

Impact of Innovations in Indian and U.S. Stock Markets on Frontier Markets of Africa, Middle East and South Asia

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Abstract

This paper examines the probable impact of volatility in stock markets of India and US on frontier markets of Africa, Middle East, and South Asia. Time series data for 10 years spanning from March 1, 2009, to February 28, 2018 is considered for the study. Unconditional correlations are computed between returns of respective markets and appropriate regression models are used for ascertaining the impact of returns and volatility in Indian and US stock markets on returns of frontier markets. The results of unconditional correlations reveal that there is positive relationship between Indian VIX and US returns. Also, the returns of frontier stock markets are found to have high degree of correlation with Indian stock market returns. Results of regression indicates that U.S. equity market volatility did have a positively significant impact on Indian, Abu Dhabi and, Saudi Arabian equity market, but not on other frontier market returns.

I. Introduction

CHANGES IN THE stock market index of a country are caused by the changes in the individual stocks in the index, which in turn can be the result of firm-specific or market-specific events. Since no economy is completely isolated from the rest of the world, the shocks to the world economy can have significant effect on the domestic stock market at the individual firm and market level. The influence of other equity markets on the domestic equity market depends on various factors such as trade, geographic proximity, cultural ties, etc. In this paper, we examine the impact of U.S. and Indian market innovations on selected frontier markets of Africa, Middle East and, South Asia.

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