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Chapter 3 Dynamic Linkages between Global Macro Hedge Funds and Traditional Financial Assets

[Wafa Kammoun Masmoudi](#)

[Nonlinear Modeling of Economic and Financial Time-Series](#)

ISBN: 978-0-85724-489-5, eISBN: 978-0-85724-490-1

(International Standard Book Number.) (International Standard Book Number.)

Publication date: 31 December 2010

Book (Electronic version of

Book) of Book)

Purpose - The purpose of this chapter is to present an investigation on the dynamic linkages between global macro hedge funds and traditional financial assets of developed and emerging markets.

Methodology/approach - To explore relationships among these price indices, we analyse Granger causality and vector autoregression (VAR) dynamics through impulse response functions. Besides, multivariate cointegration is used to know long-term relationships between assets and allows risk-averse investors to reduce uncertainty. Finally, a vector error correction model (VECM) provides active asset managers the opportunity to anticipate short-term price movements.

Findings - Our results show that in a Granger causality sense, we observe long- and short-term relationships between global macro hedge funds and traditional financial assets for Canada, France and Germany. This implies that opportunities for international portfolio diversification are significantly lower for countries having relationships between assets. For Canada, France and Germany, the risk-averse investors can reduce their long-term volatility by investing according to the cointegrating vector, whereas active managers can benefit from the knowledge of short-

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Originality/value of paper – These results are original because they help the investor to understand the dynamics of the relationship between global macro hedge funds and traditional financial assets.

Keywords

Global macro hedge funds

Citation

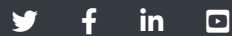
Kammoun Masmoudi, W. (2010), "Chapter 3 Dynamic Linkages between Global Macro Hedge Funds and Traditional Financial Assets", Jawadi, F. and Barnett, W.A. (Ed.) *Nonlinear Modeling of Economic and Financial Time-Series (International Symposia in Economic Theory and Econometrics, Vol. 20)*, Emerald Group Publishing Limited, Leeds, pp. 41-81. [https://doi.org/10.1108/S1571-0386\(2010\)0000020008](https://doi.org/10.1108/S1571-0386(2010)0000020008)

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