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Abstract

In the wake of the recent financial crisis, a growing literature measures, and analyses the impact of uncertainty on international financial markets. These studies are primarily based on conditional mean-based models. Quantile models can be employed to capture the heavy-tails of stock returns, however, they are limited to causal relationships, and hence are silent about the sign and persistence of any uncertainty shocks – both of which are important information for investors. Our paper is the first to employ quantile impulse-response functions obtained from multivariate quantile models to analyze the impact of US policy and US equity market uncertainties on not only domestic stock returns, but also stock returns of mature and emerging markets. Using daily data over the period January 1998 to March 2016, we find that during episodes of financial distress, an uncertainty shock reduces stock market returns; both in mature and emerging markets, but in higher magnitudes for the latter, while it increases the highest quantiles of returns, only for the mature markets. Policy uncertainty is a less relevant factor, but it still impacts negatively the stock market dynamics during episodes of financial distress, especially for the emerging markets. These results contrast with the market reactions to uncertainty in the median scenarios, which tend to be insignificant in all the cases.

JEL Codes: C32; G10.
Keywords: Economic Policy and Equity Market Uncertainties; Emerging and Mature Stock Markets; Quantile Vector Autoregressive Model.

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