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Abstract

This paper examines whether African equity markets decoupled or recoupled from the 2008-2009 Global Financial Crisis (GFC) and analyzes the implications of that for shocks spillover. We use an asset pricing model that allows for volatility spillovers pre-, during-, and post- the GFC and model recoupling (decoupling) as the propagation (no propagation) of shocks. Our results indicate increased correlation between African stock markets on one hand and the regional and global markets on the other hand during the crisis, with the correlation more regionally driven than globally. Spillover of shocks around 2008-2009 occurred mainly from North Africa, Southern Africa, West Africa, and other emerging markets. The Southern African regional market was the most influential in propagating shocks to other African markets. The South Africa and Nigeria markets are identified as the most responsive to regional shocks contagion during the crisis. We further report that regional markets do not only propagate their own shocks but also shocks intercepted from global markets. The results suggest African equity markets potential decoupling from global shocks than regional shocks during the crisis. We cautiously infer that the evidence of higher regional than global spillover effects may reflect the degree of regional integration, real sector linkages, as well as levels of openness among countries.

Keywords: Recoupling/decoupling; shocks spillover; African stocks; CAPM; regional integration.
JEL: A1,G10, E

1. Introduction

Financial markets are becoming highly integrated through the globalization process, however, in emerging markets (particularly Africa) evidence abounds on the partial segmentation of equity markets globally and regionally (see Alagidede, 2010; Kodongo and Kalu, 2011; Ntim, 2012; Chinzara and Kambadza, 2014, Oloko, 2017) and low liquidity levels of financial systems (example, Hearn and Piesse, 2013, Hearn, 2014a, b; Ntim, 2012). Among the many studies examining integration of African equity markets, Daryl and Biekpe (2003) and Wang et al., (2003) focused on the integration of African stock markets during and after the Asian crisis of 1997. Alagidede (2010), Agyei-Ampomah (2011) studied the link between African stock exchanges. Mensah and Alagidede (2017) and Boako and Alagidede (2017) applied various copula specifications to examine the integration and shocks spillovers of African stock markets and their