

Tail risk spillover in Asia Pacific stock market

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Summary

This paper examines financial linkages among Asia-Pacific stock markets and those between these markets and other global markets. By studying the mean and tail dependences of the 37 stock market indices, we find that while Asia-Pacific stock markets is mainly driven by shocks within the Asia-Pacific region under mean dependence, shocks from regional and non-regional markets are equally considerable to Asia Pacific in the tail. In particular, shocks from Latin America and EMEA have increased notably after the taper tantrum. Moreover, we find that price-earnings ratios can explain the sensitivity of individual Asia-Pacific economy to shocks under the tail dependence, but does not seem to offer any explanatory power under mean dependence.