

Hedging S&P500 through commodity indexes: a DCC-GARCH approach

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Commodity indexes had become popular instruments in financial industry the last decade. These assets augmented the liquidity of commodities markets soaring prices. Many researchers claim that this is responsible for the commodities boom (financialization phenomena). The pattern of the volatility and correlations of commodities with equities has changed since then. Commodities turn to be less useful for hedging. We analyzed the behavior of the conditional correlation from 1999 to 2017. The sample encompasses many important events in equity and in commodities markets. We use DCC-GARCH model to estimate the conditional correlations and analyze the performance of these indexes to hedge equities.

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