

Unveiling the Time-Varying Linkages between Economic Policy Uncertainty and Stock Market Volatility: Does Investor Sentiment Matter?

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Abstract: Ensuring the smooth functioning of stock market is essential for maintaining financial stability. This study investigates the linkages between economic policy uncertainty (EPU) and stock market volatility (SMV) and detects the conduction effect of investor sentiment (ISI) through the time-varying parameter vector auto-regressive model. The results reveal that increases in EPU prominently intensify stock market volatility. The influence of EPU on SMV is more pronounced in the short term. Moreover, EPU amplifies market volatility by widening the dispersion in investor sentiment. Consequently, the findings offer significant insights aiding in enhancing the smooth operation and effective risk management within stock market.

Keywords: Economic Policy Uncertainty, Investor Sentiment, Stock Market Volatility, TVP-VAR-SV

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