

Stock Market Integration of Emerging Markets around the Global Financial Crisis: Trends and Explanatory Factors

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Abstract : In this paper, we examine stock market integration of emerging markets around the global financial turmoil of 2007-2008. Following Pukthuanthong and Roll (2009), we measure the integration of 46 emerging countries using the adjusted R-square from the regression of each country's daily index returns on global factors extracted from the covariance matrix computed using dollar-denominated daily index returns of 17 developed countries. Our sample surrounds the global financial crisis and ranges between 2000 and 2018. We analyze results using four cohorts of emerging countries: East Asia & Pacific and South Asia, Europe & Central Asia, Latin America & Caribbean, Middle East & Africa. We find that the level of integration of emerging countries increases at the commencement of the crisis and during the booming phase of the business cycles. It reaches a maximum point in the middle of the crisis and then tends to revert to its pre-crisis level. This pattern tends to be common among the four geographic zones investigated in this study. Finally, we investigate the determinants of stock market integration of emerging countries in our sample using panel regressions. Our results suggest that the degree of stock market integration of these countries should be put into perspective by some macro-economic factors, such as the size of the equity market, school enrollment rate, international liquidity level, stocks traded volume, tax revenue level, imports and exports volumes.

Keywords : correlations, determinants of integration, diversification, emerging markets, financial crisis, integration, markets co-movement, panel regressions, r-square, stock markets

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