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Oil price volatility and stock returns in the G7 economies

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Abstract-

This study examines the relationship between oil price volatility and stock returns in the G7 economies (Canada, France, Germany, Italy, Japan, the UK and the US) using monthly data for the period 1970 to 2014. In order to measure oil volatility we consider alternative specifications for oil prices (world, nominal and real prices). We estimate a vector autoregressive model with the following variables: interest rates, economic activity, stock returns and oil price volatility taking into account the structural break in the year 1986. We find a negative response of G7 stock markets to an increase in oil price volatility. Results also indicate that world oil price volatility is generally more significant for stock markets than the national oil price volatility.

Index Terms- Stock returns; Oil price volatility; G7 economies; Vector autoregressive (VAR) model

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