THE SEPTEMBER EFFECT AND EMERGING EQUITY MARKETS

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ABSTRACT

The primary objective of this paper is to examine possible September effect in the emerging stock markets of several developing countries and in particular the stock market of Russia. We use monthly returns of the MSCI Emerging Markets Index Fund (EEM) that provides investment results generally corresponding to the price and yield performance of 22 emerging markets, and the Russian Stock Exchange index (RTS) to test the presence of the September effect in the developing equity markets. Monthly EEM returns were obtained from May 2003 to April 2010. Monthly RTS returns were computed for the period from October 1995 to April 2010. Empirical results show that RTS returns on average are the lowest in the month of September, proving that the September effect is present in the Russian Stock Market. However, no such evidence is found in the MSCI Emerging Markets Index Fund.

ANALYSIS

This paper attempts to investigate whether the September effect is truly a worldwide phenomenon or if it only exists in the developed equity markets. As discussed earlier, stock market returns in September in most developed countries are significantly lower than in any other months. In the U.S. stock market, September is the only month that has a negative average return over the last two hundred years. The existence of the September anomaly in the equity markets of developed countries has been well examined and proved by several empirical studies. However, to our knowledge, this unusual seasonality pattern has not been investigated with regards to developing markets. The objective of this paper is to test the significance of the September effect in the emerging markets. Our hypothesis is that the anomalous September pattern should exists in the emerging equity markets.

CONCLUSIONS

This paper has examined the existence of the September effect in the emerging equity markets. The results show that the September effect exists in the Russian stock market. Meanwhile, MSCI Emerging Markets Index does not support the September effect. The investment strategy proposed that suggests selling all stock holdings at the end of August and re-entering the equity markets at the end of September may be feasible for the stock market in Russia, but probably will not lead to higher returns if investors mainly invest into broad emerging markets index funds.

Table 1: Mean US Stock Market Return by Month