

International Portfolio Rebalancing and Equity Market Spillovers

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Abstract:

Previous studies in the portfolio flow literature provide supportive evidence on the effect of international portfolio rebalancing on returns of both equity and foreign exchange markets. This study investigates whether international portfolio flows can account for the observed co-movement of returns of equity markets across countries. We decompose country's portfolio inflows into regional component and idiosyncratic domestic component and then examine how much of contemporaneous co-movement of equity market returns of two countries can be attributable to the international portfolio flows.

Keywords: Capital Flows; Equity Market Spillovers; Portfolio Investments; Portfolio Rebalancing.

JEL Classification Codes: F32

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