

International Stock Markets Linkages and Spillovers:

Evidence from Latin America and Europe

Abstract

This study examines the response of equity markets in Brazil, Chile and Mexico to stock prices in the US, Spain and four major European countries during three sub-periods: 1988 to 1994, 1995 to 1998, and 1999 to 2008. The analysis employs VAR models. Our results vary depending on the openness of the country in terms of international trade, and uncover two important findings. First, we find that there is an increasing impact of Spain on the Latin American equity markets. The increasing linkages between Spain and these three countries (such as more trade and foreign direct investment), in particular in the case of Brazil, may explain why they are affected by Spain and not by other European markets. Second, the effects of European markets are not homogeneous across Latin American markets or through time. These results are particularly important for investors and policy makers, especially in those Latin American markets with increasingly stronger ties to some European markets.