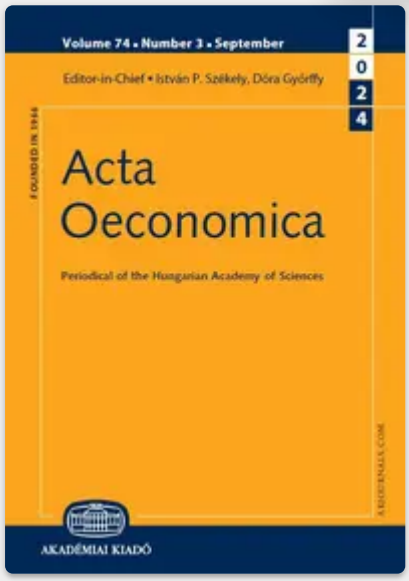
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Bear market periods during the 2007–2009 financial crisis: Direct evidence from the Visegrad countries

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The main goal of this paper is a quantitative identification of bear market periods during the 2007–2009 global financial crisis in the case of the Visegrad Group stock markets. We analyse four

countries, namely Poland, the Czech Republic, Hungary, and Slovakia and, for comparison, the US stock market. The sample period begins on May1, 2004, and ends on April 30, 2013, i.e. it includes the 2007 US subprime crisis. We use the statistical method of dividing market states into bullish and bearish markets. Our results reveal October 2007–February 2009 as the common downmarket period of the recent global financial crisis, except for Slovakia. It is instructive to formally identify crises, as it enables sensitivity analyses of various relationships and linkages among international stock markets using econometric and statistical tools, with respect to the pre-, post- and crisis periods. Moreover, we investigate the effect of increasing cross-market correlations in the crisis compared to the pre-crisis period, applying both standard contemporaneous correlations and volatility-adjusted correlation coefficients. The results confirm that accommodating heteroskedasticity is critical for detecting contagion across economies. A number of studies document that crossmarket correlations vary over time, thereby making the benefits of international portfolio choice and diversification questionable.

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