



Global economic activity as an explicator of emerging market equity returns ☆

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Abstract

This paper evaluates whether global economic activity, measured by the maritime index and commodity index, is a distinct common factor in explaining equity returns in emerging markets. We document two important features of global equity markets that show that emerging market equities are a segregated part of the global stock market. First, our results show that increases in global economic activity are associated with higher emerging market equity returns. Second, companies in developed markets that have a significant exposure in emerging markets have incremental exposure to commodity returns. By allocating more capital to emerging market equities, an investor increases portfolio exposure to changes in global economic activity.



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JEL classification

F30; F44; G15

Keywords

Baltic Dry Index; Commodity factors; Emerging stock markets

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