The subprime crisis and stock index futures markets integration
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Abstract
Purpose – The purpose of this paper is to examine the effects of the current global crisis on the integration and co-movements of selected stock index futures markets.

Design/methodology/approach – Time series techniques of cointegration and weekly data covering the period from January 2001 to December 2009 were used in this study. The period of analysis was divided into two periods, namely the pre-crisis period (January 2001-July 2007) and during crisis period (August 2007-December 2009).

Findings – No evidence was found of cointegration among the stock index futures markets in both periods. Accordingly, the 2007 subprime crisis does not seem to affect the long-run co-movements among the stock index futures markets.

Practical implications – The stock index futures markets provide opportunity for the potential benefits from international portfolio diversification and hedging strategies even after the subprime crisis. The stock index futures significantly extended the variety of investment and risk management strategies available to investors.

Originality/value – Examining the effects of the US subprime crisis on the stock index futures markets integration, to the best of the authors’ knowledge, goes clearly beyond the existing literature on the subject matter.

Keywords United States of America, Futures markets, Portfolio investment, Subprime crisis, Stock index futures markets, Market integration, Portfolio diversification

Paper type Research paper

1. Introduction
In the financial literature, the issue of stock market integration is a subject that has drawn attention among academicians, practitioners and policy makers. Studies on the degree of integration have important implications on potential benefits of international portfolio diversification and on financial stability of a country (Ibrahim, 2005). The removal of investment barriers particularly in emerging markets has attracted investors to diversify their portfolios and their investment in the region.

The findings of low correlations among national stock returns in the early studies (Grubel, 1968; Levy and Sarnat, 1970; Solnik, 1974) suggest potential benefits of international diversification. However, the degree of financial markets integration around the world increased significantly in recent time. For example, Goldstein and Michael (1993) found that the international links have been increasing over

This research is supported by the Fundamental Research Grant Scheme (FRGS), Grant No: FGRS/05(29)/783/2010(64).