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# Interest Rate Changes and Stock Returns: A European Multi-Country Study with Wavelets

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## Abstract

This paper investigates the linkage between changes in 10-year government bond yields and stock returns for the major European countries in the time-frequency domain by using a number of cross-wavelet tools in the framework of the continuous wavelet transform, mainly the wavelet coherence and phase-difference. The results reveal that the degree of connection between 10-year bond rate movements and stock returns differs considerably among countries and also varies over time and depending on the time horizon considered. In particular, the UK shows the greatest interdependence between long-term interest rates and equity returns across time and frequencies, while the relationship is much weaker for several peripheral European countries such as Portugal, Ireland and Greece. The highest level of connection is observed for most countries since the onset of the recent global financial crisis. In addition, the significant linkage is mainly concentrated at investment horizons from one to two years.

### *Keywords:*

Interest rates, Stock returns, Wavelets, Wavelet coherence, Phase-difference  
*JEL:* C40, E44, F30, G15

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