



Received: 18 April 2022
Accepted: 02 October 2022

*Corresponding author: Miklesh Prasad Yadav, Indian Institute of Foreign Trade (IIFT), Kakinada, India
E-mail: miklesh12@gmail.com

Reviewing editor:
David McMillan, University of Stirling,
Stirling, UK

Additional information is available at
the end of the article

FINANCIAL ECONOMICS | RESEARCH ARTICLE

Correlations and volatility spillover from China to Asian and Latin American Countries: Identifying diversification and hedging opportunities

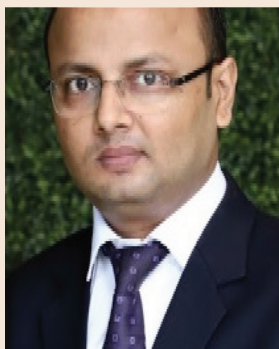
Miklesh Prasad Yadav^{1*}, Sudhi Sharma², Vaibhav Aggarwal³ and Indira Bhardwaj⁴

Abstract: China is considered the largest emerging economy and thus investors perceived as an attractive investment. We examine the spillover effect from Chinese stock exchange to stock exchanges of Asia and Latin America, namely, India, Indonesia, Mexico, and Brazil. For empirical purpose, the study employs VARMA-Multivariate Generalized Autoregressive Conditional Heteroskedasticity (MGARCH) model with BEKK, diagonal, Constant Conditional Correlation (CCC), and finally, Dynamic Conditional Correlation (DCC) specifications. DCC model outperforms among others and identifies two diversification opportunities with Mexican (MEXICAN) and Indian stock market (BSE). Finally, the hedge ratio and portfolio weights have been calculated. The hedge ratios between China and Mexico (SSE/MEX), and China and India (SSE/BSE) were 0.01 and 0.06, respectively. This implies that a \$1 long position in Chinese market (SSE) could be hedged with a 1 cent short position in Mexico (MEXICAN) and a 6 cent short position in the Indian Market (BSE). The findings of this paper provide an insight into investors and policymakers.

Subjects: Environmental Economics; Public Finance; Corporate Finance

Keywords: China; Asia; Latin America; MGARCH; portfolio weight; hedge ratio

JEL Classification: C58; F37; G11; G23



Miklesh Prasad Yadav

ABOUT THE AUTHORS

Miklesh Prasad Yadav is an Assistant Professor at Indian Institute of Foreign Trade, Kakinada, India. He has work experience of 12 years. He has contributed acclaimed publications in ABDC and Scopus indexed Journal.

Sudhi Sharma: She has more than 13 years of experience in teaching Finance and Econometrics. She has done PhD from MLSU, Udaipur, and a Certified Equity Research Analyst. She possesses proficiency in Advance Excel, EVIEWS, SPSS & STATA.

Vaibhav Aggarwal is an Assistant Professor in the Accounting & Finance area at Jindal Global Business School. He has a rich experience of more than 12 years with a blend of both industry and academia. Indira Bhardwaj is an academican with more than 20 years of teaching experience across institutions in India. She has done her FDP from IIM Indore. Her PhD is from AMU in Understanding Corporate Value Using Intellectual Capital Assets.

PUBLIC INTEREST STATEMENT

Investors want to mitigate the risk by identifying the suitable diversification opportunities. One of the ways is to check the spillover effect and find either diversification is feasible or not. In this context, this paper examines the spillover effect from Chinese stock exchange to Asian and Latin American stock exchanges. We employ VARMA-Multivariate Generalized Autoregressive Conditional Heteroskedasticity (MGARCH) model with BEKK, diagonal, Constant Conditional Correlation (CCC) and finally, Dynamic Conditional Correlation (DCC) specifications. It is found that DCC model outperforms among others and identifies two diversification opportunities with Mexican (MEXICAN) and Indian stock market (BSE).