Quantifying Magnitude & Direction of Excess Co-Movement in Dual-Listed Securities

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Executive Summary

This research paper focuses on the analysis of dual-listed companies ("DLC") and their excess co-movement across multiple markets. The study employs linear and logistic regressions, as well as fixed- and pooled-effects models, to investigate the effects of company-level and market-level variables on the direction and magnitude of excess co-movement. The analysis encompasses DLCs with one listing in the United States ("US") and another in either Canada ("CA"), the United Kingdom ("UK"), or Europe ("EU"), with data spanning the period from March 2013 to April 2023.

The results of the likelihood ratio tests and F-tests indicate that the choice of regression model varies across different country pairs and regression types. Notably, logistic regressions suggest a preference for pooled regressions in the US-Canada and US-Europe pairs, while a fixed-effects model is favored in the US-UK pair. Conversely, linear regressions show the opposite pattern. These findings imply that idiosyncratic risks and systemic changes may have different effects on the direction and magnitude of excess co-movement in different markets.

Regarding the predictors of excess co-movement, stock returns emerge as significant predictors for both the direction and magnitude of excess co-movement. Higher gains in foreign-exchange ("FE") stocks push the excess co-movement towards the FE market, while the opposite holds true for US stocks. Additionally, stock volatility is found to be a significant predictor of the magnitude of excess co-movement, suggesting that higher volatility is associated with greater levels of excess co-movement. Furthermore, currency returns exhibit predictive power for both the magnitude and direction of excess co-movement, particularly for currencies correlated to one another. This further supports the effect of inter-market conceitedness co-movement in DLCs. Overall, these results contribute to our understanding of the factors driving excess co-movement in DLCs and highlight the importance of considering specific market characteristics and variables in analyzing their dynamics. The findings underscore the significance of stock returns, stock volatility, data availability, index volatility, and currency returns as predictors of excess co-movement.