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Global portfolio investment network and stock market comovement

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Abstract

This paper examines the impact of financial connectedness of countries on international stock market comovement. In recent decades, cross-border capital flows have increased dramatically, and I use bilateral cross-border portfolio holdings to create a global portfolio investment network. Using network analysis, I examine the effect of a country’s centrality within this network on stock market comovement while also controlling for the country’s trade connectedness. The results show that stock markets of countries that occupy highly central positions within the global portfolio investment network exhibit higher comovement after I control for the level of trade connectedness. Countries that simultaneously occupy highly central positions in both financial and trade networks display even higher levels of stock market comovement. Moreover, linkages derived from total portfolio holdings matter just as much as or more than those derived only from equity linkages.

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