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Modelling the interactions across international stock, bond and foreign exchange markets

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The benefits of investing internationally depend on three conditions, namely, cross-country correlations, market volatilities and future changes in currency risks (Odier and Solnik, 1993). This article investigates these conditions for several countries. Many papers have modelled both domestic interactions across asset markets and international interactions in individual asset markets in isolation, but rarely have they examined international interactions across asset markets. The article fills this gap by modelling the international interactions across stock, bond and foreign exchange markets. Two models that meet these purposes are the VARMA-AGARCH model of Hoti et al. (2002) and the VARMA-GARCH model of Ling and McAleer (2003). The countries that will be modelled in this article are Australia, Japan, Singapore, New Zealand and USA.