Abstract

Dependence between financial variables is a key consideration for portfolio diversification and risk management. Linear correlation as a measure of dependence is inadequate in capturing dependence of financial variables. In this paper we apply the semi parametric copula based multivariate dynamical model to estimate dependence structure between the equity and foreign exchange markets in Kenya. Several parametric copula models are fitted into the data and their performance in capturing the dependence compared. We find that there exists significant symmetric dependence between the variable. Besides, we find evidence of tail dependence amongst the variables. The findings of this paper are significant to global investors in their pursuit to diversify their portfolios and manage their risks.