Comovement is ubiquitous in financial markets. The evolution of asset characteristics, such as price, volatility or liquidity, exhibits a high degree of correlation across assets – a phenomenon that in this thesis is generically denoted with the term comovement. The origins of such comovement are legion. In their investment decisions, economic agents are not only influenced by their idiosyncrasies – a large part of investment motivations are shared over a population. Demographics or the political situation can generate constraints that are similar for a large number of people. A country’s geography can greatly influence the sectors in which it is most productive, which implies that many people are sometimes subject to the same risk factors. Moreover, it is well known that mimesis is part of human psychology, and that people mimic their peers even when taking personal decisions. For these reasons, and many more, financial markets have a very systematic character, and studying the nature and intensity of such comovement is important from a risk management point of view. This thesis studies comovement in financial markets under three dimensions: equity liquidity, equity return correlations and contagion in the sovereign bond market.

This thesis studies comovement in financial markets under three dimensions. First, I consider comovement in equity liquidity. The liquidity of an asset is the ease with which that asset can be bought or sold. Liquidity can be measured in various ways and the first chapter concludes that market movements of two different liquidity measures have the same origin. Second, I study the impact correlation comovement on the price of stocks. The correlations between stock returns and the market return evolve through time and are correlated themselves. The effect of this correlation comovement on asset prices is however ambiguous and there is not enough evidence to depict a clear image. Finally, I develop a model to investigate contagion dynamics in the secondary market for European sovereign bonds over the past two years. More particularly, I study whether changes in the bond price of one specific country have an impact the next day on the average bond price in Europe. The study concludes of that bonds of France, Ireland, Portugal, Spain and Italy have been most contagious, whereas the much more volatile Greek bonds have had little impact on the other European countries.