Volatility Spillovers from US to SA Markets

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Abstract

I investigate the relationship between the voaltilities of S\&P 500 and the JSE Top 40. The purpose of this study is to investigate if this relationship changes in any significant way during the two biggest crisis periods in the last two decades, namely the Global Financial Crisis and Covid-19. I first do a stratification analysis which reveals significant evidence of these two indices sharing periods of high volatility. I then fit multiple multivariate GARCH models to further investigate the volatility relationship and find...

Keywords: Multivariate GARCH, Spillovers

1. Introduction

References are to be made as follows: Fama & French (1997: 33) and Grinold & Kahn (2000) Such authors could also be referenced in brackets (Grinold & Kahn, 2000) and together Grinold & Kahn (2000). Source the reference code from scholar.google.com by clicking on "cite'' below article name. Then select BibTeX at the bottom of the Cite window, and proceed to copy and paste this code into your ref.bib file, located in the directory's Tex folder. Open this file in Rstudio for ease of management, else open it in your preferred Tex environment. Add and manage your article details here for simplicity - once saved, it will self-adjust in your paper.

> I suggest renaming the top line after @article, as done in the template ref.bib file, to something more intuitive for you to remember. Do not change the rest of the code. Also, be mindful of the fact that bib references from google scholar may at times be incorrect. Reference Latex forums for correct bibtex notation.

To reference a section, you have to set a label using "\label'' in R, and then reference it in-text as e.g. referencing a later section, Section 4.

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Writing in Rmarkdown is surprizingly easy - see this website cheatsheet for a summary on writing Rmd writing tips.

2. Data and Methodology

2.1. Data

Three return series are used in the analysis that follows. These are the monthly returns for the S\&P 500 and the JSE Top 40, as well as thhe ZAR/USD exchange rate. The exchange rate is represented as the amount of Rands required to buy one US Dollar. Since the series is represented as a growth rate, a postive growth rate represents a depreciation of the Rand, and conversely, an appreciation of the Dollar. The returns for these 3 series' are visualised below in Figures 2.1 to 2.3.

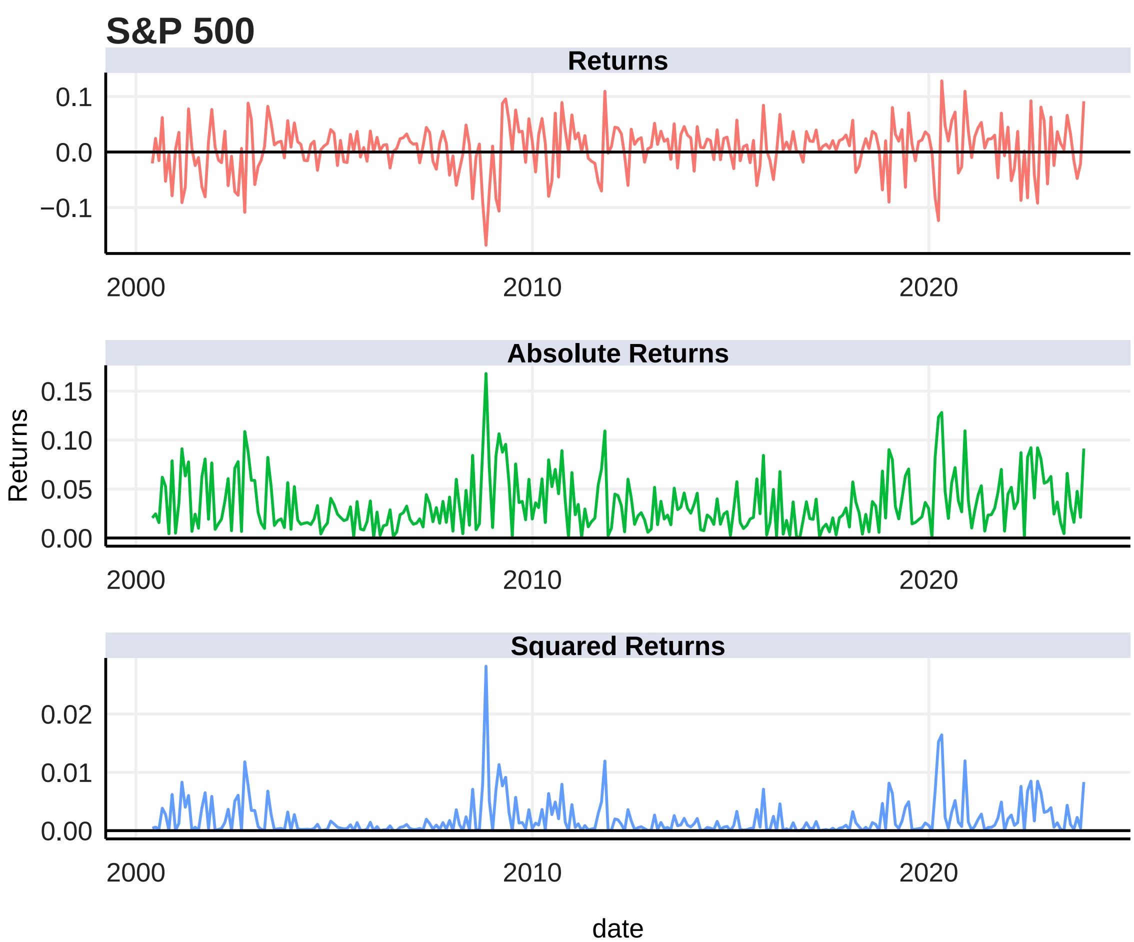

Figure 2.1: S&P 500 Returns

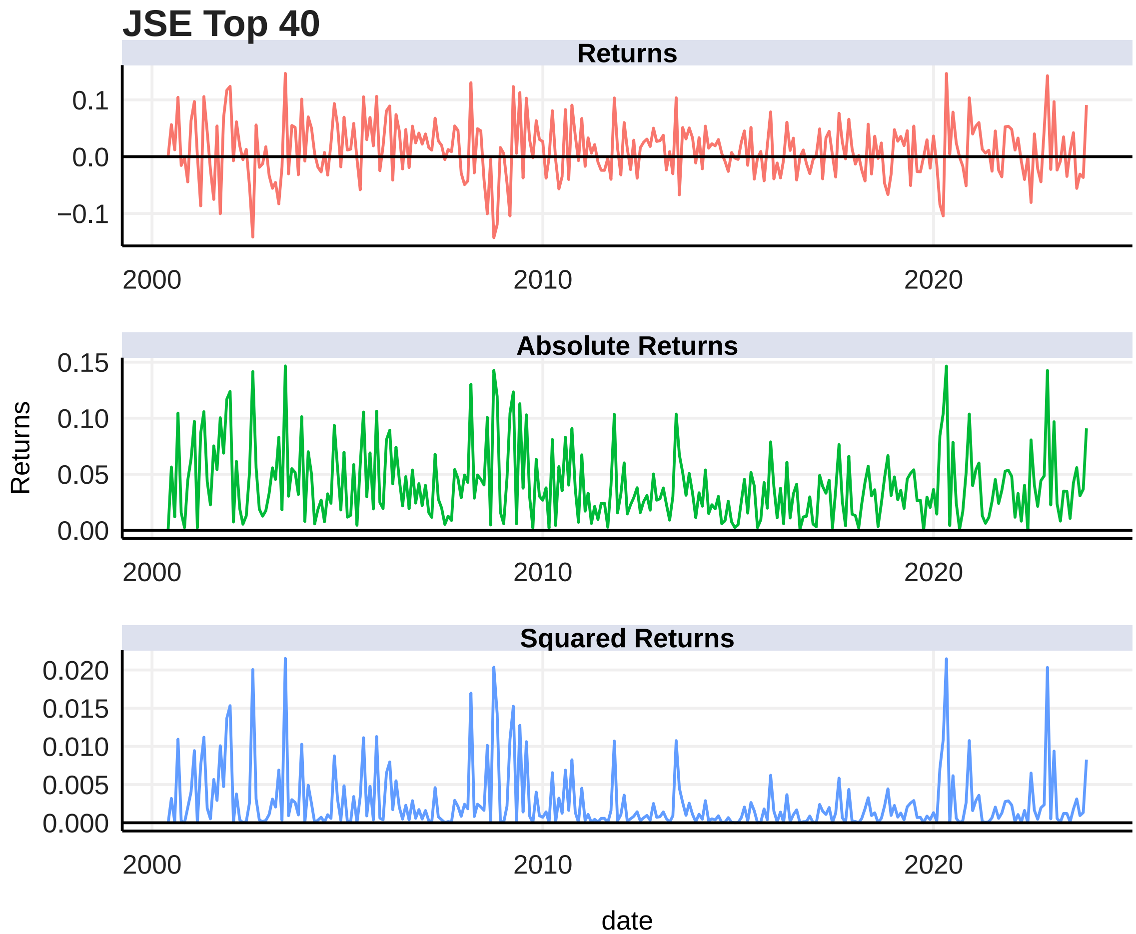

Figure 2.2: JSE Top 40 Returns

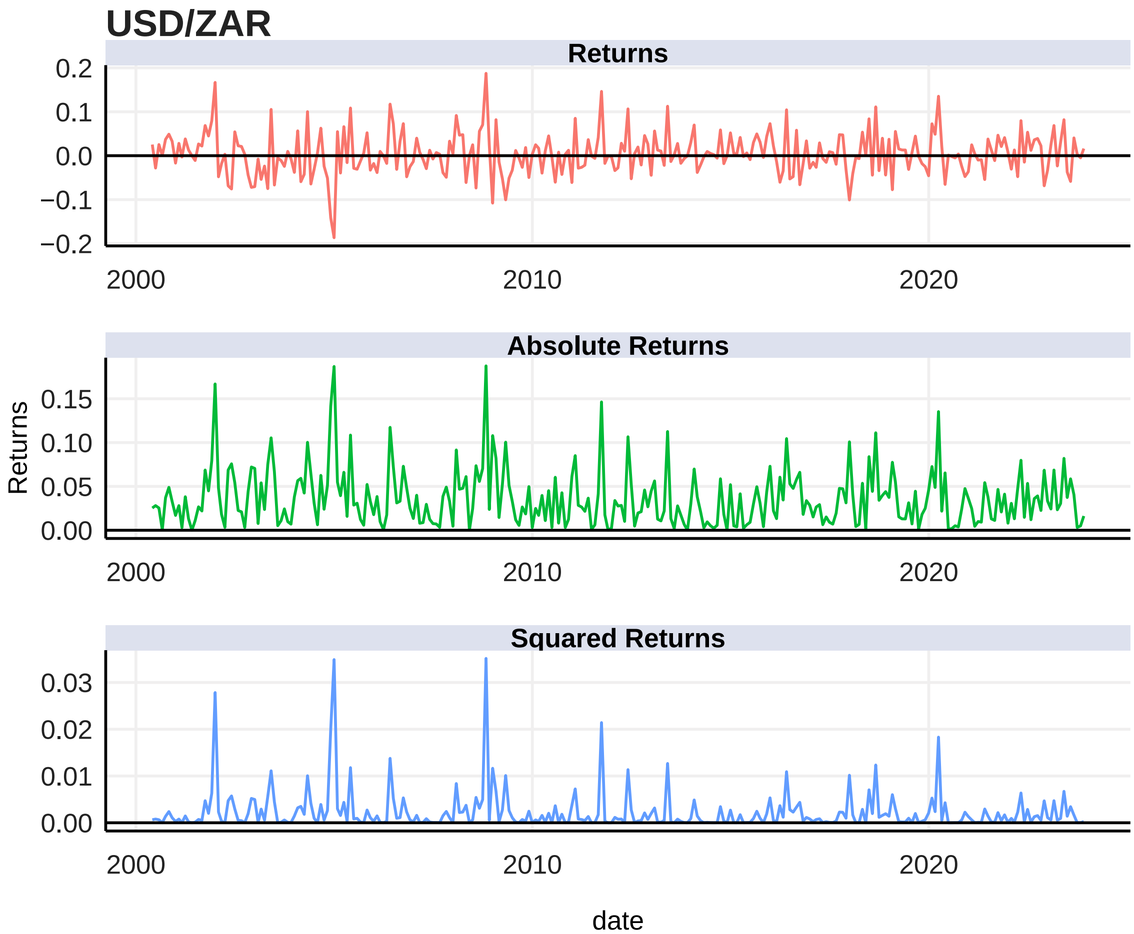

Figure 2.3: ZAR/USD Returns

To reference the plot above, add a "\label'' after the caption in the chunk heading, as done above. Then reference the plot as such: As can be seen, Figures 2.1 and 2.2 are excellent, with Figure 2.2 being particularly aesthetically pleasing due to its device setting of Tikz. The nice thing now is that it correctly numbers all your figures (and sections or tables) and will update if it moves. The links are also dynamic.

I very strongly suggest using ggplot2 (ideally in combination with dplyr) using the ggtheme package to change the themes of your figures.

Also note the information that I have placed above the chunks in the code chunks for the figures. You can edit any of these easily - visit the Rmarkdown webpage for more information.

3. Splitting a page

You can also very easily split a page using built-in Pandoc formatting. I comment this out in the code (as this has caused issues building the pdf for some users - which I presume to be a Pandoc issue), but you are welcome to try it out yourself by commenting out the following section in your Rmd file.

4. Methodology

4.1. Subsection

Ideally do not overuse subsections. It equates to bad writing.[1]

4.2. Math section

Equations should be written as such:

$$\beta = \sum_{i=1}^{\infty} \frac{\alpha^2}{\sigma_{t-1}^2} \tag{4.1}$$
$$\int_{x=1}^{\infty} x_i = 1$$

If you would like to see the equations as you type in Rmarkdown, use $ symbols instead (see this for yourself by adjusted the equation):

$$\beta = \sum_{i=1}^{\infty} \frac{\alpha^2}{\sigma_{t-1}^2} \int_{x=1}^{\infty} x_i = 1$$

Note the equation above - this should appear in math in Rstudio. Writing nice math requires practice. Note I used a forward slashes to make a space in the equations. I can also align equations using **&**, and set to numbering only the first line. Now I will have to type "begin equation'' which is a native LaTeXcommand. Here follows a more complicated equation that you want aligned (using & sign) and numbered:

[1] This is an example of a footnote by the way. Something that should also not be overused.

$$
\begin{aligned}
y_t &= c + B(L)y_{t-1} + e_t \\
e_t &= H_t^{1/2} z_t; \quad z_t \sim N(0, I_N) \quad \& \quad H_t = D_t R_t D_t \\
D_t^2 &= \sigma_{1,t}, \ldots, \sigma_{N,t} \\
\sigma_{i,t}^2 &= \gamma_i + \kappa_{i,t} v_{i,t-1}^2 + \eta_i \sigma_{i,t-1}^2, \quad \forall i \\
R_{t,i,j} &= diag(Q_{t,i,j}{}^{-1}).Q_{t,i,j}.diag(Q_{t,i,j}^{-1}) \\
Q_{t,i,j} &= (1 - \alpha - \beta)\bar{Q} + \alpha z_t z_t' + \beta Q_{t,i,j}
\end{aligned}
\tag{4.2}
$$

Note that in 4.2 I have aligned the equations by the equal signs. I also want only one tag, and I create spaces using "quads".

See if you can figure out how to do complex math using the two examples provided in 4.1 and 4.2.

5. Results

Tables can be included as follows. Use the *xtable* (or kable) package for tables. Table placement = H implies Latex tries to place the table Here, and not on a new page (there are, however, very many ways to skin this cat. Luckily there are many forums online!).

	mpg	cyl	disp	hp	drat	wt	qsec	vs	am	gear	carb
1	21.00	6.00	160.00	110.00	3.90	2.62	16.46	0.00	1.00	4.00	4.00
2	21.00	6.00	160.00	110.00	3.90	2.88	17.02	0.00	1.00	4.00	4.00
3	22.80	4.00	108.00	93.00	3.85	2.32	18.61	1.00	1.00	4.00	1.00
4	21.40	6.00	258.00	110.00	3.08	3.21	19.44	1.00	0.00	3.00	1.00
5	18.70	8.00	360.00	175.00	3.15	3.44	17.02	0.00	0.00	3.00	2.00

Table 5.1: Short Table Example

To reference calculations **in text**, *do this:* From table 5.1 we see the average value of mpg is 20.98.

Including tables that span across pages, use the following (note that I add below the table: "continue on the next page"). This is a neat way of splitting your table across a page.

Use the following default settings to build your own possibly long tables. Note that the following will fit on one page if it can, but cleanly spreads over multiple pages:

Table 5.2: Long Table Example

mpg	cyl	disp	hp	drat	wt	qsec	vs	am	gear	carb
21.00	6.00	160.00	110.00	3.90	2.62	16.46	0.00	1.00	4.00	4.00
21.00	6.00	160.00	110.00	3.90	2.88	17.02	0.00	1.00	4.00	4.00
22.80	4.00	108.00	93.00	3.85	2.32	18.61	1.00	1.00	4.00	1.00
21.40	6.00	258.00	110.00	3.08	3.21	19.44	1.00	0.00	3.00	1.00
18.70	8.00	360.00	175.00	3.15	3.44	17.02	0.00	0.00	3.00	2.00
18.10	6.00	225.00	105.00	2.76	3.46	20.22	1.00	0.00	3.00	1.00
14.30	8.00	360.00	245.00	3.21	3.57	15.84	0.00	0.00	3.00	4.00
24.40	4.00	146.70	62.00	3.69	3.19	20.00	1.00	0.00	4.00	2.00
22.80	4.00	140.80	95.00	3.92	3.15	22.90	1.00	0.00	4.00	2.00
19.20	6.00	167.60	123.00	3.92	3.44	18.30	1.00	0.00	4.00	4.00
17.80	6.00	167.60	123.00	3.92	3.44	18.90	1.00	0.00	4.00	4.00
16.40	8.00	275.80	180.00	3.07	4.07	17.40	0.00	0.00	3.00	3.00
17.30	8.00	275.80	180.00	3.07	3.73	17.60	0.00	0.00	3.00	3.00
15.20	8.00	275.80	180.00	3.07	3.78	18.00	0.00	0.00	3.00	3.00
10.40	8.00	472.00	205.00	2.93	5.25	17.98	0.00	0.00	3.00	4.00
10.40	8.00	460.00	215.00	3.00	5.42	17.82	0.00	0.00	3.00	4.00
14.70	8.00	440.00	230.00	3.23	5.34	17.42	0.00	0.00	3.00	4.00
32.40	4.00	78.70	66.00	4.08	2.20	19.47	1.00	1.00	4.00	1.00
30.40	4.00	75.70	52.00	4.93	1.61	18.52	1.00	1.00	4.00	2.00
33.90	4.00	71.10	65.00	4.22	1.83	19.90	1.00	1.00	4.00	1.00
21.50	4.00	120.10	97.00	3.70	2.46	20.01	1.00	0.00	3.00	1.00
15.50	8.00	318.00	150.00	2.76	3.52	16.87	0.00	0.00	3.00	2.00
15.20	8.00	304.00	150.00	3.15	3.44	17.30	0.00	0.00	3.00	2.00
13.30	8.00	350.00	245.00	3.73	3.84	15.41	0.00	0.00	3.00	4.00
19.20	8.00	400.00	175.00	3.08	3.85	17.05	0.00	0.00	3.00	2.00
27.30	4.00	79.00	66.00	4.08	1.94	18.90	1.00	1.00	4.00	1.00
26.00	4.00	120.30	91.00	4.43	2.14	16.70	0.00	1.00	5.00	2.00
30.40	4.00	95.10	113.00	3.77	1.51	16.90	1.00	1.00	5.00	2.00
15.80	8.00	351.00	264.00	4.22	3.17	14.50	0.00	1.00	5.00	4.00
19.70	6.00	145.00	175.00	3.62	2.77	15.50	0.00	1.00	5.00	6.00
15.00	8.00	301.00	335.00	3.54	3.57	14.60	0.00	1.00	5.00	8.00
21.40	4.00	121.00	109.00	4.11	2.78	18.60	1.00	1.00	4.00	2.00

5.1. Huxtable

Huxtable is a very nice package for making working with tables between Rmarkdown and Tex easier.

This cost some adjustment to the Tex templates to make it work, but it now works nicely.

See documentation for this package here. A particularly nice addition of this package is for making the printing of regression results a joy (see here). Here follows an example:

If you are eager to use huxtable, comment out the Huxtable table in the Rmd template, and uncomment the colortbl package in your Rmd's root.

Note that I do not include this in the ordinary template, as some latex users have complained it breaks when they build their Rmds (especially those using tidytex - I don't have this problem as I have the full Miktex installed on mine). Up to you, but I strongly recommend installing the package manually and using huxtable. To make this work, uncomment the *Adding additional latex packages* part in yaml at the top of the Rmd file. Then comment out the huxtable example in the template below this line. Reknit, and enjoy.

Table 5.3: Regression Output

	Reg1	Reg2	Reg3
(Intercept)	-2256.361 ***	5763.668 ***	4045.333 ***
	(13.055)	(740.556)	(286.205)
carat	7756.426 ***		7765.141 ***
	(14.067)		(14.009)
depth		-29.650 *	-102.165 ***
		(11.990)	(4.635)
N	53940	53940	53940
R2	0.849	0.000	0.851

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$.

FYI - R also recently introduced the gt package, which is worthwhile exploring too.

6. Lists

To add lists, simply using the following notation

- This is really simple
    - Just note the spaces here - writing in R you have to sometimes be pedantic about spaces…
- Note that Rmarkdown notation removes the pain of defining LaTeXenvironments!

7. Conclusion

I hope you find this template useful. Remember, stackoverflow is your friend - use it to find answers to questions. Feel free to write me a mail if you have any questions regarding the use of this package. To cite this package, simply type citation("Texevier") in Rstudio to get the citation for Katzke (2017) (Note that uncited references in your bibtex file will not be included in References).

References

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Grinold, R.C. & Kahn, R.N. 2000. Active portfolio management.

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Appendix

Appendix A

Some appendix information here

Appendix B