Fiscal Year and Festive Effects on Market Price Movements: A Guide to Trading Strategies at Nepal Stock Exchange

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Abstract

This study aims to provide evidence of stock price seasonality specifically within the context of commercial banks operating in Nepal. It employs descriptive and correlational analysis to investigate the new year and festive effects on the stock prices of commercial banks in Nepal. The seasonal indices in descriptive analysis illustrate the movement in stock prices during different periods, and the correlation analysis exhibits how prices among banks behave. The study utilizes the daily trading data for the period from 2015 to 2023. The analysis reveals significant effects in the stock prices of commercial banks in Nepal, particularly related to the start of fiscal Year (mid-July) and major festive seasons occurring during October and November. Banks exhibits a significant correlation and the seasonal indices of all banks show a positive relationship with both inflation and the NEPSE index. This research provides valuable insights for investors, academics, and stakeholders, enabling them to identify optimal stock buying and selling times, enhance market dynamics, and make informed decisions. The unique impact of fiscal and festive periods on price movements of domestic commercial banks, not previously explored in the existing literature, is the primary focus of this study.

Keywords: *Fiscal year, festive seasons, seasonal indices, inflation, NEPSE index*

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Introduction

In financial markets, anomalies refer to situations when a security or group of securities perform contrary to the notion of efficient markets, where security prices are said to reflect all available information at any point in time (Canady, 2022). Efficient markets leave no arbitrage opportunities where an investor can gain abnormal profits by buying and selling securities. In reality, efficient markets cannot exist as there is constant release of new information which leaves room for arbitrage opportunities. Various investors such as Warren Buffet have gained much profits from the fluctuation in stock markets. Such fluctuations are explained by the anomalies and throughout this research, anomalies that are connected to particular months of the year are primarily studied.

Since the Nepalese stock market is fairly young compared to other markets around the world, there is not much data and stock price fluctuations are mostly unpredictable for the investors. Common questions to Nepali investors are whether the stock price increases around a certain month or decreases around a certain month. This is a major problem which is addressed by this research for the banking sector of Nepal. There is only one capital

market where all the commercial banks are listed in Nepal. Furthermore, this research also compares the seasonal fluctuations of stock prices between individual banks and also with the seasonal fluctuations in macro variables of inflation and the overall market index. Another major problem that will be addressed by this study is whether there is the existence of a holiday effect in Nepalese market.

The holiday effect trading strategy in the stock market seeks to exploit any seasonal patterns that might happen around holidays (Groette, 2024). In Nepal, the major holiday is Dashain festival where the stock market closes for around a week. This holiday is not always on the same date but it occurs on either October or November. This holiday is a period of lots of spending and Nepali people tend to emphasize this time period and this festival a lot. It is a common question of whether the stock prices are higher or lower around Dashain. This question can be answered by the research through finding out the average prices around October and November.

The major objectives of this research are tied around explaining the seasonal cycles in stock prices of commercial banks in Nepal. With the use of seasonal index, the aim of this research was to find the current state of seasonal trends in stock prices of commercial banks in Nepal. The research also aims to find out the relationship between seasonal indices of all the banks with the seasonal indices of inflation and overall market index.

Since stock price is the major variable used in this research, it is described briefly. Stock price shows the highest amount a person is willing to pay to purchase ownership of the company. Stock price is the concern for many investors as it shows the value of the company and the performance of the company. It is determined in the market by how many shares are demanded and how many are supplied. This interaction fluctuates constantly and when it reaches an equilibrium between buyers and sellers, price is fixed.

Literature Review

The efficient market hypothesis argues that current stock prices reflect all existing available information, making them fairly valued as they are presently. Given these assumptions, outperforming the market by stock picking or market timing is highly unlikely, unless you are an outlier who is either very lucky or very unlucky (Baldridge, 2022). Efficient markets leave no arbitrage opportunities to gain any profits but it does not actually occur due to the inflow of loads of information. For instance, the month-of-the-year effect refers to the phenomenon where certain months from January to December exhibit abnormal returns, either positive or negative, relative to other months. These variations can be attributed to a range of global and local factors impacting the company or market environment. One of the most widely recognized instances of this effect occurs in January, known as the 'January Effect'. This term refers to the belief that stock prices tend to rise during the first month of the year (Chen, 2024). Another notable example is the 'September Effect', which describes the historically weak stock market performance observed in September. In fact, September has been the worst-performing month on average for nearly a century (Investopedia, 2023).

Kumar and Pathak (2016) argued 'Holiday Effect' that explored seasonal changes in stock market performance around major holidays. These effects are often influenced by local cultural practices and the economic environment surrounding specific holidays like 'the Ramadan Effect' or 'Christmas Effect' or 'Diwali Effect' the stock market trends observed during the holy month of particular holidays. Each of these effects is tied to unique economic and psychological factors driven by festive spending, investor sentiment, and holiday-related market activity. A widely recognized 'Tax-Loss-Selling-Hypothesis' argues the January effect by highlighting tax-related behavior. It revolves around the concept of *tax-loss harvesting*, a strategy where investors sell underperforming investments at a loss to offset capital gains and reduce taxable income. This selling pressure towards the end of the year drives stock prices down. As the new tax year begins in January, many investors reinvest in the market, creating a rebound effect that pushes stock prices higher. Essentially, the hypothesis suggests that year-end tax planning behavior is a key factor behind the January effect (Yochim & Orem, 2024).

Schaub, Lee, and Chun (2008) documented the January effect in stock markets in Hong Kong and Japan, however, no existence of such effect in Korean market. It revealed that the significant negative returns were noted in September across all markets. Kumar and Pathak (2016) extended the January effect to the Indian currency market, reporting higher returns in January compared to the rest of the year, highlighting that this phenomenon transcends

stock markets into other financial markets. Contrasting this, Jaisinghani (2016) provided strong evidence of a positive September effect in the Indian securities market, which opposes the widely accepted notion of September's weak performance. Moreover, it is found that returns in the second half of the year were significantly higher than those in the first half, offering a fresh perspective on seasonal market behavior.

Wasiuzzaman and Al-Musehel (2018) found that the Saudi stock market had a notable rise in returns during Ramadan, but no such effect was observed in the Iranian market. The study also discovered that Iranian market's volatility significantly decreased over the final ten days of Ramadan. With a focus on Ramadan, a significnat celebration for Islamic communiities that usaully takes place in March or April, highghliting the holiday effect. Similarly, Harshita, Singh, and Yadav (2018) discovered that November, especially around Diwali, produces the biggest returns in Indian stock market. yields the highest returns, particularly around Diwali. The study further suggested that greater return during the holiday seasons are driven by improved cash flows and favorable investor sentiment., highlighting the phenomenon of cultural and holiday traditions impact market behaviour similar to Western markets. Maharjan (2018) came to the conclusion that Nepalese stock returns have a monthly seasonal influence. Based on the Nepalese Bikram Sambhat calendar, research concluded that the genral market and commercial banks have noticeably shown positive returns during month of Ashad (mid-June to mid-July). This could be attributed to the announcement of the national budget during this time, which might increase investor confidence. On the other hand, returns in Bhadra (mid-August to mid-September) are noticeabley negative. In a similar vein, K.C and Joshi (2005) examined no evidence of a month-of-the-year anomaly in stock returns but did observe higher and positive returns in October, possibly due to the Dashain and Tihar festivals, in contrast to the January effect commonly seen in other markets. While several studies have explored the seasonal and cultural impacts on markets globally, and despite the limited studies focused on the Nepali market, this research seeks to fill the gap in the existing literature by offering a fresh evidence and insights into whether seasonality valids in the stock market of Nepal in a way comparable to other economies.

Research Hypotheses

Both research scholars and investors have long been interested in studying seasonal patterns in stock prices. In the context of Nepal's banking sector, this study has formulated the following hypotheses to examine whether seasonality consistently exists in the country's stock price.

H1: The stock prices of banks demonstrate a significant fiscal-year effect, particularly around the start of the fiscal year in mid-July.

H2: Bank stock prices show a significant festive season effect during major celebrations in October and November.

H3: There is a significant correlation between the seasonal indices of stock prices across commercial banks.

H4: There is a significant correlation between the seasonal indices of individual banks' stock prices and the NEPSE index.

H5: There is a significant correlation between seasonal fluctuations in bank stock prices and inflation rates.

Research Methodology

The descriptive and correlational research designs have employed to examine the seasonal patterns in the stock prices of commercial banks in Nepal. The descriptive research technique assesses the current status of seasonal changes in the stock prices and the correlational approach is applied to examine the relationship between the seasonal indices of each bank and the seasonal indices of inflation and the market index, to provide information about potential patterns and dependencies.

The sample of 17 commercial banks listed at NEPSE did not include Nepal Investment Bank Limited and Laxmi Sunrise Bank due to the inability to obtain complete data from recent mergers. The study utilized panel data that included daily trade data over a nine-year period, from 2015 to 2023, obtained from the official website maintained by the NEPSE.

The seasonal index has been computed to identify seasonal trends to measure changes in stock prices across daily

and monthly intervals. For instance, the average stock price for January is divided by the average stock price for all months to determine the seasonal index for January, and the same process is applied to the other months. The average stock prices for each month from 2015 to 2023 have been calculated, along with the overall average of these monthly averages across all years. The seasonal index is then computed using the following formula:

$$Seasonal\ Index = \frac{Seasonal\ Average}{Grand\ Average}$$

Additionally, correlational values are computed to examine the relationship between the seasonal indices of all banks, the inflation rate, and the NEPSE index, with the aim to identify strategic investment opportunities that optimize returns while managing risk.

Outcomes

The research outcomes reveal significant results obtained from descriptive statistics and correlational analysis, offering insights into seasonal trends and correlation in stock prices, inflation rates, and the NEPSE index. Table 1.1 provides a summary of the descriptive statistics, including the mean, median, range, standard deviation, seasonal index, and the number of observations considered within the month. The data indicates that the lowest average stock prices for commercial banks occur in December, followed closely by April. In contrast, August has the highest average stock prices, with September also showing elevated values. Some notable variations exhibit with respect to the median of stock prices. The values range from the lowest point (December) of the year to a peak in both June and August. Throughout the year, the median remains relatively consistent, with several months exhibiting similar median values around the 388–430 range. These statistics indicate that while there are fluctuations, the stock prices exhibit a cyclical pattern with slight increases in mid-year months and a drop towards the year's end.

Table 1.1

Descriptive Statistics of Stock Prices for Commercial Banks (2015-2023)

	Mean	Median	Range	Std. Dev.	Seasonal Index	Number of observations
January	577.31	418	2523	444.53	0.996	2945
February	569.21	414	2669.6	435.02	0.982	2678
March	568.47	410	2848	465.18	0.981	2671
April	552.85	426	3429	508.98	0.954	2417
May	571.05	418	2945.6	501.01	0.985	2363
June	574.68	430	3634.9	539.35	0.991	2677
July	595.98	413	3668.1	524.47	1.028	3082
August	627.82	430	3593	575.26	1.083	2969
September	622.38	421	3740	594.30	1.074	2726
October	599.37	411	3760	574.31	1.034	2319
November	565.18	404	3644.1	530.93	0.975	2723
December	527.01	388	3149.4	454.04	0.917	2983

January has the lowest range (2,523), indicating relatively stable prices during the month. In contrast, the highest range occurs in November (3,760), showing increased volatility. It also exhibits high ranges for the months, such as June (3,634.9), August (3,593), and October (3,760), suggesting greater price fluctuations during these periods. Overall, the range of stock prices tends to increase mid-year and peaks towards the end of the year, reflecting heightened market activity and price volatility. The months of December and January exhibit the lowest standard deviations, indicating a period of relative stability in stock prices. As the year progresses, the standard deviation escalates, reaching a peak in September, which signifies increased variability and market fluctuations during that time.

The seasonality indices in stock prices for the banking sector as a whole indicate distinct patterns throughout the

year. The lowest figure is recorded in December, closely followed by April, indicating a seasonal decline during these months. In contrast, the highest average stock prices occur in August, with September also showing strong performance. The seasonal indices reflect these trends, with values ranging from 0.917 in December to 1.083 in August, highlighting the fluctuations in stock performance over the course of the year. Figure 1.1 depicts the seasonal indices that represent the average stock price pattern for each month, emphasizing the variations and trends in the banking sector's stock prices over the course of the year.

The Nepali stock market also exhibits a notable holiday effect, with stock prices typically rising before major festivals and declining afterward. In the lead-up to Dashain, average stock prices increase by approximately 3.5%, driven by heightened buying activity and investor optimism. After the Dashain and Tihar holidays, however, prices tend to fall around 2.5% below the average as trading volumes decrease and market momentum slows.

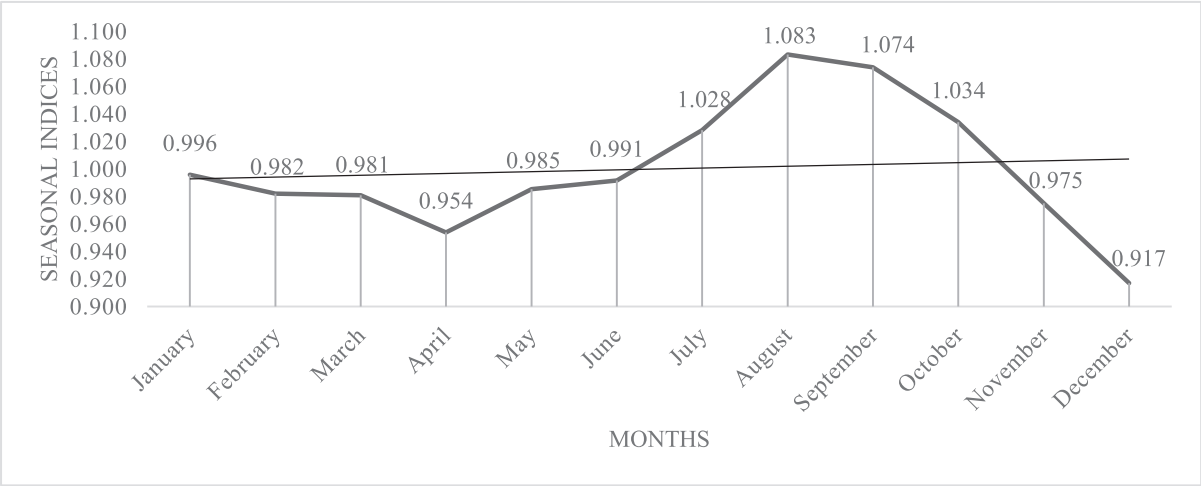

Figure 1.1 Seasonal Indices of Stock Prices for Commercial Bank (2015-2023)

Correlation Analysis

Table 1.2 presents the correlation coefficients of the seasonal indices of stock prices of the banks and reveals significant relationships among their stock prices, figures in parentheses represents p-values. SBC has a very high correlation with EBL (0.975, $p < 0.000$) and HBL (0.904, $p < 0.000$), suggesting similar pricing patterns. In contrast, NMB shows a significant negative correlation with PRVU, with a correlation coefficient of -0.722 ($p < 0.008$), suggesting an inverse pricing behavior between these banks. Banks such as NMB and BGIME show a negative relationship with other banks. Moreover, KBL exhibits a weak and statistically insignificant negative correlation with other banks. The observed correlation coefficients reflect a cohesive movement in seasonal patterns Nepalese commercial banks.

Regarding inflation, the seasonal indices of stock prices of all commercial banks showed a positive correlation, suggesting that seasonality tend to rise as inflation increases. But NMB and GBIME have shown a negative correlation with inflation. However, neither of the banks has shown a statistically significant association, indicating the potential influence of idiosyncratic factors on their performance. All commercial banks demonstrate a positive correlation between the seasonal indices and the NEPSE index, except for GBIME, which has shown a negative correlation.

Table 1

Correlation Matrix with Individual Banks

	NABIL	SCB	HBL	SBI	EBL	NICA	MBL	KBL	SBL	SANIMA	NMB	PRVU	GBIME	CZBIL	PCBL	NBL	ADBL	INF.	NEPSE
NABIL	1																		
SCB	0.684* (0.014)	1																	
HBL	0.465 (0.128)	0.904** (0.000)	1																
SBI	0.546 (0.066)	0.836** (0.001)	0.752** (0.005)	1															
EBL	0.595* (0.041)	0.975** (0.000)	0.933** (0.000)	0.793** (0.002)	1														
NICA	0.624* (0.030)	0.567 (0.055)	0.538 (0.071)	0.747** (0.005)	0.480 (0.114)	1													
MBL	0.821** (0.001)	0.860** (0.000)	0.699** (0.011)	0.820** (.001)	0.753** (0.005)	0.814** (0.001)	1												
KBL	0.116 (0.719)	-0.139 (0.666)	0.038 (0.907)	-0.056 (0.862)	-0.077 (0.811)	0.000 (0.999)	-0.144 (0.654)	1											
SBL	0.612* (0.035)	0.605* (0.037)	0.638* (0.026)	0.603* (0.038)	0.556 (0.061)	0.528 (0.078)	0.660* (0.019)	0.515 (0.087)	1										
SANIMA	0.478 (0.116)	0.658* (0.020)	0.598* (0.040)	0.815** (0.001)	0.602* (0.038)	0.890** (0.000)	0.777** (0.003)	-0.302 (0.341)	0.268 (0.399)	1									
NMB	-0.504 (0.095)	-0.556 (0.061)	-0.266 (0.404)	-0.618* (0.032)	-0.474 (0.120)	-0.313 (0.322)	-0.514 (0.087)	0.256 (0.423)	-0.078 (0.810)	-0.494 (0.102)	1								
PRVU	0.337 (0.284)	0.498 (0.099)	0.374 (0.232)	0.733** (0.007)	0.452 (0.140)	0.683* (0.014)	0.547 (0.006)	-0.306 (0.333)	0.037 (0.909)	0.837** (0.001)	-0.722** (0.008)	1							
GBIME	-0.170 (0.598)	-0.304 (.337)	-0.400 (0.198)	0.022 (0.946)	-0.334 (0.289)	0.262 (0.410)	-0.105 (0.745)	-0.324 (0.304)	-0.576 (0.050)	0.389 (0.212)	-0.297 (0.348)	0.638* (0.025)	1						
CZBIL	0.423 (0.170)	0.497 (0.100)	0.393 (0.206)	0.760** (0.004)	0.431 (0.162)	0.867** (0.000)	0.698* (0.012)	-0.331 (0.293)	0.179 (0.577)	0.946** (0.000)	-0.470 (0.123)	0.851** (0.000)	0.526 (0.079)	1					
PCBL	0.538 (0.071)	0.767** (0.004)	0.869** (0.000)	0.603* (0.038)	0.754** (0.005)	0.594* (0.042)	0.691* (0.013)	0.258 (0.419)	0.785** (0.002)	0.479 (0.115)	-0.096 (0.767)	0.220 (0.491)	-0.435 (0.157)	0.255 (0.423)	1				
NBL	0.573 (0.051)	0.756** (0.004)	0.881** (0.000)	0.665* (0.018)	0.765* (0.004)	0.717** (0.009)	0.695* (0.012)	0.221 (0.489)	0.678* (0.015)	0.638* (0.026)	-0.177 (0.583)	0.434 (0.158)	-0.218 (0.496)	0.451 (0.141)	0.905** (0.000)	1			
ADBL	0.728** (0.007)	0.729** (0.007)	0.783** (0.003)	0.693* (0.012)	0.678* (0.015)	0.811** (0.001)	0.815** (0.001)	0.290 (0.361)	0.843** (0.001)	0.629* (0.028)	-0.179 (0.577)	0.337 (0.284)	-0.293 (0.356)	0.483 (0.112)	0.891** (0.000)	0.918** (0.000)	1		
INF.	0.336 (0.286)	0.314 (0.320)	0.090 (0.782)	0.144 (0.655)	0.142 (0.660)	0.181 (0.574)	0.429 (0.164)	-0.517 (0.085)	0.040 (0.901)	0.232 (0.468)	-0.450 (0.142)	0.175 (0.587)	-0.004 (0.990)	0.117 (0.718)	0.209 (0.514)	0.057 (0.861)	0.176 (0.585)	1	
NEPSE	0.572 (0.052)	0.567 (0.055)	0.665* (0.018)	0.446 (0.147)	0.501 (0.097)	0.733** (0.007)	0.673* (0.016)	0.170 (0.597)	0.667* (0.018)	0.526 (0.079)	0.002 (0.995)	0.236 (0.460)	-0.228 (0.476)	0.349 (0.266)	0.886** (0.000)	0.855** (0.000)	0.900** (0.000)	0.340 (0.280)	1

Correlation is significant at the 0.05 level. (2-tailed)

*** Correlation is significant at the 0.01 level. (2-tailed)*

Figures in parentheses are p-values.

Table 1.2

Correlation matrix of inflation, banking sector performance, and NEPSE index

	INF	NEPSE	Banks
INF	1		
NEPSE	0.340 (0.280)	1	
Banks	0.226 (0.481)	0.645* (0.023)	1

** Correlation is significant at the 0.05 level. (2-tailed)*

Table 1.2 outlines the correlation between seasonal indices of commercial banks' market prices, the NEPSE index, and the inflation rate, with the p-values in parentheses, indicating the positive relationship. Inflation exhibits a similar pattern of correlation with both the overall market index and the banking sector indices, though this relationship is not statistically significant. In contrast, a positive and significant correlation exists between the commercial banking sector and the NEPSE index, reflecting strong alignment of the stock prices of commercial banks and the overall stock market index in Nepal.

Discussions

The analysis of the fiscal and festive influences on stock price movements at the Nepal Stock Exchange shows notable trends in seasonal index values that reflect seasonal effects. These indices consistently exhibit elevated levels from July to October, peaking in August. This corresponds with the fiscal year, which begins in mid-July and peaks with financial activity by August. In contrast, the stock prices tend to fall in December. This period marks a crucial phase in the financial calendar, reflecting the interconnectedness of seasonal patterns and economic cycles unique to the Nepalese financial market.

Investors facing pressure from debt interest payments and income tax obligations may have contributed to the lower seasonal indices observed in the periods leading up to the end of the fiscal year. This financial strain often compels them to liquidate their assets, contributing to increased selling pressure in the market. However, following the announcement of fiscal and monetary policies, investor sentiment tends to shift positively, resulting in heightened enthusiasm and optimism about the stock market. Consequently, average stock prices typically reach their peak during this period. The findings of this research align with previous studies conducted in various economies, confirming that stock prices tend to peak during the month marking the start of the fiscal year. The works of Guo (2022); Kozlowski and Lytle (2023); and Truong and Friday (2021), collectively highlighting the correlation between fiscal calendar events and stock market performance, support this observation. Nonetheless, earlier studies (e.g., Enow, 2024; Kenneth & Sumani, 2024; Jannah & Hidayat, 2024) present evidence that contradicts the traditional assumption of the January Effect, which posits that stock returns in January are typically higher than in other months due to investor behavior and tax-related selling in December, suggesting that the January Effect may not be as pronounced or reliable as previously thought. For instance, market efficiency and investor response to price changes significantly affect the link between fiscal policy and stock market performance. The semi-strong market efficiency challenges historical price predictions and seasonal peaks (Ojha, 2019). Expansionary fiscal shocks frequently lead to stock price declines, a reaction that defies the expectations of fiscal policy announcements. Investor concerns about potential inflation following such comments and interest rate increases may contribute to this negative impact (Mumtaz & Theodoridis, 2021).

September and October mark significant festive periods in Nepal, with Dashain and Tihar being the major holidays. These festivals suggest a notable festive effect on the Nepalese stock market. Major celebrations like Dashain and Tihar lead to increased financial inflows, as many Nepalis living abroad send remittances home to support family celebrations. This influx of funds typically raises disposable income, enhancing market liquidity as more individuals invest in equities or allocate spare cash. During these festive times, despite market data, investor sentiment tends to be optimistic due to the joyous atmosphere and cultural significance of the holidays. Studies such as Ariel (1990), Cadsby and Ratner (1992) have documented the existence of festive effects in stock market behavior, particularly around holiday and post-holiday periods. This positive mood often motivates investors to

purchase stocks in anticipation of future profits (Kudreavtsev, 2019). The fiscal year that coinciding closely with Dashain and Tihar. Companies generally release their quarterly reports around this time, providing investors with crucial financial and earnings information, the strategic buying could occur as investors plan their investments to align with the end or beginning of the fiscal year.

The strong positive correlation between SCB and EBL reveals that these banks share closely aligned seasonal stock price patterns. Previous studies (Carlson, 2016; Kaeppel, 2008; Kapalczynski, 2022) likely support this similarity, reflecting their responses to prevailing economic and financial conditions. Conversely, the observed negative correlation between PRVU and NMB Bank suggests distinct responses to market changes. This is likely because each bank has its own operational strategies, as discussed in previous research (Auer, 2019; Keloharju et al., 2019). These findings suggest the value of understanding how specific operational frameworks and market strategies shape bank stock performance, especially in fluctuating economic conditions. The contrasting correlations emphasize the need for an in-depth approach to bank performance analysis, which advises investors to account for macroeconomic influences and individual bank strategies while making investment decisions.

The analysis of seasonal indices reveals a positive, albeit statistically insignificant, correlation between the NEPSE index and the seasonal indices of bank stock prices with inflation, which echoes prior findings suggesting that inflation may not exert a consistent influence on stock performance over shorter cycles (Fama & Schwert, 1977; Geske & Roll, 1983). However, the significant positive correlation observed between bank stocks and the NEPSE index itself highlights the alignment between individual bank performance and broader market trends, suggesting that the banking sector is more responsive to overall market movements than to inflationary pressures alone (Kothari & Shanken, 1997). This divergence emphasizes the importance for investors to consider aggregate market conditions when assessing banking stocks, as opposed to focusing solely on inflationary effects.

Conclusion

The stock prices of Nepalese commercial banks showed relatively stable average values throughout the year, with seasonal indices revealing a peak in August, followed by increases in October and November, and the lowest prices occurring in December. While the January effect is a well-documented phenomenon in many stock markets, this study revealed that it does not manifest in the Nepalese context. Instead, the fiscal year effect, which occurs between mid-July and mid-August (the month of Shrawan in the Nepali calendar), along with significant festive effects in October and November, plays a crucial role in influencing stock price movements among commercial banks. The absence of the January effect suggests that investors in Nepal do not exhibit the same seasonal trading behaviors observed in other markets, instead, the focus shifts to how local cultural events and the timing of the fiscal year impact investor sentiment and stock performance. However, the prices movement stem from analogous facts affecting January trends worldwide. Investors often divest financial assets to meet financial commitments as the fiscal year-end, typically in mid-July approaches. Nepali businesses and investors commonly settle taxes and other financial obligations before the deadline, resulting in selling pressure in the stock market as they release assets. Similarly, institutional investors like mutual funds often rebalance their portfolios ahead of the fiscal year-end to enhance their financial statements. Further downward pressure on stock prices during the months before the fiscal year is also associated with the uncertainty surrounding fiscal and monetary policy adjustments, particularly tax changes, which can prompt investors to exercise caution and frequently choose liquidity assets. Historical trends and investor sentiment, coupled with herding behavior, also contribute to these periodic declines, solidifying predictable price patterns in the Nepalese stock market.

The primary holiday season in Nepal, taking place in October and November (Dashain, Tihar, and Chhath festive holidays), considerably affects stock price patterns for commercial banks. During these periods, the stock prices ascend above average due to the increased investors' trading activities and their optimism. The periodic movements in stock prices emphasize the impact of cultural events on market patterns, which introduces a distinctive aspect to stock price dynamics in Nepal. The stock markets of Nepal have long recognized the influence of calendar and cultural effects, and the Nepali commercial banking industry exhibits a divergence from the traditional efficient market hypothesis. The observed deviation underscores the need for traders to reevaluate their trading strategies

in light of potential arbitrage profits within the banking sector.

The correlation between seasonal indices of stock prices offers valuable insights for investors to develop effective portfolio formation strategies. For banks that exhibit a positive and significant correlation, such as Standard Chartered Bank and Everest Bank Limited, an increase in the average price of one bank typically indicates a similar upward movement in the other. This scenario presents a compelling opportunity for risk-tolerant investors to construct portfolios that leverage these aligned price movements. Conversely, banks with a negative correlation, such as Prabhu Bank and NMB Bank, demonstrate a different dynamic: favorable performances for one bank often coincide with less favorable conditions for the other. This characteristic allows risk-averse investors to build portfolios that can offset potential capital gains and losses, thus minimizing overall risk exposure. By investing in both banks, investors can benefit from dividend income while reducing capital risk, as the fluctuations in stock prices tend to balance each other out.

This research offers critical insights for investors, enabling them to identify optimal times to buy stock and sell their holdings to maximize earnings. It also serves as a resource for the academic, practitioner, and other stakeholders to enhance understanding of market dynamics and informed decision-making through added literature. Integrating additional bank-specific factors and macroeconomic components, alongside alternative modeling techniques and cross-sectional data, could expand future studies and provide a solid foundation for more robust and comprehensive research into predicting seasonality patterns within the country's financial markets.

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