

Measuring Financial Asset Return and Volatility Spillovers, with Application to Sovereign Bond, Equity, Foreign Exchange and Commodity Markets

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Abstract : We provide an in-depth analysis of interdependence of asset returns and volatilities in developed and developing countries. The analysis is split into three parts. In the first part, we use multivariate GARCH model in order to provide stylized facts on cross-market volatility spillovers. In the second part, we use a generalized vector autoregressive methodology developed by Diebold and Yilmaz (2009) in order to estimate separate measures of return spillovers and volatility spillovers among sovereign bond, equity, foreign exchange and commodity markets. In particular, our analysis is focused on cross-market return, and volatility spillovers in 19 developed and developing countries. In order to estimate named spillovers, we use daily data from 2008 to 2017. In the third part of the analysis, we use a generalized vector autoregressive framework in order to estimate total and directional volatility spillovers. We use the same daily data span for one developed and one developing country in order to characterize daily volatility spillovers across stock, bond, foreign exchange and commodities markets.

Keywords : cross-market spillovers, sovereign bond markets, equity markets, value at risk (VAR)

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