IMPACT OF TED SPREAD, BOND SPREAD, AND VIX ON STOCK MARKET RETURNS, OIL PRICES, HOME PRICES AND EXCHANGE RATES

Akash Dania, Ph.D.[1]
School of Business
Alcorn State University
Email: adania@alcorn.edu

D.K. Malhotra, Ph.D.
School of Business
Philadelphia University
Email: malhotrad@philau.edu

Abstract

From mid-2007, the global financial system faced what has come to be termed as 'implausible' and 'worst' financial crisis since the Great Depression. During the same time, financial asset valuation witnessed unusually high activity in their risk spread and volatility. Another interesting phenomenon observed were volatility among various proxies of perceived risk or counterparty risk, such as: the TED spread (spread between the U.S. T-bill rate and the LIBOR rate), the bond spread (difference in yield spread due to different credit quality), and an increase in implied volatility of the U.S. financial markets. Can the change in this premium for counterparty risk be associated with stock market returns, oil prices, home prices and exchange rates? In this paper we analyze whether the TED spread (Treasury-Eurodollar spread), Bond Spread, and the implied market volatility has an impact on stock market returns, oil prices, exchange rates, and home prices. Results from our study indicates that the TED spread has a negative and significant impact on DJIA and the spot OIL prices, a mixed albeit significant impact on U.S. 10 metropolitan home prices. We did not find evidence of a significant impact of TED spread on U.S. Dollar exchange rate.

Keywords: *TED Spread, Stock market returns, Oil prices, home prices, exchange rates, GARCH, Spillover, VAR*

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[1] Corresponding author