

# The attacks in Europe did not affect the stability of the market in the USA

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The attacks in Europe did not affect the stability of the market in the USA.  
Credit: SINC

Researchers at the University of Valencia (UV) and the Universitat Oberta de Catalunya (UOC) state that the terrorist attack which happened in New York on 11 September 2001 had an effect on the volatility of the stock market in the Eurozone. However, the attacks in Madrid and London -on 11 March 2004 and 7 July 2005 respectively- did not have any effect on the volatility of the market in the USA.

"The main objective of the study was to analyse how volatility (abrupt changes) transmission patterns have been affected by the crisis in the financial markets", Pilar Soriano, co-author of the piece and researcher at the University of Valencia, explains to SINC.

The study, which has been published in the journal *Quantitative Finance*, analyses the fluctuation between the stock markets of the USA and the Eurozone, taking into account the financial crises caused by 11 September 2001, 11 March 2004 and 7 July 2005.

The team of economists worked with figures from simultaneous [stock market](#) prices collected in the USA (S&P500 index) and in the Eurozone (EuroStoxx50 index) at 15:00 (GMT), the time when the European markets are just about to close and the US market has just started trading.

"Each [terrorist attack](#) had a different effect on the financial markets. If we focus on the 11 September attacks, both price indexes reached their minimum level on 21 September", the experts noted.

## **What happened after the attacks?**

"In the Eurozone, the EuroStoxx50 fell by 6.7% on the day of the attack, and between 11 September and 21 September it reduced by 17.9%. The New York market didn't open until 17 September and fell by 5.1%. Between this day and 21 September, the S&P500 fell by 12.3%", Soriano pointed out.

In contrast, the terrorist attack in Madrid on 11 March had a smaller effect on both markets. "The EuroStoxx50 decreased by 3.1% on the day of the attack and, at the end of this month had returned to the levels before the attack. In the same way, the S&P500 suffered a small reduction (1.5%) and recovered in less than a month", the study confirmed.

Finally, the attack in London on 7 July didn't have any effect on the S&P500 and its impact on the EuroStoxx50 was small (1.7%). "As a whole, the three terrorist attacks affected the Eurozone more than the

market in the USA", Soriano confirms.

## Various analysis possibilities

According to the researchers there are various explanations for these facts. On one hand, the terrorist attack on 11 September had a direct effect on the different financial markets related to sectors like aeronautics, tourism, banks or insurers, "but these sectors were not affected as much in the other terrorist attacks".

Secondly, whilst the attacks in New York were perceived as a "global shock to the markets", the attacks in Madrid and London were probably interpreted as a "local and regional shock, respectively".

The scientists also indicate that whilst the attacks on 11 September occurred in a period of global economic recession, the terrorist attacks in Madrid and London "happened at a time when the global economy was in a period of growth".

**More information:** Helena Chuliá, Francisco Climent, Pilar Soriano, Hipñlit Torró. Volatility transmission patterns and terrorist attacks. *Quantitative Finance* 9 (5): 607-619, 2009.

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