

Abstract (summary):

This study discusses the spread of the recent financial crisis from the United States to the Asian economies. While traditional analysis suggests that international financial markets are getting more integrated, some argue that Asia has been decoupling from economic and financial developments in the US. These conflicting views are investigated with respect to the behavior of equity markets. We investigate the comovements of equity returns between the Asian economies and the US with correlation analyses including simple correlations, HP filter detrended correlations, and dynamic correlations (DCC-GARCH), and examine the magnitudes of impacts of different factors on Asian equity markets with multi-factor analyses including panel least squares fixed effect estimations and the dynamic method of VAR analyses.

The major findings of this study are that the comovements of equity returns of Asian economies and the US increased substantially in the recent financial crisis, and global factors, especially the US equity market, played significant roles in the transmission and impacted Asian equity markets with larger magnitudes than in previous periods. The results of this study suggest that it is too soon to conclude that the Asian economies have decoupled from the US.