

Abstract:

The current work studies macro-financial spillovers within and between the financial and non-financial sides of the economy. We develop a new methodology for estimating the structure of macro-financial spillovers that extends existing financial spillover measures using recent mixed-frequency econometric methods. This allows our measures to incorporate additional high-frequency financial information relative to a simpler common-frequency modelling approach. Using our methodology to analyse the structure and dynamics of macro-financial spillovers in the US economy we obtain estimated spillovers that are substantially higher than those from the analogous common-frequency approach, implying that spillover magnitude may be underestimated using methods that ignore this additional high-frequency information. We find that the financial markets are typically net transmitters of shocks to the non-financial side of the economy, particularly during turbulent market conditions. However, during the recent crisis we also observe significant spillovers travelling in the opposite direction, suggesting that these linkages are bidirectional in nature. Finally, in agreement with the existing literature, we find significant heterogeneity in the response of the bond and equity markets to common macroeconomic shocks.