EDITOR'S NOTE

The last two decades of the 20^{th} century witnessed the surge of globalization in most economic sectors, the financial industry, since the beginning, being among the most dynamic to become global. During the 1980s Latin American financial markets were immersed in hyperinflation and slow growth conditions but recovered their economic stability during the following decade. However, specific events modified their evolution, including the Mexican peso devaluation of 1994, the Asian Financial crisis of 1997 (which had significant reverberations across all the emerging markets), and the Brazilian real devaluation of 1999 (with particular influence among the rest of Latin America). The first decade of the new century was marked by the turbulence observed in international financial markets that resulted from the "dot.com" crisis (1999-2001), the terrorist attacks to the World Trade Center in New York, and the (second) war in Iraq. The effects of the Subprime Mortgages crisis in the United States, which started in early 2007, became a full-fledged international crisis and provoked a domestic economic recession in that country. The 2008-2009 financial crisis in the United States, whose severity is only comparable to that of the 1929 financial crisis that preluded the Great Depression, its effects on the real sector of the economy, its contagion to other markets and, subsequently, the sovereign debt crisis in the countries of Western Europe between 2010 and 2012, did not result in a new episode of financial crisis among Latin American financial markets. Except for Mexico, whose economy drastically contracted in 2008 as a consequence of the recession in the United States, its most important export market, the rest of the region fared reasonably well confirming that the structural transformations implemented during the 1990s and early 2000s by the region's governments made it possible to minimize the negative effects of the crises and sail the waters of high international turbulence with a relative stability.

A series of structural reforms created new conditions and opportunities for a growing number of financial agents, both in the traditional commercial banking industry as well as in the arm's-length markets (stocks, bonds and derivatives markets). In addition, the rapid advance of digital technology, communications and access to financial services through the internet represented fertile ground to boost the penetration of the financial sector in the economy of the region's countries.

This First Special Issue of the Mexican Journal of Economics and Finance portrays recent trends observed in different Latin American countries' financial markets. The participation of distinguished authors from Chile, Colombia, Peru and Mexico enriches the contents of this special issue and, while it does not pretend to be a comprehensive diagnosis or prognosis of Latin America's financial markets evolution due to the logical editorial and space constrains, it addresses matters that deserve the attention of the interested reader, the financial specialist and the academic researcher. It is our sincere wish it will contribute to a renewed interest among researchers and practitioners on the study of the region's financial markets challenges and opportunities. In what follows, I present an overview of the different works included along with some brief comments that I hope will give the reader a path-road to this small but comprehensive and representative collection of works.

The opening paper, called *"International Financial US Linkages: Networks Theory and MS-VAR Analyses"* (**Sosa, Ortiz and Cabello**), examines the important consequences of the Global Financial Crisis on portfolio investment flows and stock market activity using Network Theory to analyze structural changes of Foreign Portfolio Investments in a sample of 13 developed countries and 6 Latin American countries (daily data from 2003 to 2015). Additionally, it tests whether the U.S. market influenced the rest of the markets using univariate (MA-AR) and multivariate (MS-VAR) Markov Switching models. These authors conclude that U.S. financial markets keep a close financial relationship with the most important European and American countries' stock markets.

"The day-of-the-week effects in the exchange rate of Latin American currencies" (**Santillán-Salgado, Fonseca-Ramírez and Romero**) and the *"Weekend effect and financial characteristics: is there any relation in Latin America?"* (**Mongrut and Delfino**), belong to the field of the so-called "market anomalies", one of the most important and extensively documented lines of empirical research on the Efficient Markets Hypothesis that has seldom been tested among Latin America's financial markets, making both of these works valuable contributions. The former study innovates the conventional approach followed by the main stream literature on market anomalies because, instead of focusing on stock market returns, it studies the behavior of six Latin American currency exchange rates in different days of the week. The results confirm the presence of abnormal returns in some of the currencies and certain days of the week (Fridays and Mondays). Moreover, Latin America's currency exchange rates show clustering behavior and leverage effects that are similar to those observed in stocks, which are carefully modelled. The findings reported should be of interest to foreign exchange market traders and risk managers. The latter study offers new findings on the market behavior of the stock price of several Latin American countries' firms during weekends by taking into account four financial characteristics (market liquidity, current liquidity, market capitalization and price-to-book ratio). The authors find there is a significant negative relationship between the weekend effect and the financial characteristics they study.

In the fourth paper, *"Spillovers between the S&Poor500 and the top Latin American EMBIG"* (**López-Herrera, Benavides and Gurrola-Ríos**) the authors study the presence of "spillovers" between the S&P500 Index and the EMBI Global indices for Argentina, Brazil, Colombia, Mexico and Peru, and estimate a Total Spillover Index that shows significant increases at the turn of the century and during the Global Financial Crisis. The Index is broken down in its directional components to show that the main sources of spillovers among Latin American markets are the S&P500 and the Brazilian EMBIG. Mexico and Peru's EMBIGs are identified as the main recipients of the spillover effects, and Argentina is shown to be the least affected.

"Limited Information and the Relation Between the Variance of Inflation and the Variance of Output in a New Keynesian Perspective" (**Rodríguez-Arana**), is a theoretical study that analyzes "the effects on welfare of a monetary policy that establishes the reference interest rate at discrete intervals of time". The analysis explores how uncertain disturbances during the period for which the reference interest rate is established can result in a social welfare loss. When the central bank minimizes a loss function under perfect certainty the objective is to reach an efficient frontier between the variances of inflation and output but, when uncertainty is introduced, the result is inefficient raising the question of whether interest rates should adapt contingently.

The paper, *"Basel IV A gloomy future for Expected Shortfall risk models. Evidence from the Mexican Stock Market"* (**Rossignolo**) addresses the important issue of the sufficiency of the Minimum Capital Requirements (MCR) in Basle IV during financial crises in the Mexican stock market. Using Basle IV's Standardized and Internal Models in combination with simulation techniques, this work finds that "Basel IV renders high MCR even for huge falls, placing models at a disadvantage and discouraging its use". The findings suggest that further tests on different markets are likely to support the need to make some adjustments to Basle IV, and represents a significant contribution to the understanding of the complexity of risk management in banking, with potentially relevant policy implications.

The seventh paper, *"Terrorism and Latin-American Stock Markets"*, (**Magner and Roa**), uses a sample of 115 Latin American stocks from with daily observations to estimate the magnitude of abnormal returns observed on the dates of 13 major worldwide terrorist attacks during the period from 2001 through 2018. With a battery of parametric and non-parametric tests they conclude and document that different reactions were observed from one country to another and from one sector of the economy to others. The stocks of Brazil, Peru and Chile had a significant market reaction to terrorist attacks, while the stocks found to be the most sensitive were those of the energy and communications sectors. This paper's findings are relevant to portfolio managers interested in Latin American stocks portfolios diversification and risk management.

REMEF Special Number's closing paper, *"Active portfolio management in the Andean countries' stock markets with Markov-Switching GARCH models"* (**De la Torre-Torres, Aguilasocho-Montoya and Álvarez-García**) uses Markov-Switching (MS) models on the MSCI Andean Index markets (that include Chile, Colombia and Peru) to test which investment strategy is more convenient for a U.S. dollar investor. The defined strategies are: 1) to invest in the risk-free asset if the probability of being in a high-volatility regime at time t+1 is greater than 50 %; or, 2) to invest in the stock market otherwise. The results reported indicate that the utilization of the Gaussian MS-GARCH models in the Chilean stock market, and the Gaussian MS-ARCH in the Colombian market, are the most suitable to generate above-expected returns (alpha). The findings for the Peruvian market indicate that a passive strategy is preferable.

As the reader will have the opportunity to discover in the following pages, the relevance of the studies is representative of the extraordinarily serious and highly professional research on Financial Markets that has flourished in Latin America. For decades, the knowledge of our regional financial markets reality has been shallow. But in recent years the number of studies addressing their different facets has increased revealing significant progress in their modernization. With the valuable participation of Latin American authors from Argentina, Chile, Colombia, and Mexico, whose different perspectives and interests contribute so much to a better understanding of the subject, we can only hope that this Special Issue of REMEF will be a significant contribution that improves our understanding of the functioning of the Latin America's financial markets, of the challenges faced by regulators and market participants, and that will lead to better policy decisions and more wealth creation because, only the wealth that has been created can be distributed.

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