Market Microstructure and Investor Sentiment: Evidence from Sectoral Equity Performance in a GCC Emerging Market

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Abstract— This study examines the extent to which investor sentiment and market microstructure influence sectoral stock returns in Boursa Kuwait, an underexplored GCC emerging market. While previous studies have established the importance of investor sentiment in financial markets, limited evidence exists on its sector-specific effects in smaller emerging economies. This study addresses this gap by investigating whether investor sentiment, liquidity, volatility, and trading activity explain short-term sectoral return dynamics.

Using daily data from 2021 to 2025, the analysis employs sectoral stock returns, trading volume, and volatility and liquidity measures derived from daily high-low price ranges, together with a manually constructed investor sentiment index based on market announcements and financial news. Ordinary least squares (OLS) regression models are estimated separately for each sector.

Preliminary estimates suggest that investor sentiment may have heterogeneous effects across sectors, with stronger negative responses in the financial and industrial sectors and relatively more positive responses in sectors associated with economic reforms and growth opportunities. Liquidity and volatility also appear to be important determinants of sectoral returns, highlighting the role of market microstructure in shaping short-term price movements. The study is expected to contribute to the behavioural finance literature by providing sector-level evidence from an underexplored GCC emerging market and offering practical insights for investors, portfolio managers, and policymakers.

Keywords— Investor sentiment, Market microstructure, Sectoral stock returns, Behavioural finance, Emerging markets, Boursa Kuwait.

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