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THE BREXIT DECOUPLING HYPOTHESIS

Abstract:

This paper studies the effect of the decision made by the British public in June 2016 to leave the European Economic block. Our data consists of 5-min stock prices from June 2015 until January 2019. By using a DCC-GARCH model, we investigate whether there has been a contagion or decoupling effect during the referendum process as compared to the pre-referendum period. We also test for 'real-economy' contagion or decoupling by constructing a macroeconomic surprise index to gauge the price discovery effect of UK economic shocks in EU financial markets (and vice-versa) before and after the referendum. Further, we look at the key events during the referendum process (such as the resignation of David Cameron, appointment of Theresa May as the new Prime Minister and the call for a general election, etc.) and gauge the magnitude of the volatility spillover on the EU's financial market.

Keywords:

Financial Contagion, Brexit, High Frequency Data