International Review of Accounting, Banking and Finance
Vol 16, No. 1, Spring, 2024, Pages 18-34
IRABF

Implications of Spillover and Asymmetric Volatility Effects of Leveraged and Inverse Leveraged Exchange Traded Funds (ETFs) in the Pre- and During COVID-19 Period

***John Francis Diaz*, PhD, RFP®, CRMC™[1*]**

1. *Associate Professor, Finance and Accounting, Asian Institute of Management, Makati, Philippines*

Accepted February 2024

A B S T R A C T

This research delves into the dynamics of leveraged and inverse leveraged Exchange-Traded Funds (ETFs), offering insights into their relationships with tracked indices. The study uncovers spillover and leverage effects, emphasizing the significance of such interactions. The research underscores the potential of these specialized financial instruments to amplify both positive and negative market news, serving as valuable tools for traders and risk management. Notably, the analysis reveals asymmetry in the response of stock market indices and ETFs to positive and negative news. These ETFs could be considered as hedges during market declines, given their demonstrated ability to move inversely to their respective indices. While the findings contribute valuable knowledge, the study acknowledges its reliance on historical data and a limited timeframe tied to the COVID-19 pandemic. Future research opportunities include exploring longer periods, incorporating diverse events, validating with alternative models, and extending analysis to diverse asset classes. This research lays a foundation for comprehending the complex interplay between leveraged ETFs and their indices, offering a roadmap for future studies to navigate the evolving financial landscape.

Keywords: Pre- and During COVID-19 Period, Spillover and Asymmetric Volatility Effects, Leveraged and Inverse ETFs
JEL Codes: G15, G23

[*] E-mail:jdiaz@aim.edu