Cross-Country
Stock Market Comovement:
A Macro Perspective

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Stock returns comovement

Four year rolling window correlations of weekly returns of MSCI US and MSCI World ex. US
Stock returns comovement

- Correlation of US stock returns with returns of other large stock markets has *doubled* between 1980s and 2010s.

- Some potential factors...
  - General business cycle synchronisation
  - Monetary policy
  - International trade
  - Cross-border equity holdings
  - **Foreign direct investment** (FDI) by multinational firms
Pfizer traded in NYSE for US residents, returns $R^p$

Unilever traded in LSE for European residents, returns $R^U$

Intangible, technology capital
Comovement and FDI

Four year rolling window correlations of weekly returns of MSCI US and MSCI World ex. US

Stock market correlations

FDI/GDP

Four year rolling window correlations of weekly returns of MSCI US and MSCI World ex. US
Empirical results

- Is **FDI** an important driver for country stock return comovement?
  - **Yes**: Doubling country-pair relative FDI positions is associated with an increase of 0.16 in stock market correlations, even after controlling for trade.

- Is **investment in tech capital** by **multinational firms** important for explaining stock market comovement?
  - **Yes**: Such firms have a return correlation with foreign stock markets that is on average 0.11 higher than that of non-multinationals.
Correl($R^p$, $R^u$) higher with:

- more FDI
- more investment in technology capital
Quantitative results

- Calibrate model to **USA** and the **Rest-of-the-World** in early 1990s, and match correlation of returns in data for the same period, at **0.38**

- Experiments: simulate increase in FDI positions as observed in the data, and see what the model predicts for stock returns

- The model explains about **1/3** of increase in stock market comovement: correlation increases from **0.38** to **0.52**
Directions for future research

- What explains the remaining $2/3$ of stock market correlation increases across countries?