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BLACK SWAN EVENTS AND SAFE HAVENS: THE ROLE OF GOLD IN GLOBALLY INTEGRATED EMERGING MARKETS

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ABSTRACT

There is evidence to suggest that gold acts as both a hedge and a safe haven for equity markets over recent years, and particularly during crises periods. Our work extends the recent literature on hedging and diversification roles of gold by analyzing its interaction with the stock markets of the leading emerging economies, the BRICS. Whilst they generally exhibit a high growth rate, these economies still experience a pronounced vulnerability to external shocks, particularly to commodity price fluctuations. Using a multi-scale wavelet approach and a GARCH-based copula methodology, we mainly show evidence of: *i*) the time-scale co-evolvement patterns between BRICS stock markets and gold market, with some profound regions of concentrated extreme variations; and *ii*) a strong time-varying asymmetric dependence structure between those markets. These findings are essential for risk diversification and portfolio hedging strategies amongst the investigated markets.

Keywords: Equity markets; Copulas; Gold; Time-scale analysis.
JEL Codes: G1; C14; C32; C51

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