The Impact of Geopolitical Risk on Stock Market Return and Volatility in the MENA Countries.

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Abstract

This paper examines dynamic interaction between volatility spillover among MENA countries by using daily data for 11countries. Unlike previous studies, we include the geopolitical risk (GPR) by applying ADCC-GARCH model; moreover, it tests for both static and dynamic analysis using rolling window. In brief, the findings highlight significant strong evidence that one quarter of the total forecast error variance attributed to volatility spillovers across MENA markets. Specifically, the dynamic analysis provides evidence of the high responsiveness of the total spillover index to external shocks as well as economic and global political turbulences. Qatar, Saudi Arabia and UAE are considered to be the key net transmitters of volatility spillovers towards other MENA markets. Overall, our results are essential in understanding the role of geopolitical risk on spillover among MENA countries and are of particular importance to policymakers (market regulators), portfolio managers, and investors.

Keywords: Geopolitical risk; Stock price volatility; Return spillovers; MENA countries; ADCC-GARCH.
JEL classification: G14; G15, Q41, C51

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