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EXAMINING TIME-VARYING INTEGRITY AND INTERRELATIONSHIPS AMONG GLOBAL STOCK MARKETS

Abstract:

This paper examines co-movements and interrelationships among 6 emerging and 5 developed stock market returns between period 2001- 2017. First, principal components are extracted from returns. Results show that, for the period analyzed, there is no strong global stock market integration and there isn't any change in patterns of correlations of returns except short-term disturbances in global financial crisis time. Second, partial least squares regression models are used for predicting each stock market returns with other stock markets' current and all markets' up to three month lagged returns. Results identify divergence between developed and emerging markets and greater number of latent transmission channels among former ones. Findings indicate a strong integrity among global stock markets is not yet appeared and considered together with previous studies, today's international market structure can be attributed to last two decades of 20th century. China stock market has a disparate position than all other stock markets and deserves further interest.

Keywords:

Stock market integration, principal components analysis, partial least squares regression, international portfolio diversification

JEL Classification: F36, G11, G15