Abstract

Knowledge on the nature of interactions among the stock markets will enable the global investors or investment firms to construct a portfolio of stocks which is relatively safer than the others**.** This study analyses the interactions among seven stock markets in the world, using monthly data on returns from these markets for the period October 2002 to December 2010 and the Markov-Switching VAR model. It also finds out the relationship amongst the selected stock markets in two different states of the stock market (Bull and Bear).

Results indicate that the stock markets give better return in the bearish state when compared to the bull state even though the probability of the bearish state occurrence is low. Therefore the investor can adopt a bearish strategy and can get more than average return.