Who is the Star of Falling Interest Rates in Turkey?

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Abstract

Technological developments, economies of scale, and changes in the market environment cause firms with high market value to become more dominant in their sector. Excessive accumulation of capital in these firms that are called “leaders” results in concentration in the market. The decrease in interest rates increases the concentration in the market and industry leaders benefit disproportionately. Accordingly, the falling interest rates of industry leaders compared to industry followers; (i) lowers their borrowing costs relatively more, (ii) enables them to buy back relatively more shares, and (iii) enables them to increase their capital investments relatively more. The aim of this study is to investigate the effect of the decline in interest rates on the stock return of industry leaders compared to industry followers. For this reason, we examine the relationship between the daily 10-year treasury yield of Turkey and stock returns employing the panel data method using daily data of 190 firms operating in the Turkish manufacturing industry between 2010-2019. The firms are categorized into two groups, namely leaders and followers based on their market capitalization. Industry leaders are defined as the top 5% of firms by market capitalization and the rest is defined as followers. The findings indicate that decline in interest rates leads to a larger increase in the stock returns of industry leaders. In addition, there is a higher excess return regarding a decline in the interest rates when the level of the interest rates approach to zero which is called the “snowballing effect”.

Keywords: Interest rates, Stock return, Snowballing effect

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