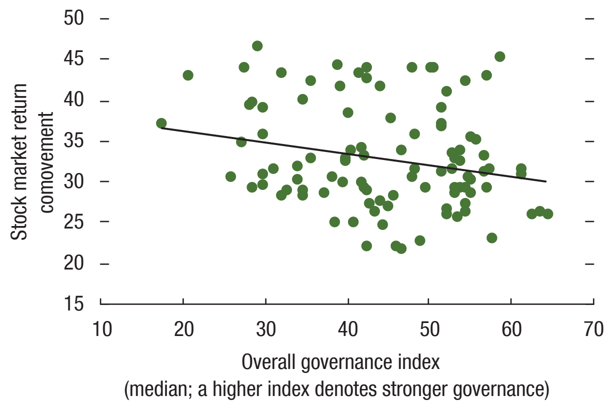
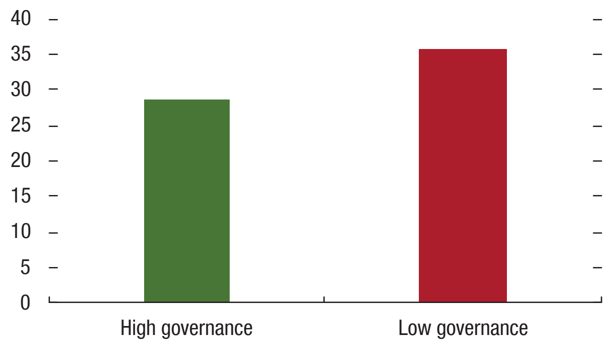
Figure 3.10. Stock Return Comovement
(Percent)

Better-governed and more transparent emerging market economy firms are less synchronized with the stock market, and their equity prices reflect business fundamentals more accurately.

1. Country-Level Comovement[1]



2. Firm-Level Comovement[2]



Sources: Bloomberg L.P.; Thomson Reuters Datastream; World Economic Forum, Global Competitiveness Indicators database; and IMF staff calculations.
Note: Using other country-level governance indices, such as the Guillen-Capron minority shareholder rights protection index or the strength of minority investor protection strength (World Bank), yields similar pictures. Stock return comovement is measured by the R^2 of the regression of weekly stock returns on market factors.
[1]Overall governance index is the median of all firms in a given country. Market return volatility is measured by the standard deviation of weekly returns. The sample includes annual observations for 18 emerging market economies between 2010 and 2014 (country-year observations).
[2]High governance = firm governance above 75th percentile; low governance = firm governance below 25th percentile. The empirical analysis also controls for size, leverage, return on equity, state-owned enterprises, and American depository receipts. Results are robust to controlling for country and time fixed effects, and to the use of the firm-level transparency subindex. See Annex 3.2 for further details.