

Nonlinear behaviour of emerging market bonds spreads: The Latin American case

Bonilla, Claudio A.

Maquieira, Carlos P.

Romero-Meza, Rafael

In this article we check for nonlinear behaviour of the 10 most important Latin American emerging market bonds spreads. Applying the Hinich portmanteau bicorrelation test, the BDS test and the Engle LM test, we observe systematic nonlinear structure in the spreads series. Our results suggest that the nonlinear serial dependencies are episodic in nature. All the stock returns series (with the exception of Mexico) are characterized by few brief periods of highly significant nonlinearity, followed by long time periods in which the returns follow a pure noise process. Our findings support the idea that, even in this well informed and sophisticated market, the weak-form of the efficient market hypothesis cannot be supported.