

# THE US AND THE ASEAN-5 STOCK EXCHANGES LINKAGES IN THE PERIODS OF STOCK MARKET TURMOIL

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*This study attempts to answer how the U.S and the ASEAN-5 stock markets' indices would interrelate during the periods of stock market turmoil. The multivariate time series analyses conducted on the series reveal that there are cointegrating relationships on the series of the two sub-sample periods of the 1997 and the 2002 crisis. However, the study fails to detect any cointegrating vector on the series during the 2007 crisis. The granger causality tests applied to the series reveal that the number of significant causal linkages between two variables on the series rocketed during the 2007 crisis. In addition, the accounting innovation analysis shows an increase in the explanatory power of an endogenous variable to another in the system during the latest crisis, indicating that the contagious effect of the latest crisis had dramatically changed the pattern of the short run dynamic interaction of the six capital markets.*

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*Keywords: Stock Market Linkages, Stock Market Crisis, Cointegration.*

## INTRODUCTION

A number of studies have been conducted on stock market interdependence around the period of financial or stock market crises in Asia-Pacific region. The general consensus is that the degree of integration among countries tends to change with a stronger integration during crisis periods than that before and after the periods (Sheng and Tu, 2000, and Yang, Kolari, and Min, 2003). It is also interesting to note that U.S stock market has played an important role in most national and regional stock markets, including some Asian's stock markets during the 1997 crisis (Sheng et al, 2000).

This study attempts to extend the analysis and examination presented in the previous papers on the stock market interrelation during crisis periods by including the (2007) recent financial crisis. This study emphasises on whether there is a significant difference in the stock market indices interrelation during the (1997) Asian financial crisis, the 2002 stock market downturn, as well as the 2007 crisis. This is an interesting issue because those crises are quite different in terms of the phenomena and factors causing them. The Asian financial crisis is an indication of a mixture of both economic crisis and panic as a result of the weak and collapse of Asia's financial systems (Sheng et al, 2000). Triggered by the sharp depreciation in the Thai baht in the midst of 1997, the disastrous effects of the 1997 financial crisis broadly spread out to the South East Asia (ASEAN) financial markets which were dominated by bank loan