

## **Flight-to-Quality: Evidence from Turkish and US Financial Markets during 2008 Economic Crisis**

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In this paper, we investigate the presence of flight-to-quality from stocks to bonds as these are the two alternative asset classes predominantly used for hedging investment risk. Investors switch to less risky assets at times of financial downturns, which procures financial stability through portfolio diversification. A negative correlation between stock and bond markets is taken as a prognostication of flight-to-quality. On the contrary, a positive correlation can be taken as a sign of contagion between the markets, pertinent to common economic factors affecting these markets simultaneously. We analyze the Turkish and US stock and government bond markets between June 6, 2006 and November 29, 2013, to make a comparison between the diversification benefits in a developed and an emerging market economy. We further divide our sample into two sub-periods to compare the patterns in crisis and tranquil periods. Our first sub-sample covers the period between March 13, 2007 and August 12, 2009, a time span marked by the sub-prime mortgage crisis. The second sub-sample consists the data in the aftermath of the crisis, between January 4, 2010 and November 29, 2013. In this study, we apply the DCC-GARCH model in order to capture the time-varying correlations between stocks and bonds for each country. Our results reveal the existence of flight-to-quality in Turkey, whereas we find significant positive correlations between stocks and bonds in the US. The findings of our study embrace significant clues for international investors and portfolio managers.