

Long-term Global Market Correlations

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Results and Focus

- Convincing evidence on correlations between equity markets over a long period.
- My personal interest: In today's era of globalization, there is a high degree of co-movement between markets, and so diversification depends on an ever-increasing number of emerging markets.
- (But isn't this a finite process?)

Related Results in Mauro-Sussman-Yafeh (QJE 02)

- Present study: Long-run correlations available for core markets.
- MSY: co-movement between emerging markets “then” (1870-WWI) and now (the 1990s). Looking at sovereign bonds.
- MSY find that co-movement between EM bonds is far higher in the 1990s than at any period prior to WW-I.

Why do asset prices of EM's co-move so much today?

- This is the ***BIG QUESTION*** that I think comes out of both the present paper and MSY.
- It is important for the theme of this conference and for the IMF's objectives.
- In the rest of my discussion I would like to consider several possible explanations.
- (Change relative to 19th century unlikely to be due to more K market integration?)

Why -contd.

- Economic Fundamentals of today's EM's are similar (unlike the 19th century). There is some evidence suggesting that (MSY, Toni Estevadeordal).
- But WHY? Kalemli-Ozkan, Sorensen and Yosha (AER) who look at regions (not countries) argue that financial development and risk-sharing opportunities should encourage specialization!
- Intra-industry trade with EM's?

Why do asset prices of EM's co-move so much today? - III.

- Perhaps it is the IMF that induces similar macroeconomic policy around the world?
- Perhaps it has to do with the institutions through which international capital flows are transferred? Could the co-movement be due to the role of major funds today as opposed to individuals “then”?
- Or perhaps it is all an anomaly of the 1990s? (preliminary work by Paolo Mauro).

The Bottom Line

- Goetzmann and his co-authors have a very nice paper, which together with other evidence suggests a high (unprecedented) degree of co-movement today.
- I think this is a very convincing stylized fact and research should now focus on the underlying reasons.