Chapter 3
Value Relevance of Accounting Information in Capital Markets:
The New York Stock Exchange

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ABSTRACT

"The sell-off in US Treasury bonds in 2013 had global repercussions, impacting broad ranges of asset classes in both advanced and emerging market economies. The sell-off in 1994 is distinguished from 2003 and 2013 episodes in that, in 1994, not only did long-term rates surge, short-term rates also picked up significantly. By contrast, in both 2003 and 2013, bond market stress was confined mostly to longer maturities, although drivers of the 2003 event were different from those in 2013." As well as analyzing and investigating recent developments in vulnerabilities and volatility on the New York Stock Exchange, this chapter investigates the topic of the value relevance of accounting information in global capital markets as a means of contributing to the topic of value relevance – and particularly highlighting the impact of monetary policies and growth rates of certain economies at a global level. It also highlights why fundamentals presently underlying present stock market volatilities differ from those of previous crises.

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INTRODUCTION

The U.S. stock market principally operates on the two largest exchanges: the NASDAQ and the New York Stock Exchange (NYSE) and in response to the Crash which affected the NASDAQ in August 2013, a third exchange, the BATS Global Marketplace, was formed "to create a more efficient technology." (U.S Economy About, 2014).

The recent volatilities and vulnerabilities to which major leading stock markets and exchanges – notably the New York Stock Exchange have been attributed to stock market corrections, which hopefully, is intended to be a temporary matter.

Towards the end of August 2015 and amidst very high volume trading on the New York Stock Exchange, explanations of a possible market correction, and the consolation that trading markets worldwide had also been affected by the recent Crash in China's stock markets, it was concluded and predicted that a rebound in the stock markets would take place – based on stock crashes which had taken place in the previous decades.

The closing bell at the end of August 24th 2015 saw the NYSE closing with -585 points and explanations of the 10% stock market correction were considered to be something of an occurrence which stock market analysts had been anticipating for a while. However, even though these had been anticipated, the extent and degree of the plunge still took traders by surprise - resulting in a stock market sell off. In addition to the release of China's stock market figures – which revealed that expected prognosis about growth – particularly in China's manufacturing sector may not be as robust as forecasted, and questions relating to the reliability of accounting data, other issues resulting in a loss of investor confidence included how to adequately price stocks. Further, commodities such as gold and silver, and not just oil lost their value on that day. These factors, as well as uncertainty surrounding the Federal Reserve's decision to raise or decrease interest rates contributed to the Dow's plunge.

The 31st August 2015 witnessed the Dow capping its worst month in five years – with a loss of 6+% of its value for the month of August – ending August with the worst monthly percentage since 2010. The following day continued with a similar trend – partly attributed to further release of China's worst manufacturing data in three years, which sent the Dow plunging to -467 points amidst revelation of reports.

The immense impact of a slowdown in China's economy, on global stock markets, and particularly the NYSE was made evident again on the 7th January 2016 where a continuation of incidents attributed to a slowdown, coupled with plunging oil prices (which reached lowest level in twelve years, resulted in shares plunging. The Dow not only witnessed a 2.4% drop, but also impact of the global slowdown were experienced in other major financial markets around the globe.

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