

## **Regime-dependent interaction of bond and equity markets**

*The research project is conducted with Deutsche Bundesbank to gain insight to the interactions and movements between interest rates/bond markets and the stock market:*

Considerable effort was spent on explaining the relationship of bond and stock markets, with a large body of theoretical and empirical research work having emerged. There is development still, as many of previously expressed or estimated relationships appear to have changed or assumptions made had to be relaxed. One observation among those is that the (co)-movements of interest rates and stock markets or bond and stock markets are not only largely differing between time periods, but may be even positive or negative with notably strong magnitudes. This poses a special challenge for both theoretical considerations as well as on modeling or estimating the respective processes.

While several approaches have been presented with multiple step analyses and relied mainly on the correlation between bonds and stocks to measure the relationship, we aim at using a concept that can be employed directly to detect the movements between stock and bond markets - and the drivers thereof. Therefore, a return ratio-based approach is being developed to identify when and how the markets move together or not.

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