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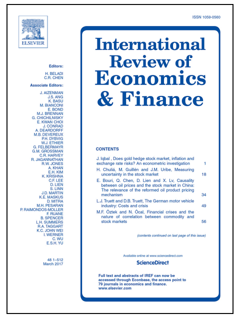

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What Drives Dynamic Comovements of Stock Markets in the Pacific Basin Region?: A Quantile Regression Approach

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Abstract

In this paper, we show that pairwise similarities of a set of macroeconomic variables among major countries in the Pacific Basin region can account for the stock market comovements in the region. We first suggest a simple theoretical argument why pairwise similarities of macroeconomic variables can derive stock market comovements. We then apply the conditional nonlinear quantile regression on the pairwise realized stock return correlations for the stock markets in the Pacific Basin region from 1990 to 2012 to empirically justify the argument. As a result, we find evidence that smaller pairwise differences or larger pairwise similarities of a set of macroeconomic variables significantly drive the stock market comovements in the region in a nonlinear way.

Keywords: Stock market comovements; Macroeconomic performances; Realized correlations; Nonlinearity; Conditional quantile regression

JEL Classification: E00, F36, G15

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