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# GEOPOLITICAL RISKS AND THE OIL-STOCK NEXUS OVER 1899-2016

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## Abstract

Markets are invariably influenced and affected not only by the usual array of economic and financial factors, but also by uncertainty inducing shocks. Using monthly stock and oil data that spans over a century, this study takes a long historical perspective on whether the time-varying stock–oil covariance, their returns and their variances are affected by geopolitical risk, as encapsulated and quantified by a recently developed index (Caldara and Iacoviello, 2016). The results reveal that geopolitical risk triggers a negative effect, mainly on oil returns and volatility, and to a smaller degree on the covariance between the two markets.

*JEL classification:* H56, G1, G15

*Key words:* Geopolitical Risk; Stock and Oil markets; BEKK-GARCH models

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