The Impact of Global Uncertainty, Equity and Commodity Shocks on GCC Stock Markets: Evidence from Quantile Regression Analysis

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Abstract

We adopt a quantile regression model to assess the impact of U.S. policy and equity market uncertainty as well as oil and gold shocks on GCC stock markets. Our analysis is motivated by the fact that the GCC region has been one of the fastest growing regions over the past decade but remains heavily relying on oil revenues. On one hand, it goes without saying that commodities, and particularly oil have long shaped the region. It is also widely recognized that emerging markets in general, and GCC investors in particular have a cultural preference for gold that results in a higher exposure to the yellow metal. On the other hand, commodity shocks are in general proven to be associated with policy and equity market uncertainty. In this study, we use two news-based economic uncertainty proxies, namely the U.S. Economic Policy Uncertainty (EPU) index and the Equity Market-related Economic Uncertainty (EMEU) to empirically examine the impact of global uncertainty and commodity shocks on GCC stock markets over the period from May 31, 2005 to March 24, 2015. We adopt a quantile regression model to examine the impacts of the conditionning variables at specific quantiles of the returns' distributions and to capture the asymmetric response of GCC stock markets to global uncertainty and commodity price changes. While, a classical OLS regression model focuses on the mean of the dependent variable's distribution, conditional on the realizations of the independent variables, quantile regressions provide a more complete picture of the conditional relation at all parts of the dependent variable's distribution. This study is of particular interest to international investors and portfolio managers who should be cautious about the response of GCC stock markets to both commodity price shocks and global uncertainty. This research is also particularly useful to policymakers to help them discern the extent to which reliance on oil revenues which induces more economic volatility is susceptible to affect stock markets and the need for policies that would spur further economic diversification.

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