ABSTRACT
This paper adopts continuous wavelet analysis to investigate the time variation features of stock-bond return relations from 1988 to 2014 and examines the determinants of dynamic relations across different frequencies. While several factors influence the stock and bond relation, this study emphasizes on four key factors: short rate, slope of term structure, stock market volatility, and crisis dummy variable. The empirical results show that, no matter whether annual frequency or quarterly frequency is observed, stock and bond returns have the same sign sensitivity to short rate and the slope of term structure, while their sensitivity to stock market volatility is negative. In addition, the impact of crisis on long-term stock-bond relation is significantly negative while the impact on short-term relation is significantly positive. Hence, depending on which factors dominate, the realized correlation can be either positive or negative. The findings provide economic implications to investors who determine portfolio allocations as well as the policy makers who conduct macroeconomic policy and monitor financial markets by observing changes in these state variables.

Keywords: Stock-bond return relations, Macroeconomic factors, Financial market uncertainty, Wavelet analysis