

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

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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-term asset price movements. The VEC Pairwise Granger causality in the short term confirms our analysis of causality according to VAR models.

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.

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