

**Date of the event:**

On Wednesday 23<sup>rd</sup> September 2009  
From 1:00pm to 2:00pm

**Location:**

Luxembourg School of Finance  
University of Luxembourg  
4 Rue Albert Borschette  
2<sup>nd</sup> Floor  
Modigliani Miller Auditorium (E02-003)  
L-1246 Luxembourg

**Registrations:**

- Free seminar (with lunch included)
- Registrations by email before September 17th 2009
- At the following address :  
[caroline.herfroy@uni.lu](mailto:caroline.herfroy@uni.lu) (first name, last name, Institution)

**Information:**

Ms Caroline Herfroy  
Tel : +352 46 66 44 6335



The LSF Research is pleased to invite you to the  
Lunch Seminar:

# Flight-to-Liquidity and Global Equity Returns

**By Mr Sergei Sarkissian**  
*Associate Professor of Finance  
Faculty of Management  
McGill University  
Canada*

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# Flight-to-Liquidity and Global Equity Returns

*By Sergei Sarkissian*

The **Luxembourg School of Finance**  
and its Team in Research

are pleased to invite you to the

**LSF Seminar**

Investment practice and academic literature document a great degree of interaction between stock markets around the world and most liquid and safest assets such as the US Treasury bonds. Using data from 46 markets, we examine the joint impact of the "flight-to-liquidity" and "flight-to-quality" on global asset valuation. Our proxy for the flight-to-liquidity/quality is the illiquidity of US short-term Treasury bonds. We find that it is a leading indicator of the stock market illiquidity, and that it is also a strong predictor of future equity returns in both developed and emerging markets. This predictive relation remains intact after controlling for other global and local variables, including the lagged US term spread, dividend yields, equity market returns, as well as global and local stock market illiquidity. Subsequent tests reveal that the bond illiquidity is significantly correlated with contemporaneous stock market returns, and that it is a priced factor even in the presence of other conventional risk factors, such as the world stock market return, exchange rate, stock market illiquidity, and the term spread. Our results indicate that the flight-to-liquidity/quality risk is an important determinant of returns in global equity markets.

