ABSTRACT

This research is conducted to examine the role of government bonds as a hedge and safe haven against stocks in the capital market, as well as to examine the ability of government bond series when they are included in a stock portfolio as a hedge to generate an improved portfolio's hedging effectiveness and risk adjusted return. The portfolio formulation under this study is carried out with ADCC-GARCH analysis which directly involve 10 series of government bonds and 10 stocks that become the sample in this study with research period commencing from 1 January 2017 until 31 December 2022.

This research finds that government bonds are incapable to be a hedge instrument, but they can be a safe haven for stocks. An asymmetric dynamic portfolio which contains stocks hedged by government bond series has a better risk adjusted return, in this matter, it is shown by a higher Sharpe ratio and Sortino ratio compared to an unhedged stocks portfolio. The government bonds series have also been proven capable to produce a hedging effectiveness that can reduce the portfolio's risk when they are added into a stocks portfolio as a hedge. This is shown by a positive hedging effectiveness generated from an asymmetric dynamic portfolio which contains stocks that have been hedged by government bond series. If the hedging effectiveness generated by a hedged asymmetric dynamic portfolio has a positive value, the variance of the portfolio hedged by government bonds is smaller than the variance of an unhedged stocks portfolio. This means that the risk of stocks portfolio may be minimized by adding government bonds series as a hedge.

Keywords : Dynamic asymmetric portfolio, hedge, safe haven, government bond, asymmetric dynamic conditional correlation, hedging effectiveness