

Essays on International Finance:
Stock Market Wealth Creation, Sovereign CDS Spreads, and Currency Comovement

Ernest S. Jang

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Directed by Dr. Cheol S. Eun

Culture and Wealth Creation:
Evidence from World Stock Markets

Using the wealth creation measure developed by Bessembinder (2018), we estimate stock market wealth creation around the world and show the importance of national culture in explaining wealth creation. The 88 stock markets in our sample create \$76.6 trillion net wealth from 1973 to 2019, with the U.S. contributing the most (52.5%). Among industries, finance creates the most wealth (17.6%). We find that countries with individualistic, less masculine, and less uncertainty avoidant cultures have comparative advantages in stock market wealth creation. We also show that culture influences wealth creation through multiple channels, such as innovation, governance, information, education, and sustainability.

The Federal Funds Rate Shocks and Sovereign CDS spread

This paper analyzes the impact of the Federal funds rate surprises on the sovereign CDS spreads of 83 countries by using 138 FOMC announcements from 2002 to 2018. We document that sovereign CDS spreads tend to increase on the day after the announcements of unexpected reduction in federal fund rates. On average, a hypothetical 100 basis point negative Federal funds target rate shock is associated with about seven basis points increase in sovereign CDS spreads on the day after the FOMC announcement. We also find that the impact of Federal funds rate shock on sovereign CDS spread varies depending on macroeconomic conditions. Specifically, the impact is more pronounced for countries with higher external debts, lower foreign reserves, higher proportions of primary commodities in their exports, heavier dependency on the U.S. economy, and lower exchange rate volatility against U.S. dollar. We also find that countries with higher than median CDS spread mainly drive these results. Our findings in this paper suggest that U.S. monetary policy shock is an important determinant of the sovereign credit spread.

R^2 in Currency Markets

In this paper, we first document that the degree of co-movement of currencies varies a great deal across different base (measurement) currencies. In estimating the co-movement, we use the average of R^2 s from regressions of exchange rate changes of each of our 27 floating-rate sample currencies against the base currency on the currency market factor. Over our sample period 1999–2018, the average R^2 is found to range from 22.1% for the Singapore dollar to 71.8% for the South African rand, with the average of 51.5% across sample base currencies. This implies that the extent to which the currency risk is diversifiable critically depends on the investor's home currency; for instance, the currency risk would be highly diversifiable for Singapore dollar-based investors but largely systematic for South African rand-based investors. Motivated by our novel currency clustering analysis utilizing a base-currency independent metric, we then set forth and provide strong evidence supporting the hypothesis that the idiosyncratic (connected) currencies influenced weakly (strongly) by the major global currencies, i.e., the U.S. dollar and the euro, face high (low) degrees of co-movements of other currencies.