

Does Weather Contributes to Stock Price Variation? A Cointegration Analysis

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The objectives of this study are to investigate whether there is a long term relationship between stock returns and weather factors and to examine whether the weather factors have an outperforming effect over macroeconomic variables when explaining the stock price variation. This study is motivated by the emergence of behavioral branch of asset pricing which pays attention towards the irrationality of investors who are influenced by the mood and the sentiment. This study investigates this phenomenon taking evidence from a growing market, Colombo Stock Exchange. The study use Johansen Cointegration Test with VAR - Vector Error Correction Estimates and Variance Decomposition. The results confirm that weather factors are related with the stock prices in the long run and reveal that temperature has an outperforming contribution to the stock price variation whiles supporting the Temperature Anomaly which is widely researched in this background.

Keywords: *Stock Returns, Weather, Temperature Anomaly, Cointegration, Behavioral Finance*

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