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## **GLOBAL FINANCIAL CRISIS, ITS IMPACT ON STOCK MARKETS' LINKAGES AND PORTFOLIO DIVERSIFICATION OPPORTUNITIES**

### **Abstract:**

This research investigates causal relationships and short-term interaction mechanisms among seven equity markets, including smaller post-communist Eastern-European countries and developed G7 markets, while paying special consideration to the effects of the 2007-2009 global financial crisis. The analysis period runs from 01/10/2004 to 01/02/2015, while the credit-crunch crisis sub-period is considered to have started on 09/08/2007 when BNP Paribas terminated withdrawals from three hedge funds citing "a complete evaporation of liquidity" and to have ended on 01/06/2009, according to the U.S. National Bureau of Economic Research. The study analyses whether the relationships among stock markets are time varying and whether the potential for diversifying risk by investing in different markets is limited/diminished during financial turmoil. Other points of interest consist in the leading role of the Russian market in the Eastern-European region before/during/after the crisis and in the impact of innovations from the US market in the Eastern-European area.

### **Keywords:**

multivariate GARCH, financial crisis, stock markets

**JEL Classification:** B59