

Editorial

Special Issue on Forecasting Asian Markets

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This special issue of the *Asian Economics Letters (AEL)* contains papers on forecasting of Asian financial markets. After initial screening of all submitted papers by the Guest Editor, only the best six papers were chosen for peer review. Post this review process and following revisions these papers were accepted.

This first two papers by Salisu, Lasisi & Olaniran, and Owuru examine the responsiveness of Asian stock markets to risks due to global economic and health. In particular, Salisu et al. investigate the predictive content of epidemics and pandemics in forecasting exchange rates of Asian economies. They find evidence that epidemics and pandemics provide superior out-of-sample predictability for Asian foreign exchange markets, particularly prior to the COVID-19 pandemic. Likewise, Owuru investigates the response of Chinese stock returns to oil price during the COVID-19 pandemic. This study documents that oil price has a positive short run impact on Chinese stock returns, while the COVID-19 pandemic has a negative short run impact on returns.

The next two papers by Adediran, and Ogbonna & Olubusoye examine the predictive capacity of tail risks in forecasting the Asia-Pacific financial market. While Adediran focused on the exchange rate market, Ogbonna & Olubusoye focus on the stock market. Adediran documents that tail risks serve as a good predictor of Asia-Pacific exchange rates out-of-sample, thus rejecting the Meese–Rogoff puzzle. Similarly, Ogbonna & Olubusoye find evidence that tail risks are a good predictor of Asia-Pacific stock returns, and that country-specific tail risks have an asymmetric effect on Asia-Pacific stock returns.

The last two papers by Oloko, Olaniran & Lasisi and Ndako, Salisu & Ogunsiji focus on the role of geo-political risks in predicting the performance of the Asian stock markets. The study by Oloko et al examines the capacity of geo-political risks in predicting South Korean stocks. They use

the predictability outcome to evaluate the hedging effectiveness of South Korean stocks in the face of geo-political risks. They document that geo-political risks enhance the predictability of South Korean stocks and conclude that these stocks provide a good hedge against global and South Korean geo-political risks, on average. Finally, the study by Ndako et al. uses the GARCH-MIDAS approach to evaluate the role of geopolitical risks in predicting the return volatility of Islamic stocks belonging to Indonesia and Malaysia. The study notes that geopolitical risks play a significant role in predicting the return volatility of Islamic stocks in Indonesia and Malaysia.

These six papers have important ramifications for future research. The work of Salisu et al. and Owuru, for instance, document that accounting for epidemic and pandemic enhances the predictability of Asian stock and exchange rate markets. This confirms evidence from previous studies such as Narayan (2020a, 2020b), and implies that future studies on asset price predictability should not ignore the pandemic factor. In addition, the work of Adediran & Ogbonna and Olubusoye explain that tail risks are a good predictor of Asian stock and exchange rate markets, while Oloko et al. and Ndako et al. show that accounting for geopolitical risks improve the forecast of Asian stock markets. The implication for future research is that modelling tail risks and geopolitical risks are important as investors seem to react to those factors.

Overall, this special issue papers show the importance of the pandemic, tail risks and geopolitical risks in forecasting stock and exchange rate markets. These papers therefore set the stage for future research to build upon. An additional aspect of research should focus on extending the ideas presented in this special issue papers to other settings, including to new datasets and to testing new theories and or hypotheses.



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