Larger and increasing financial comovement vs unclear behavior of real comovement

Average Correlations between US and G-7 countries/Emerging Markets, 5-year window

US and G-7

US and Emerging Markets
More pronounced increase of cross-border financial activity than that of international trade

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/1 Average Trade = Exports + Imports.
/2 (Total Foreign Assets + Total Foreign Liabilities)/GDP.

Sources: Brian Doyle and Jon Faust, Federal Reserve Bulletin 2002.
The Conference

- **On Financial vs. Real Comovement:**
  - Although small, there exists a link between financial and real comovement... What explains the rest?

- **On Understanding Financial Linkages:**
  - Regional financial centers and push & pull factors play an important role for high frequency equity flows.

- **On Structural Factors Underlying Real and Financial Comovement:**
  - Long-run changes such as trade integration, industrial composition and closer policy coordination promote real integration.

- **Brooks and Del Negro**
- **Chinn and Forbes**
- **Goetzmann, Li and Rouwenhorst**
- **Kaminsky and Reinhart**
- **Griffin, Stulz and Nardari**
- **Edison and Warnock**
- **Imbs**
- **Kose, Otrok and Whiteman**
- **Karolyi**
- **Li, Morck, Yang, Yeung**
Why the recent link between financial and real?

Theory is ambiguous

Research presented suggests that there exists a significant link between financial and real comovements.

Nonetheless we should expect to see episodes of “Global Shocks” where this link is stronger.

Recent comovement:
A Bubble, Temporary?

“Real” foundations?
(Productivity gains)
... But what are the sources of global shocks?

- Role of financial centers
- Trade integration that explain bilateral asset price movements
- Oil prices
- Coordinated policies across countries
- Global factors influencing performance of domestic capital markets

Why do crises spread?