Q3)	Difference in means (Q2, Q3)
	(1)	(2)	(3)	(4)	(5)	(6)
CAR (0, +5)	0.0000	0.0087	-0.0013	-0.0086	0.0013	0.0010*
CAR (0, +10)	0.0122	0.0194	0.0047	-0.0071	0.0075	0.0147**
CAR (0, +30)	0.0161	0.0583	0.0270	-0.0422***	-0.0109	0.0313***

4.3.5 Robustness Check: Pre- and Post- Full Relaxation of Floor Price Regime-2022

After the floor price regime-2020 during COVID-19 pandemic, second episode was imposed on 28th July 2022 by BSEC. BSEC justified that floor price regime-2022 was to halt the market's visible free fall (DSEX's fall to a 14-month low at 5,980) triggered by combination of post-Covid and global macroeconomic anxiety, Russia-Ukraine war, market weakness, among others (BSEC, 2022; TBS Report, 2022; Habib, 2023; Sarker and Habib, 2024). Afterwards, DSE turnover immediately squeezed by 39.83% in 2023 as shares of large-cap companies were largely out of trading (Babu, 2023). In 2023, the major index DSEX was almost flat, increased by only 0.6% over the year (BRAC EPL, 2023). Therefore, we limit our sample timeframe to 2023 to 2025 to avoid biasness due to dilute inference generated from mixed microstructure conditions via structural break.

Table 7: Timeline of BSEC's floor price regime- 2022

Event	Date	BSEC Order Title
Floor price restriction imposed	28th July,2022	Order on Floor Price_28.07.2022
Partial relaxation/ withdrawal of floor price restriction	21st December, 2022	Order regarding partial withdrawal of floor price
Major Relaxation of floor price restriction	Issued: 18th January, 2024 Effective: 21st January, 2024	Order regarding floor price of 169 Companies/Securities (See:https://www.tbsnews.net/node/777158)

Source: BSEC website https://sec.gov.bd/home/laws

In Table 7, we have shown the timeline of BSEC's floor price regime- 2022, which was withdrawn in phases. It is partially relaxed on 21st December, 2022. Later, floor price regime -2022 is fully withdrawn on 18th January 2024, although few stocks remained constrained. As our sample period begins in 2023, results can still be subject to bias from floor price regime-2022, since the period overlaps with partial restriction withdrawal period. In this paper, we have applied a univariate test on sub-sample to estimate whether the partial restriction withdrawal generates biased results. Our sample period is divided to: partial-restriction withdrawal period and full-restriction withdrawal period. As the full-restriction withdrawal order is executed on 21st January 2024, we have considered 2024-2025 as the full-restriction withdrawal period, and 2023 as partial-restriction withdrawal period.

Table 8: CARs surrounding partial- and full-withdrawal of floor price regime-2022

CARs	Partial restriction withdrawal (2023)	Full Restriction withdrawal (2024 to 2025)	Difference in means
	(1)	(2)	(3)
CAR (-5, +5)	-0.0038	0.0038	0.0076
CAR (-10, +10)	0.0100	0.0111	0.0011
CAR (-30, +30)	0.0083	0.0377	0.0294
CAR (0, +5)	-0.0003	0.0019	0.0022
CAR (0, +10)	0.0051	0.0107	0.0056
CAR (0, +30)	-0.0063	0.0333	0.0396***

*, **, *** indicate significance at 10%,5% and 1% level, respectively. Calculated abnormal returns are winsorised at the 1% and 99% tails

Results in Table 8 show that almost all differences in means of CARs of all event windows are statistically insignificant. It suggests that estimations in this paper are not biased by partial relaxation time period.

5.0 Conclusion

This paper conducts a systematic and novel attempt to isolate the informational role of quarterly earnings announcements in the Bangladeshi equity market, a context marked by sparse analyst coverage and

limited disclosure infrastructure. Based on signaling theory and Efficient Market Hypothesis, we have applied an event study methodology to 154 firms listed on DSE from 2023–2025. Empirical results of this paper suggest that CARs surrounding quarterly earnings announcements are not statistically significant in very short-term event windows, such as (-5,+5) and (0,+5). For mid-term and long-term event windows, CARs are positive and statistically (and economically) significant. This pattern of delayed adjustment reflects the partial efficiency of DSE.

Taken together, the results of this paper have implications in several ways. First, academics studying capital market efficiency in emerging markets can understand the degree and speed of price adjustment surrounding earnings announcements in Bangladesh. Second, policymakers and regulators can exploit the results while constructing policies to improve transparency of capital market ecosystem through improved disclosure timing and broader analyst participation. Third, corporate leaders can realise that quarterly earnings information release is a strong market signal, functioning in delayed way though. Fourth, investors can practice informed trade by responding to the gradual price reactions.

To sum up, this paper contributes to capital market efficiency and behavioural finance literature for an emerging market. Moreover, as our results show post-announcement drift in DSE, a new venue for future research is opened to explore this further.

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