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The non-persistent relationship between foreign equity flows and emerging stock market returns across quantiles*

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ABSTRACT

We compare the performance of two state-of-the-art predictive regression methods of IVX-Wald (Kostakis et al., 2015), IVX-Quantile regression (Lee, 2016) with the traditional OLS in examining the relationship between foreign equity flows and emerging stock market returns. By doing so, we take into account not only the potential persistence in foreign equity flows, but also the exceptional behavior of the extreme foreign flow episodes. We find a robust positive relationship between equity flows and contemporaneous stock returns among emerging stock markets (especially in Asia), but little evidence for intertemporal return predictability.

Keywords: Emerging stock markets; International Capital Flows; Predictive regression; IVX filtering.

JEL classification: C22, G12, G15

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