



Has China Replaced the United States as the Leader of Global Financial Trends? A Leveraged Bootstrap Causality Approach for Small Capitalization Markets

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ABSTRACT

This research examines the causal relationships among small capital markets of twelve countries—six developed and six emerging—with the small capital markets of the United States and China. We applied the Granger causality test using a leveraged bootstrap approach developed by Hacker and Hatemi-J (2006). The results indicate the returns of small capital markets in the thirteen sampled countries, including China, were influenced by returns of the United States small capital market. Meanwhile, the Chinese small capital market only influenced the Japanese and the United States small capital markets. Additionally, we found the United States small capital market was partially driven by the performance of five small capital markets (Japan, the United Kingdom, France, China, and Korea), while China's small capital market was responsive to the movement in eleven of the thirteen countries' small capital markets. Our findings indicate small capital markets may not be as independent from the influence of the United States as investors may think. Further, investors may be overvaluing the influence of China as a predictor of changes in other small capital markets. This research provides perspective for investors building investment portfolios.

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