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ARTICLE

STOCK-BOND CO-MOVEMENTS AND FLIGHT-TO-QUALITY IN G7 COUNTRIES: A TIME-FREQUENCY ANALYSIS

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ABSTRACT

This paper examines co-movement between stock returns and changes in 10-year government bond yields as well as flight-to-quality behaviour in G7 countries. We conduct the wavelet squared coherence analysis to explore the dynamics in both time and frequency domain. Our results provide evidence of positive co-movements, which vary over time and across investment horizon. The higher co-movement is found to be more concentrated in the lower frequency bands. We further analyse the dynamic nature of the scale-dependent wavelet correlations and find that the correlations are highly volatile and significantly increase across different time scales during the episodes of equity market turbulence. The increase in correlations reflects flights from stocks to safer bond investments as a result of dramatic changes in investor sentiment and risk aversion at times of market stress.

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