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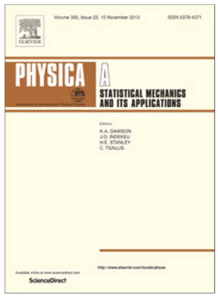

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A Multiscale Analysis of Stock Return Co-movements and Spillovers: Evidence from Pacific Developed Markets

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HIGHLIGHTS

- Diversification benefits in Pacific developed markets are limited due to higher degrees of integration.
- Pacific developed markets co-move strongly during the periods of financial crisis.
- Higher degree of volatility spillover is observed during financial crisis.

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ABSTRACT

In this paper we examine the stock market co-movement and volatility spillover dynamics in the Pacific developed markets for a period spanning over January 05, 2001 to January 09, 2018. We employ wavelet-based techniques to study the multiscale co-movement dynamics of stock returns. Additionally, we also study the subtleties of volatility spillover of returns among the sample countries. We find that: (a) diversification benefits in these markets are limited due to higher degrees of integration, (b) Pacific developed markets co-move strongly during the periods of financial crisis (i.e. the contagion hypothesis) and (c) higher degree of volatility spills during financial crisis. We believe our study holds significance in the perspective of international portfolio diversification.

1. Introduction

This paper is a pursuit to: (a) validate co-movements among returns of the stock markets and (b) assess volatility spillovers at different time-scales with reference to recent time frame in the Pacific region. The objective of the paper expands to the study of benefits that may be achieved through portfolio diversification owing to the information of such co-movements and spillovers over different time horizons. Fragmentation of time into higher and lower frequencies enables speculation opportunities in between timescales. In