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Stock Market Contagion and Volatility Spillover: Evidence from an Emerging Market

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A B S T R A C T

Global economic and political shocks significantly affect financial markets in general and emerging financial markets in particular. In this paper, we attempt to identify and analyze the channels of transmission of stock market turbulence and the impact of international contagion on emerging markets. Using daily data from January to December 2016 on FTSE100 index as proxy for the UK market and Nifty50 index as proxy for Indian market, we try to quantify and analyze the price movements and volatility spillover effects between the two markets, around the Brexit period. We divide our study period into two parts : pre- and post-BREXIT referendum – to compare the statistical significance of the transmission shocks and spillover effects between the post and pre crisis period. The results show that there indeed exists short run and long run dynamic and co-integrating relationships between the two markets; the correlation being amplified in the shorter horizon during the BREXIT crisis, both by the uncertainty of the referendum results and information adjustment due to the post-crisis shocks. The quantile regression results also evidently put forth the important global& domestic variables influencing various levels of the post-BREXIT Nifty returns. This evidently indicates that the FTSE 100 index affects the Nifty index and acts as a regulating gauge for the information transmission and its dynamics across the two markets.

KEYWORDS Volatility spillover; Market integration; Contagion; BREXIT; Emerging markets; Financial Crisis

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