

Modelling return and volatility in emerging stock markets: A Markov switching approach

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This paper studies stock market time-varying performance in a Markov environment between four emerging Balkan stock markets, namely, Turkey, Romania Croatia and Bulgaria, and two developed markets, the U.S. and Greece. We employ: a) an exogenous Markov regime-switching methodology where the time variation of returns is modeled to capture short-term dynamics; b) a Markov switching vector autoregression methodology to model jumps in volatility regimes. Our findings provide evidence on time-varying return dependence and volatility regime linkages between Balkan and developed stock markets.

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