OVERNIGHT–DAYTIME RETURN REVERSALS AND FUTURE RETURN: EVIDENCE FROM THE THAI STOCK MARKET

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ABSTRACT
This study examines whether overnight–daytime return reversals predict future stock returns in the Thai stock market. Motivated by the tug-of-war hypothesis, we analyze how price adjustments between overnight and daytime trading sessions operate in an emerging market setting. Using Thai stocks over the period 2014–2024, daily returns are decomposed into overnight (close-to-open) and daytime (open-to-close) components. Reversal intensity is measured through the frequency of negative and positive reversals and their abnormal counterparts. We employ portfolio-sorting and regression-based analyses across alternative portfolio constructions, including equal- and value-weighted portfolios, as well as size and book-to-market subsamples. The results show that, unlike evidence from developed markets, overnight–daytime reversals exhibit limited predictive power for future returns at the aggregate level in Thailand. While overnight and daytime components display distinct patterns individually, their effects largely offset each other. Overall, the findings provide new evidence on intraday price adjustment dynamics in an emerging market.
Keywords: Overnight Returns, Daytime Reversals, Price Tug Of War, Future Returns, Thai Stock Market

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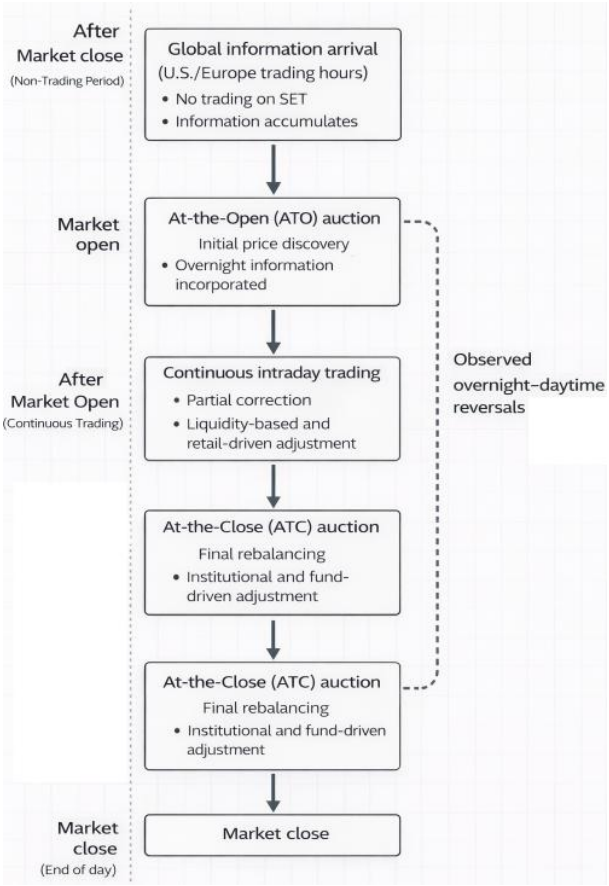
INTRODUCTION

Stock prices reflect investor reactions to new information, yet price adjustment does not necessarily occur uniformly over the trading day. Prior research shows that returns during the overnight (close-to-open) and daytime (open-to-close) sessions often behave differently, suggesting that information is incorporated into prices at different speeds and by different investor groups (Berkman et al., 2012; Lou, Polk, and Skouras, 2019; Akbas et al., 2022). Understanding these intraday return dynamics is therefore central to assessing market efficiency and investor behavior.

A prominent explanation for this phenomenon is the so-called tug-of-war hypothesis, which argues that distinct investor clienteles dominate different trading sessions. In developed markets, retail investors are more active overnight, while institutional investors and arbitrageurs trade primarily during daytime hours (Lou, Polk, and Skouras, 2019; Akbas et al., 2022). When these groups respond differently to information, prices may rise overnight and reverse during the day, generating systematic overnight–daytime return reversals. Such reversals have been shown to predict future returns in the United States, highlighting their relevance for asset pricing and market efficiency (Akbas et al., 2022).

While this literature is well developed for advanced markets, evidence from emerging markets remains limited. Thailand provides a particularly interesting setting because it does not have an active overnight trading session. Instead, prices are adjusted through mechanisms such as the closing auction and the incorporation of global information before the next market opening. In addition, the Thai stock market is characterized by a high proportion of retail investors, whose sentiment-driven trading may amplify short-term price pressures (SET, 2021). These features raise an open question as to whether tug-of-war dynamics can arise in a market without formal overnight trading.

Figure 1: Institutional mapping of global information flow and auction-based price discovery in the Thai stock market.



Note: This figure illustrates how global information arriving during non-trading hours is incorporated into prices through the At-the-Open (ATO) and At-the-Close (ATC) auction mechanisms.

This study examines whether overnight–daytime return reversals in the Thai stock market contain predictive information for future returns. By analyzing return components around the market close and the next opening, and by measuring the intensity of negative and positive reversals, this paper evaluates whether price adjustments in Thailand resemble those observed in developed markets or whether they are effectively neutralized by market structure. The findings contribute to a better understanding of price discovery and information transmission in emerging markets with high retail participation and limited after-hours trading

LITERATURE REVIEWS

Relationship between Overnight–Daytime Return Reversals and Stock Return Behavior

Prior research documents systematic differences between overnight and daytime stock returns. Evidence from developed markets shows that stock prices tend to rise during the overnight period and decline during daytime trading, indicating that price discovery does not occur uniformly throughout the trading day (Berkman et al., 2012; Lou, Polk, and Skouras, 2019). These patterns are commonly attributed to differences in liquidity, information flow, and investor participation across trading sessions. Overnight trading is typically characterized by lower liquidity and higher retail investor participation, while daytime trading is dominated by institutional investors and arbitrageurs who trade based on fundamental valuation (Aboody et al., 2018).

Retail investors are more likely to engage in sentiment-driven and feedback trading, responding to news and recent price movements rather than fundamentals (Baker and Wurgler, 2006). As a result, prices may experience temporary pressure overnight. When markets reopen, institutional investors reassess information and correct perceived mispricing, often reversing overnight price movements during the daytime session (Lou, Polk, and Skouras, 2019). This interaction between retail and institutional investors creates systematic overnight–daytime return reversals, commonly described as a tug-of-war between sentiment-driven trading and rational arbitrage.

The consistent presence of such reversal patterns suggests that abnormal overnight–daytime reversals exist in equity markets and reflect short-term deviations from efficient pricing. Accordingly, the following hypothesis is proposed: Hypothesis 1: Abnormal overnight–daytime return reversals exist in the Thai stock market.

Relationship between Overnight–Daytime Return Reversals and Future Stock Returns

A key mechanism linking overnight–daytime reversals to future return predictability is overcorrection. Overcorrection occurs when investors respond excessively to prior price movements, causing prices to temporarily deviate from their fundamental values (Chordia, Roll, and Subrahmanyam, 2005). In the context of overnight–daytime trading, institutional investors may interpret overnight price increases as sentiment-driven and respond by selling aggressively during the daytime session. When such corrective trading exceeds what fundamentals justify, prices may temporarily fall below intrinsic value, creating short-term undervaluation.

Akbas et al. (2022) formalize this mechanism through abnormal reversal measures and show that in U.S. markets, stocks experiencing stronger abnormal negative reversals earn higher future returns. This predictability is more pronounced in stocks with higher retail participation, lower liquidity, and greater behavioral trading, where sentiment-driven price pressure and trading frictions delay efficient price adjustment (Berkman et al., 2012; Hyuna Ham et al., 2022). These findings suggest that abnormal reversals can contain predictive information for future returns when overcorrection mechanisms are sufficiently strong.

However, the strength of this relationship depends on market structure and investor composition. In markets where arbitrage is delayed or constrained, the predictive power of abnormal reversals may weaken or become nonlinear. Based on this literature, the following hypothesis is developed: Hypothesis 2: Abnormal overnight–daytime return reversals predict future stock returns in the Thai stock market.

Relationship between Market Structure and Reversal-Based Predictability

Evidence from emerging markets indicates that the predictive power of overnight–daytime reversals is not uniform across institutional environments. Studies on the Chinese stock market show that while overnight and daytime return patterns exist, their ability to predict future returns is weak (Cheema et al., 2022; Lin et al., 2023). One explanation is that retail investors dominate trading throughout the entire trading day in China, reducing the contrast between overnight and daytime investor behavior that underpins the tug-of-war mechanism.

Institutional constraints further weaken reversal-based predictability. The T+1 trading rule, limited short-selling, and daily price limits restrict arbitrage activity and slow price correction, allowing sentiment-driven price movements to persist rather than reverse efficiently (Ting Chen et al., 2019). As a result, abnormal negative and positive reversals tend to offset each other, reducing aggregate return predictability. These findings highlight the importance of trading mechanisms and arbitrage flexibility in determining whether reversal patterns translate into future returns.

Thailand shares certain features with China, such as high retail participation, but differs in market structure. The Thai stock market does not operate a formal overnight trading session; instead, price adjustment occurs through the closing auction and the incorporation of global information before the next market opening (SET, 2021). This structure delays arbitrage activity and concentrates price adjustment within regular trading hours, potentially limiting the strength of overcorrection mechanisms. Accordingly, the following hypothesis is proposed: Hypothesis 3: Reversal-based predictability in Thailand is conditional and cross-sectional rather than market-wide.

RESEARCH METHODOLOGY

This study examines whether overnight–daytime return reversals predict future stock returns in the Thai stock market. The sample consists of stocks listed in Thailand over the period 2014–2024. Daily price data are used to decompose total returns into overnight and daytime components, following standard definitions in the literature. Overnight returns are calculated as close-to-open returns, while daytime returns are calculated as open-to-close returns.

To capture reversal behavior, trading days are classified based on the direction of overnight and daytime returns. A negative reversal occurs when a positive overnight return is followed by a negative daytime return, while a positive reversal occurs when a negative overnight return is followed by a positive daytime return. For each month, reversal intensity is measured as the proportion of trading days exhibiting negative or positive reversals. These monthly reversal frequencies are further standardized by their trailing 12-month averages to construct abnormal reversal measures, which reflect unusually strong reversal activity.

The empirical analysis proceeds in two stages. First, portfolio-sorting tests are conducted to examine whether reversal intensity is associated with future returns. Stocks are sorted into portfolios based on reversal measures, and subsequent returns are computed using both equal-weight and value-weighted schemes. Additional subsample analyses are performed based on firm size and book-to-market characteristics to assess whether reversal effects vary across firm types. Second, regression-based tests are employed to formally evaluate the relationship between reversal measures and future returns. Cross-sectional regressions are estimated using the Fama–MacBeth approach, with future returns as the dependent variable and reversal intensity measures as the main explanatory variables. Standard firm-level control variables commonly used in the asset pricing literature are included in accounting for size, valuation, liquidity, and past return effects. Newey–West standard errors are applied to address potential autocorrelation and heteroskedasticity.

Through this combined portfolio and regression framework, the methodology provides a comprehensive assessment of whether overnight–daytime reversals contain predictive

information in the Thai stock market and whether their effects persist across alternative portfolio constructions and firm characteristics.

RESEARCH RESULTS

Existence of Abnormal Overnight–Daytime Reversals

Table 1: Summary statistics for tug-of-war measures

	MEAN	STD	SKEW	KURT	MIN	P1	P5	P10	P25	MEDIAN	P75	P90	P95	P99	MAX
AB_NR	1.01	0.42	0.67	2.10	0.0	0.16	0.39	0.52	0.73	0.99	1.26	1.55	1.73	2.19	4.92
NR	0.31	0.14	0.27	-0.05	0.0	0.05	0.10	0.14	0.21	0.30	0.40	0.50	0.55	0.67	1.00
AB_PR	1.04	0.57	1.59	8.27	0.0	0.00	0.28	0.43	0.68	0.98	1.33	1.70	2.00	2.89	7.25
PR	0.24	0.13	0.29	-0.28	0.0	0.00	0.05	0.06	0.14	0.24	0.33	0.41	0.47	0.56	0.80

Note: AB_NR denotes abnormal negative reversals; NR denotes negative reversals; AB_PR denotes abnormal positive reversals; PR denotes positive reversals.

Hypothesis 1 examines whether abnormal overnight–daytime return reversals exist in the Thai stock market. Table 1 reports descriptive statistics for negative and positive reversals and their abnormal counterparts. The results show that both abnormal negative reversals and abnormal positive reversals occur frequently and exhibit substantial variation over time. The distributions are non-normal, with pronounced skewness and kurtosis, indicating that extreme reversal episodes are not uncommon.

The dispersion across percentiles further suggests that reversal intensity varies meaningfully across time rather than being driven by random fluctuations. These findings confirm that overnight–daytime reversals are a systematic feature of trading behavior in the Thai stock market. Therefore, Hypothesis 1 is supported.

Results Related to Hypotheses on Predictive Power of Abnormal Reversals

Table 2: Abnormal negative daytime reversals and future returns

	(1)	(2)	(3)	(4)	(5)
Dependent Variable	RET_t+1	RET_t+1	RET_t+1	RET_t+1	RET_t+1
AB_NR	0.002 (0.59)	0.001 (0.19)	-0.001 (-0.47)	-0.003 (-0.98)	
AB_PR	0.003 (1.02)	0.003 (0.92)	0.000 (0.09)	0.002 (0.51)	
RET_CO_M	0.085*** (2.93)	0.067*** (2.99)	0.066*** (2.86)	0.105*** (3.55)	0.110*** (5.66)
RET_OC_M	-0.201*** (-2.89)	-0.265*** (-4.12)	-0.250*** (-3.70)	-0.226*** (-2.92)	-0.181** (-2.53)
SIZE		-0.004** (-2.15)	-0.004** (-2.21)	-0.003* (-1.77)	-0.003** (-2.01)
BM		-0.000 (-0.12)	-0.002 (-0.54)	-0.004 (-1.12)	-0.004 (-1.03)
RET_6M		0.018** (2.13)	0.017* (1.85)	0.031*** (2.65)	0.031*** (2.90)
GPA			-0.008 (-0.94)	-0.005 (-0.30)	-0.003 (-0.21)
ATGTH			0.010 (1.03)	0.002 (0.39)	0.004 (0.80)
TURN_M				-0.003 (-0.88)	-0.003 (-0.77)
STDRET_M				0.097 (0.39)	0.053 (0.21)
ILLIQ_M				0.598 (0.89)	0.503 (0.80)
Adj. R^2	0.0649	0.1517	0.1707	0.2042	0.1943

Note: Fama–MacBeth regressions of RET_{t+1}. AB_NR and AB_PR denote abnormal negative and positive reversals; controls are standard firm characteristics.

Table 3: Equal-weight portfolio

Abnormal Negative Reversal

	1	2	3	4	5	High	H-L
Raw	1.34	0.88	0.89	0.54	0.55	0.55	-0.80***
	(2.28)	(1.61)	(2.22)	(1.77)	(0.98)	(0.98)	(-2.85)
FF4 α	1.52	1.08	1.12	0.73	0.68	0.68	-0.84***
	(2.54)	(2.03)	(2.15)	(2.15)	(1.25)	(1.25)	(-2.77)
FF6 α	1.69	1.14	1.27	0.83	0.68	0.68	-1.00***
	(2.42)	(1.95)	(2.01)	(2.17)	(1.17)	(1.17)	(-3.07)

Abnormal Positive Reversal

	1	2	3	4	5	High	H-L
Raw	0.54	0.30	1.10	0.88	1.40	1.40	0.86***
	(1.34)	(0.69)	(1.93)	(1.72)	(2.66)	(2.66)	(3.14)
FF4 α	0.61	0.44	1.35	1.29	1.48	1.48	0.87***
	(1.40)	(0.83)	(2.10)	(2.53)	(2.89)	(2.89)	(3.27)
FF6 α	0.61	0.59	1.38	1.39	1.67	1.67	1.06***
	(1.21)	(1.06)	(2.01)	(2.50)	(2.59)	(2.59)	(3.55)

Note: Raw denotes average portfolio returns. Alpha-4 and Alpha-6 denote risk-adjusted returns from four-factor and six-factor models, respectively.

Table 4: Sub-Regime (High–Low) Regression Tests for Non-Linear Predictability

Signal	Test	Coef (t)
AB_NR	Q5 vs Q1 (HIGH dummy)	-0.0066 (-1.66)
AB_PR	Q5 vs Q1 (HIGH dummy)	0.0050 (0.81)

Note: This table reports Fama–MacBeth regression results comparing stocks in the highest reversal-intensity quintile (Q5) with those in the lowest quintile (Q1).

Tables 2 and 3 evaluate the predictive content of abnormal overnight–daytime reversals using two complementary empirical approaches that capture different dimensions of return predictability. Table 2 reports Fama–MacBeth regression results, which test for average linear predictive effects across the cross-section of stocks. The estimates show that neither abnormal negative reversals (AB_NR) nor abnormal positive reversals (AB_PR) significantly predict future stock returns in a linear framework, even after controlling for standard firm characteristics. This evidence indicates that abnormal reversals do not exhibit uniform, market-wide predictive power when their effects are averaged across firms and time.

In contrast, Table 3 presents portfolio-sorting results that condition on the intensity of reversal activity and are therefore designed to detect non-linear or threshold-based predictability. Portfolios formed on abnormal negative reversals (AB_NR portfolios) generate economically and statistically significant high-minus-low return spreads, while portfolios sorted on abnormal positive reversals (AB_PR portfolios) exhibit opposite but similarly significant return patterns. These findings indicate that reversal-based predictability in the Thai stock market is inherently conditional, emerging primarily among stocks experiencing sufficiently strong reversal pressure. As a result, predictability becomes visible in portfolio-sorting frameworks that isolate extreme reversal states but is obscured in linear regression tests that estimate average marginal effects and allow opposing reversal types to offset each other. Taken together, the combined evidence explains the rejection of Hypothesis 2 in linear regressions while supporting Hypothesis 3 through cross-sectional portfolio analysis.

While portfolio-sorting results provide evidence of economically meaningful return spreads at extreme levels of reversal intensity, such evidence alone does not formally establish whether reversal-based predictability reflects a non-linear or threshold mechanism. To improve the paper's rigor and reconcile the divergence between linear regression and portfolio evidence, we

conduct a sub-regime regression analysis. Specifically, we estimate Fama–MacBeth regressions that compare stocks in the highest reversal-intensity quintile (Q5) with those in the lowest quintile (Q1) using a regime indicator variable. This regression-based approach can be interpreted as a formal analogue of the high-minus-low portfolio return, estimated within a standard predictive regression framework and conditional on firm characteristics.

The results reported in Table 4 show that abnormal negative reversals exhibit economically meaningful and marginally significant return differentials concentrated in the high-intensity regime, whereas abnormal positive reversals remain statistically insignificant. These findings confirm that reversal-based predictability in the Thai stock market is non-linear and regime-dependent, helping to explain why aggregate linear regressions fail to detect predictability despite significant portfolio return spreads.

Cross-Sectional Extensions

Table 5: Value–Growth Sorted Equal-Weighted Portfolio Returns

Growth Firm

Abnormal Negative Reversal

	1	2	3	4	5	High	H-L
Raw	1.78	0.73	1.07	0.46	0.40	0.40	-1.38***
	(2.74)	(1.84)	(2.11)	(1.47)	(0.76)	(0.76)	(-3.41)
FF4 α	1.67	0.78	1.04	0.48	0.30	0.30	-1.37**
	(2.13)	(1.83)	(1.86)	(1.37)	(0.64)	(0.64)	(-2.37)
FF6 α	1.77	0.66	1.05	0.56	0.32	0.32	-1.45**
	(2.13)	(1.68)	(1.75)	(1.67)	(0.62)	(0.62)	(-2.31)

Abnormal Positive Reversal

	1	2	3	4	5	High	H-L
Raw	0.48	0.55	0.44	1.58	1.42	1.42	0.94***
	(1.16)	(1.24)	(0.79)	(2.36)	(3.57)	(3.57)	(2.69)
FF4 α	0.48	0.55	0.32	1.59	1.39	1.39	0.91***
	(1.08)	(1.27)	(0.60)	(2.10)	(3.08)	(3.08)	(2.62)
FF6 α	0.56	0.53	0.39	1.65	1.31	1.31	0.75**
	(1.13)	(1.17)	(0.71)	(2.07)	(2.88)	(2.88)	(2.03)

Abnormal Negative Reversal

	1	2	3	4	5	High	H-L
Raw	1.53	0.89	1.54	0.65	0.49	0.49	-1.04
	(1.52)	(1.25)	(2.48)	(1.16)	(0.76)	(0.76)	(-1.53)
FF4 α	1.19	0.83	1.56	0.66	0.58	0.58	-0.61
	(1.54)	(1.29)	(2.22)	(1.11)	(0.96)	(0.96)	(-1.09)
FF6 α	1.46	0.98	1.85	0.75	0.63	0.63	-0.82
	(1.56)	(1.33)	(2.10)	(1.17)	(0.98)	(0.98)	(-1.42)

Abnormal Positive Reversal

	1	2	3	4	5	High	H-L
Raw	0.79	0.59	1.21	0.69	1.75	1.75	0.96
	(1.11)	(1.29)	(2.10)	(1.09)	(1.70)	(1.70)	(1.21)
FF4 α	0.73	0.63	1.25	0.62	1.51	1.51	0.79
	(1.11)	(1.32)	(2.00)	(1.15)	(1.71)	(1.71)	(1.02)
FF6 α	0.71	0.81	1.39	0.75	1.95	1.95	1.24
	(1.02)	(1.50)	(2.11)	(1.19)	(1.70)	(1.70)	(1.43)

To further examine the cross-sectional nature of reversal-based predictability, portfolios are additionally formed based on book-to-market (BM) characteristics. The results show that reversal effects are more pronounced among low BM (growth) stocks, while high BM (value) stocks exhibit weaker and less robust return patterns. This evidence is consistent with growth firms being more sensitive to sentiment-driven trading and information uncertainty, allowing reversal-based mispricing to persist and generate predictable return dynamics. In contrast, value stocks appear to incorporate information more efficiently, limiting the scope for reversal-based predictability. These findings reinforce the interpretation that reversal-based predictability in the Thai stock market is conditional and cross-sectional in nature, providing additional support for Hypothesis 3.

Hypothesis Analysis

Regarding Hypothesis 1, the descriptive statistics in Table 1 show that abnormal negative and abnormal positive overnight–daytime reversals occur frequently and exhibit substantial variation over time. This confirms that reversal behavior is a systematic feature of the Thai stock market. Therefore, Hypothesis 1 is supported.

Hypothesis 2 examines whether abnormal reversals predict future stock returns in a linear regression framework. Regression results in Table 2 indicate that the coefficients on abnormal negative and abnormal positive reversals are statistically insignificant across all specifications. This suggests that abnormal reversals do not exhibit aggregate predictive power in linear pricing models. Accordingly, Hypothesis 2 is not supported.

In contrast, Hypothesis 3 is supported by portfolio evidence. Table 3 shows economically and statistically significant spreads between high- and low-reversal portfolios for both abnormal negative and abnormal positive reversals. Additional sorting by book-to-market characteristics indicates that reversal-based predictability is more pronounced among growth stocks, highlighting its cross-sectional and conditional nature. Overall, the hypothesis analysis indicates that reversal-based predictability in Thailand emerges through portfolio sorting rather than linear regression tests.

DISCUSSION & CONCLUSION

This study examines abnormal overnight–daytime return reversals in the Thai stock market and evaluates their implications for future stock returns within an auction-based trading environment. Motivated by the tug-of-war hypothesis, the analysis investigates whether reversal behavior exists, whether it predicts future returns, and how its effects vary across empirical approaches and firm characteristics.

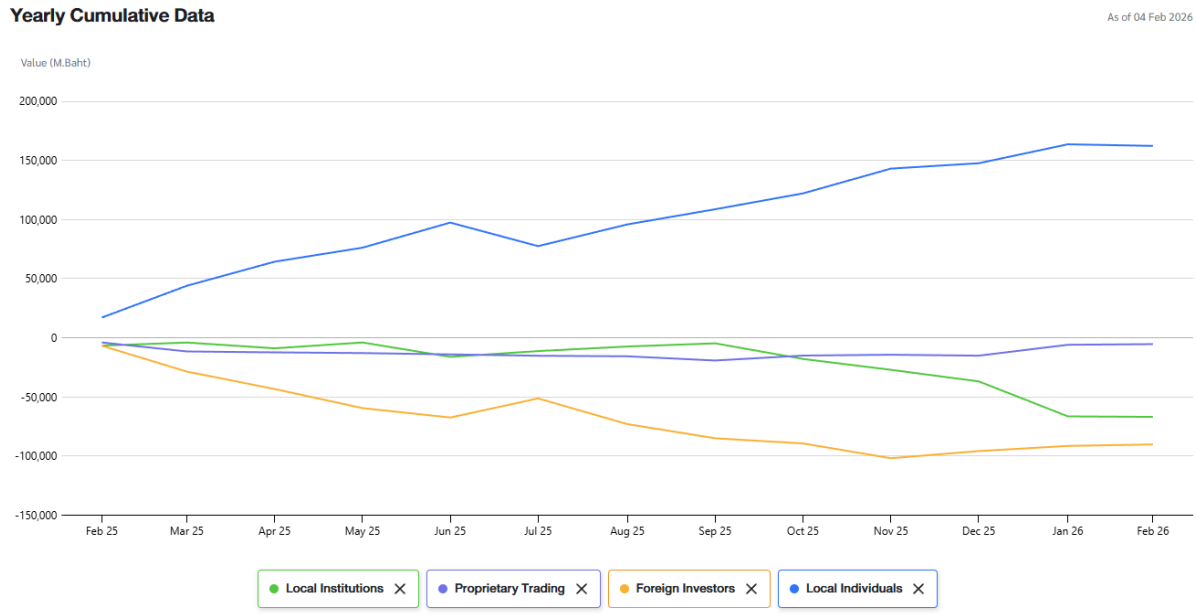
The findings provide clear evidence that abnormal overnight–daytime reversals are present in Thailand. Both abnormal negative and abnormal positive reversals occur frequently and exhibit substantial variation over time, indicating that price adjustment is not completed within a single trading day. However, unlike evidence from developed markets, abnormal reversals do not predict future returns in linear regression frameworks. This contrasts with U.S. findings, where overcorrection during daytime trading generates return predictability detectable in linear models (Lou, Polk, and Skouras, 2019; Akbas et al., 2022).

In contrast, portfolio-sorting analyses reveal economically meaningful and statistically significant return spreads associated with abnormal reversals. These effects are asymmetric across reversal types and are more pronounced among growth stocks, highlighting the cross-sectional and conditional nature of reversal-based predictability. This pattern is consistent with evidence from China, where trading constraints and high retail participation weaken aggregate predictability but allow reversal effects to persist in specific segments of the market (Cheema et al., 2022; Lin et al., 2023).

As illustrated in Figure 1, this pattern can be understood through the auction-based trading structure of the Stock Exchange of Thailand. Unlike developed markets with continuous overnight trading, the Thai market does not allow trading outside regular hours. As a result, global information arriving after the market close accumulates until trading resumes and is first incorporated into prices during the At-the-Open (ATO) auction. Subsequent adjustments may continue throughout the trading session and are finalized during the At-the-Close (ATC) auction, where liquidity and order imbalance tend to concentrate. In a market characterized by high retail participation and heterogeneous investor beliefs, this compressed price discovery process generates both optimism-driven and pessimism-driven trading pressures within the same auction windows. At the aggregate level, these opposing forces may offset each other, while in periods of extreme imbalance they give rise to the conditional and non-linear reversal effects documented in the empirical analysis. To further illustrate the investor environment in which these reversal

dynamics arise, Figure 2 presents aggregate net buying and selling activity by investor type in the Thai stock market. The figure highlights the dominant role of domestic individual investors and the substantial variation in their trading activity over time, providing descriptive context for the sentiment-driven mechanisms discussed above.

Figure 2: Retail and institutional net trading activity in the Thai stock market.



Note: This figure presents aggregate net buying and selling by investor type. The figure is intended as descriptive institutional context and does not represent a direct empirical test of reversal-based predictability.

Overall, the results suggest that the predictive content of overnight–daytime reversals depend critically on market structure and the timing of arbitrage. In Thailand, the absence of formal overnight trading and the use of a closing auction delay price adjustment and concentrate trading responses within regular market hours, limiting the strength of overcorrection mechanisms. By documenting how reversal-based predictability operates in an emerging, auction-based market, this study contributes to the literature on intraday price adjustment and highlights the importance of institutional context in understanding short-term market inefficiencies.

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