

Economists explore the valuable roles of commodities for international stock markets

March 31 2020, by South Ural State University



Credit: pixabay.com

Scientists at the SUSU School of Economics and Management, together with foreign colleagues, have analyzed the roles of various groups of commodities in a traditional portfolio of equities. The economists

examined the hedging and diversification ability of 21 commodities for 49 international stock markets belonging to countries at different stages of economic development. The results of this work will help investors minimize risks in stock markets transactions. They were published in the journal *Resources Policy*.

Safe investments during a crisis

Seid Javad Hussein Shahzad, senior research fellow at the Department of Accounting, Analysis and Audit, Ph.D. in finance, proposed the idea of researching the [stock](#) markets of raw materials of developing countries to his colleagues from Germany, Lebanon, and Vietnam. This analysis is especially relevant for countries whose economies are highly dependent on raw materials prices. It is no secret that in stock market crisis situations, investors seek ways to minimize risks in transactions, a process called hedging. For example, oil is considered safe for investing in the stock markets of developing countries such as Russia.

"There is an ongoing debate about the role of different types of commodities in a traditional portfolio of equities and it has intensified. Similarly, there is a stock take of studies examining safe haven, hedging, and diversification roles of commodities for different stock markets (classified based on their development stage and also on their net trade exposures). This study provides a review of existing empirical works highlights heterogeneity in findings and provides a comprehensive analysis of these aspects. The results of or study will allow investors to objectively assess the situation in the stock markets of raw materials of developing countries," explains Dr. Shahzad.

Comprehensive statistics analysis

The goal of economists was to prove that not only traditionally oil is a

priority investment area, but also other goods. The results of the study challenged the specific roles assigned to a certain commodity for a specific equity investment. However, many other commodities, especially other precious and industrial metals, are also safe for investment in many global stock markets.

"The work was mainly focused on the analysis of the side effects of volatility, asset price volatility, during the crisis. I plan to work on studying the index of the relative dependence of [commodity](#) prices to find new ideas for the investment community," says the economist.

The findings are useful for individual investors, [institutional investors](#) and policymakers concerned about the overall risk exposure of economies heavily dependent for the purpose of trade on oil revenues or other commodities. It is particularly important for [market](#) participants in developed, emerging and frontier [stock markets](#) that are seek not only of hedging assets capable of mitigating the downside risk of equity markets, but also a safe haven asset capable of offsetting the extreme downside risk of equity markets (i.e., the downside risk during stress periods).

More information: Sajid Ali et al. Revisiting the valuable roles of commodities for international stock markets, *Resources Policy* (2020). [DOI: 10.1016/j.resourpol.2020.101603](https://doi.org/10.1016/j.resourpol.2020.101603)

Provided by South Ural State University

Citation: Economists explore the valuable roles of commodities for international stock markets (2020, March 31) retrieved 2 May 2024 from <https://phys.org/news/2020-03-economists-explore-valuable-roles-commodities.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.