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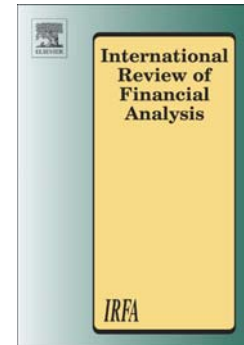
The information content of issuer rating changes: Evidence for the G7 stock markets

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The Information Content of Issuer Rating Changes: Evidence for the G7 Stock Markets

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We study the firm-specific and intra-industry stock market effects of issuer credit rating changes and negative watch list placements for the G7 countries. We show that both the information content and the information transfer effects of these rating signals differ considerably in terms of magnitude and in terms of direction across the G7 countries. In particular, conditional on the type of rating change we find significant contagion effects for the US, the UK and Italy, but not for the other G7 countries. Moreover, we show that in some countries abnormal industry portfolio returns associated with rating downgrades and negative watch list signals tend to be more negative for more concentrated and more heavily levered industries. Overall, our results shed new light on country-specific differences in the relevance of credit ratings as risk indicators from an equity investor's perspective, and they may also be of interest to both risk managers and financial market supervisors striving to develop more accurate credit risk models and to better assess the systemic relevance of credit ratings.

Keywords: credit rating, event study, contagion effect, competition effect, information transfer

JEL classifications: G14, G24

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