# RETURN AND VOLATILITY SPILLOVER ACROSS STOCK MARKETS OF THE US AND ITS MAJOR TRADING PARTNERS

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**ABSTRACT:**

*This Study Applies The Diebold And Yilmaz (2012) Spillover Index Methodology To Analyze The Effects Of Return And Volatility Spillovers Between The Us Market And Its Major Trading Partners Using Weekly Stock Market Returns From January 2011 To December 2019. The Findings Provide Credence To The Hypothesis That The Us Market Has Been The Most Influential In Terms Of Return Spillover (259.5) To Other Stock Indexes, With The Biggest Return Spillovers Occurring In The Canadian Market (58.4) And The German Market (57.0). In A Similar Manner, The Us Market Has Been The Biggest Transmitter Of Volatility Spillover (202.3) To Other Stock Indexes, With The Highest Volatility Spillovers Occurring In The Canadian Market (51.8) And The German Market (45.8). The Us Market Has Been The Most Influential Based On Return And Volatility Spillovers. This Finding Also Suggests That The Us And Chinese Markets Are The Least Vulnerable To Foreign Shocks. In Contrast, The Canadian Market Is The Most Vulnerable To External In Terms Of Return Spillover And Volatility Spillover. As A Consequence, Chinese Stock Market Participants Can Still Reap The Rewards Of Diversity. During The Sample Period, However, Integration Across Developed Stock Markets Has Increased, Reducing The Benefits Of Diversity*.

***Keywords***: Return and Volatility Spillovers, Diebold and Yilmaz (2012) Spillover Index, Rolling Window Analysis

## 1. INTRODUCTION

Cross-market connectivity has emerged as an important focus area in international finance during the past two decades. Because of the interconnected nature of global markets, a shock in one stock market can have a spillover impact on the return and volatility of another stock market. The majority of the study on spillover effects focuses on global equities markets (Fujiwara and Takahashi 2012, Hwang 2012, Samarakoon 2011).

For policymakers and market participants in highly linked economies, gaining an understanding of how shocks are propagated across international markets has been a crucial challenge. Shocks from the United States affected nearly all of the world's economy during the 2008-2009 financial crisis, albeit to varying degrees. This was a reflection of both the magnitude of the initial shock and the effectiveness of the power transmission mechanism, which consisted primarily of trade and financial links. One of the primary elements that has led to stock market integration across global countries is international trade (Baur 2010, Chamber and Gibson 2008). Global stock market correlations grew as a result of greater international commerce, according to research by Paramati, Roca, and Gupta (2016). There is little question that the United States plays a pivotal role in international commerce, and its market has long held a position of leadership among financial markets throughout the world.

The purpose of this study is to conduct an empirical investigation on the nature of stock market integration among the key trade partners of the United States. This study looks specifically at the return and volatility spillover from the US market to the stock markets of the key trade nations across the world. This analysis covers the time period beginning in January 2011 and ending in December 2019, utilizing weekly data and the spillover index technique developed by Diebold and Yilmaz (2012).