Dividend Yields Predictability of Stock Returns: Case of Emerging Markets

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We investigate the cross-sectional pattern of stock returns for eight emerging markets using Vector Autoregressive Approach (VAR) to test whether dividend yields can predict stock returns through impulse response characteristics. Our results confirm that dividend yield shocks play an important role in driving fluctuation in stock returns and this relation is positive. These results reflect the fact that stock returns react positively to dividend changes either immediately or after short period of time. In some stock markets there is an immediate upward reaction by investors to dividend news like the case of Jordan, Morocco, Korea, and Malaysia. In some other markets like Egypt, Saudi Arabia, Philippines, and Thailand investors delay their investment strategies in the period immediately after dividend changes, to study the signal of dividend announcements.