

Assessing the contagion effect on herding behaviour under segmented and integrated stock markets circumstances in the USA, China, and ASEAN-5

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<b>Abstract</b>	<p>This paper investigates the contagion effect of herding behaviour in the US, China, and ASEAN-5 stock markets by considering the level of market integration. We employed individual stocks and market returns on daily basis data during the global financial crisis (GFC) and the recent tranquil periods. The sample observed consists of stocks having higher liquidity and larger market capitalisation in each of the stock markets. We applied the cross-sectional returns dispersion approach and ordinary least squares to achieve the purpose by involving static correlation. During the GFC period, the empirical result provides evidence on the presence of herding transmission from the dominant stock market to other integrated markets bilaterally. Specifically, herding behaviour in a domestic market was affected by herding activity in integrated foreign markets. By contrast, herding behaviour in a domestic market was not affected by herding in segmented foreign markets. Comparing to the recent tranquil period of 2017-2018, the contagion effect appears on the market only during the crisis period. Therefore, market participants should be more conservative in anticipating the emergence of this phenomenon for integrated markets under market crisis circumstances.</p>
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