Brexit Overreaction and the Greek Stock Market Revival

Richard C. K. Burdekin
Claremont McKenna College, Claremont, California, USA

Eric Hughson
Claremont McKenna College, Claremont, California, USA

Will Zhang
Claremont McKenna College, Claremont, California, USA

Abstract:

In this paper, we compare the relative performance of the Greek stock market to other European markets both before and after the 2016 Brexit referendum. The global market plunge immediately after the referendum was led by the debt-ridden PIIGS group (Portugal, Ireland, Italy, Greece, and Spain). Even though macroeconomic and financial data for Greece available at the time of the Brexit referendum were showing improvement, investors were understandably wary of an economy that had struggled so badly and a stock market that had been closed for five weeks less than a year before the referendum. Indeed, the Greek stock market underperformed even the other PIIGS on June 24, 2016. Greece went on to be the best post-Brexit performer amongst all major European stock markets, however. The Greek stock market features by far the largest post-Brexit alpha values, yielding over 1% per month (essentially double the equity premium). Structural break testing confirms a statistically significant step up in Greek stock market performance since Brexit. The effect is economically as well as statistically significant and the difference in Greek stock market performance relative to the pre-Brexit period exceeds 3% per month. This stock market revival occurred in conjunction with an improving fiscal and economic situation that was already evident by 2016 but was seemingly ignored by investors in the immediate aftermath of the referendum.

Keywords:

Brexit, stock markets, Greece, PIIGS.