

# A study of the dynamic relations between international investor sentiment and market returns

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## Abstract

Applying the volatility index as sentiment proxy, we construct global, regional and local sentiment factors with principal component analysis and examine international sentiment transmission effects for Japan, Hong Kong, Taiwan and Korea. Based on the asymmetric dynamic conditional correlation (ADCC-MGARCH) structure, the paper investigates time-varying interrelationship between stock returns and market sentiment. We find that local investor sentiment of the four countries is affected commonly by regional investor mood. Global sentiment is the dominant factor for return performances of most Asian countries. Sentiment of market participants and stock returns are effective predictors for each other. During our sample period, we also observe the contrarian relations between volatilities of sentiment and returns. However, the dynamic correlations between stock returns and investor sentiment do not significantly increase when market fear rises and decline of returns occur.

Keywords: investor sentiment, returns, spillover effect, volatility, dynamic, asymmetric