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International spillovers in global asset markets

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Highlights

- Financial transmission across and within bond and equity markets is estimated
- Asset prices react most strongly to international shocks *within* the same asset class
- *Across classes* spillovers increase from 2007 to 2014 for the US, UK, Euro area
- *Within* spillovers are not systematically larger after the GFC or the European debt crisis
- The results are robust to including the monetary policy stance and the exchange rate

Abstract

The paper empirically estimates the financial transmission within and across bond and equity markets in the four largest global financial markets – the United States, the Euro area, Japan, and the United Kingdom. We argue that international bond and equity markets are highly interconnected both within and across asset classes in a globalized world, where the complex transmission process across various financial assets is not restricted to just the domestic market. This paper employs identification through generalized forecast error variance decompositions to estimate spillovers across four systemic markets in a Vector Autoregression (VAR) framework. We find that asset prices react most strongly to international shocks within the same asset class, but that there are also substantial international spillovers across asset classes. Rolling estimations