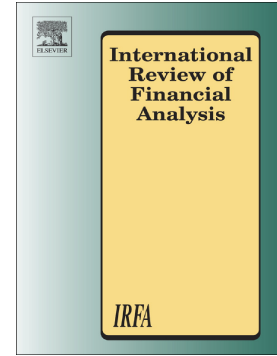


Accepted Manuscript

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PII: S1057-5219(17)30082-0
DOI: doi: [10.1016/j.irfa.2017.07.009](https://doi.org/10.1016/j.irfa.2017.07.009)
Reference: FINANA 1122

To appear in: *International Review of Financial Analysis*

Received date: 10 July 2016
Revised date: 8 June 2017
Accepted date: 7 July 2017

Please cite this article as: Abiodun Shogbuyi, James M. Steeley , The effect of quantitative easing on the variance and covariance of the UK and US equity markets, *International Review of Financial Analysis* (2016), doi: [10.1016/j.irfa.2017.07.009](https://doi.org/10.1016/j.irfa.2017.07.009)

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THE EFFECT OF QUANTITATIVE EASING ON THE VARIANCE AND COVARIANCE OF THE UK AND US EQUITY MARKETS

by

Abiodun Shogbuyi¹ and James M. Steeley^{2*}

ABSTRACT

We examine the impact on the variance-covariance structure of UK and US equity markets of the Quantitative Easing (QE) operations implemented by the Bank of England (BoE) and the Federal Reserve (Fed). While the theory of portfolio balance suggests that QE operations could affect markets other than those in which the operations occur, prior analysis of these other markets is scarce. We find that while QE operations in general reduced equity volatility, day to day operations generated spikes in volatility in UK equities. We also find that BoE operations increased the covariance between the UK and US equity markets.

Keywords: Quantitative Easing; Equity market; variance; co-variance; UK; US

We are grateful to participants at the 2015 Midlands Regional Doctoral Colloquium, Birmingham, the 2015 PhD conference in Monetary and Financial Economics at UWE, Bristol, our discussant, Klaus Grobys, and participants at the 2016 INFINITI conference at Trinity College, Dublin, and especially two anonymous *IRFA* reviewers for helpful suggestions and comments on earlier drafts. 1: Aston Business School, Aston University, Birmingham, B4 7ET. Email: shogbuya@aston.ac.uk . 2: Keele Management School, Keele University, Keele, ST5 5BG. Email: j.steeley@keele.ac.uk. *: Corresponding author.

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