

The Impact of Global and Local Crises on UAE Financial Markets

(Executive Summary)

Efstathios Polyzos

College of Technological Innovation, Zayed University, Dubai, UAE
Efstathios.Polyzos@zu.ac.ae

1. Introduction

This study investigates the effects of global and local crises on the financial markets of the United Arab Emirates (UAE). As a rapidly diversifying economy and regional financial hub, the UAE offers an interesting context for examining how emerging markets respond to global and regional crises. The financial markets in the UAE, characterised by their openness and integration into global systems, provide a compelling case for understanding market resilience and adaptability during periods of uncertainty.

The primary objective of this research is to assess the impact of significant global and UAE-specific crises on firm-level market performance, using cumulative irregular returns (CIRs) as a measure. It aims to uncover asymmetries in market responses across different event types and firm characteristics.

2. Research Question(s)

This research focuses on two key questions: how do UAE financial markets respond to global versus UAE-specific crises and how do firm-level characteristics influence the heterogeneity of market responses during these events? By addressing these questions, the study seeks to shed light on the underlying drivers of market resilience and vulnerability in an emerging market context.

3. Research Methods

This study employs a quantitative event study methodology to evaluate market responses to crises. The dataset comprises daily stock returns and firm-level financial information for listed companies on the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM). This firm-level information is analysed across 61 significant global and UAE-specific events, which were selected based on insights from academic literature and news reports.

Cumulative irregular returns (CIRs) were computed using STL decomposition, a robust technique that isolates firm-specific responses by filtering out seasonal and trend components. Statistical analyses, including Welch's t-test, were applied to determine the significance of market reactions across event categories and firm characteristics.

4. Key Findings

The study reveals that UAE-specific crises tend to have persistent negative impacts on the financial markets, while global crises often result in positive market responses, likely reflecting diversification benefits and enhanced investor confidence in the UAE as a regional hub. Firm-level characteristics significantly shape the magnitude and direction of these responses. Larger and more liquid firms exhibit greater resilience, while smaller and highly leveraged firms are more vulnerable, particularly to local shocks.

Different types of events elicit varied responses, with health-related crises exerting the most pronounced negative effects on firm returns. In contrast, economic and energy-related events generate positive market reactions, underscoring the UAE's role as a key player in the global energy sector and its ability to leverage economic opportunities during global turbulence.

5. Implications

The findings have significant implications for investors, policymakers and academics. Investors are encouraged to factor in firm-level characteristics, such as size, liquidity and leverage, when assessing risks and opportunities during crises. Policymakers should focus on enhancing market resilience through targeted regulatory measures, particularly for smaller firms and those more susceptible to local shocks. Academically, this study advances the methodology for event studies in emerging markets, providing a framework for future research on market behaviour during crises.

6. Conclusion

This study contributes to the understanding of how UAE financial markets respond to crises, offering valuable insights into the interplay between global and local dynamics in an emerging market. By examining the heterogeneity in firm-level responses and employing a robust methodological framework, it highlights the unique vulnerabilities and strengths of the UAE's financial ecosystem. Future research could build on this work by conducting cross-country comparisons within the GCC, incorporating additional firm-specific variables, or integrating macroeconomic factors to further explore market resilience and adaptability in emerging markets.