

Uncertainty and Volatility in Middle East and North Africa Stock Market during the Arab Spring

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Abstract : This paper sheds light on the economic impacts of political uncertainty caused by the civil uprisings that swept the Arab World and have been collectively known as the Arab Spring. Measuring documented effects of political uncertainty on regional stock market indices, we examine the impact of the Arab Spring on the volatility of stock markets in eight countries in the Middle East and North Africa (MENA) region: Egypt, Lebanon, Jordan, United Arab Emirate, Qatar, Bahrain, Oman and Kuwait. This analysis also permits testing the existence of financial contagion among equity markets in the MENA region during the Arab Spring. To capture the time-varying and multi-horizon nature of the evidence of volatility and contagion in the eight MENA stock markets, we apply two robust methodologies on consecutive data from November 2008 to March 2014: MGARCH-DCC, Continuous Wavelet Transforms (CWT). Our results indicate two key findings. First, the discrepancies between volatile stock markets of countries directly impacted by the Arab Spring and countries that were not directly impacted indicate that international investors may still enjoy portfolio diversification and investment in MENA markets. Second, the lack of financial contagion during the Arab Spring suggests that there is little evidence of cointegration among MENA markets. Providing a general analysis of the economic situation and the investment climate in the MENA region during and after the Arab Spring, this study bear significant importance for policy makers, local and international investors, and market regulators.

Keywords : Portfolio Diversification , MENA Region , Stock Market Indices, MGARCH-DCC, Wavelet Analysis, CWT

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