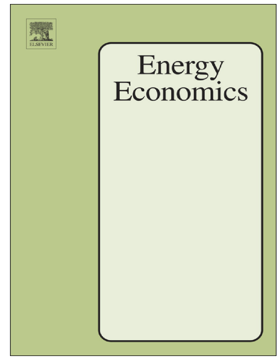

Impact of oil price risk on sectoral equity markets: implications on portfolio management

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PII: S0140-9883(18)30112-9
DOI: doi:10.1016/j.eneco.2018.03.031
Reference: ENEECO 3963

To appear in:

Please cite this article as: Aviral Kumar Tiwari, Sangram Keshari Jena, Amarnath Mitra, Seong-Min Yoon , Impact of oil price risk on sectoral equity markets: implications on portfolio management. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Eneeco(2018), doi:10.1016/j.eneco.2018.03.031

Impact of oil price risk on sectoral equity markets: Implications for portfolio management

Abstract

Structure and degree of oil price impact on sectoral indices are examined using Quantile Regression Analysis (QRA). Nine sectors are found to provide diversification opportunities during a bull market (i.e. 90th quantile of the return distribution) and three sectors during a bear market (10th quantile) to hedge oil price risk. Further, the contagion effect and interdependency between oil price and sectoral equity are assessed through frequency domain causality. The causality from oil price in the long run determined that there is interdependence between three sectors and oil price changes. The direction of causality from oil price is mixed in both the short run (high frequency) and long run (low frequency) for nine sectors. Overall, the carbon sector is the only sector that is immune to oil price risk, thereby providing investment and hedging opportunities for portfolio managers.

Keywords: Asymmetric quantile regression; Contagion; Interdependency; Oil price shocks; Tail risk; Frequency domain causality

JEL classification: C58; F37; F41; G11