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CIRANO / Bank Of Canada Seminar

Thursday, April 11, 2013 at 2:00 pm

CIRANO, 2020 University Street, 25th Floor, Montréal

New risk factors for equities? A perspective based on recent evidence from the US market

This CIRANO / Bank of Canada workshop is co-organized by the Financial Markets Department of the Bank of Canada.

Description

This conference will feature three recent contributions that open a new perspective on equity risk. They put forward solid empirical facts in the equity markets: (i) returns and cash flows on the aggregate equity market are highly predictable; (ii) most of returns are concentrated around Federal Open Market Committee periodic and announced decisions; (iii) funding risk drives returns, liquidity and volatility of equities.

This conference will provide a timely opportunity for practitioners and researchers to discuss the importance and the practical relevance of these recent findings. Portfolio managers, risk managers, hedge fund managers and other actors in the financial industry and central banks will be directly concerned by the practical implications of these new findings. Researchers in market finance will also be interested by these new approaches to evaluating equity risks.

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Registration: **There are no fees, but registration is mandatory, please click on the following link:** **http://www.cirano.qc.ca/inscription/inscrire.php?lang=en&id=563**

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Preliminary Program

14:00	*Introduction*
14:05 - 14:30	***Risks for Equities – Recent Advances*** **René Garcia,** *EDHEC, CIRANO Fellow*
14:30 – 15:15	***Market Expectations in the Cross Section of Present Values*** **Seth Pruitt,** *Economist, Federal Reserve Board* Returns and cash flow growth for the aggregate U.S. stock market are highly and robustly predictable. Using a single factor extracted from the cross section of book- to-market ratios, we find an out-of-sample predictability for returns on value, size, momentum and industry-sorted portfolios. We present a model linking aggregate market premium to disaggregated valuation ratios. Also, discount rates are far less persistent, and their shocks far more volatile, than implied by leading asset pricing models.
15:15 -15:30	*Health Break*
15:30 – 16:15	***The Pre-FOMC Announcement Drift*** **Emanuel Moench,** *Senior Economist, Federal Reserve Bank of New York.* Since the Federal Open Market Committee (FOMC) began announcing its monetary policy decisions in 1994, U.S. stocks have experienced large excess returns in the twenty-four hours preceding these announcements. These abnormal returns account for more than 80 percent of the U.S. equity premium over the past seventeen years. Other major international equity indexes have experienced similar abnormal returns before FOMC announcements. We discuss possible explanations for the pre-FOMC announcement drift for equities, none of which appears to be fully consistent with the empirical evidence
16:15 – 17:00	***Funding Liquidity Risk and the Cross-Section of Stock Returns*** **Jean-Sébastien Fontaine**, *Principal Researchers, Bank of Canada,* Stocks that experience low returns when funding markets become tense exhibit higher illiquidity, higher volatility and ultimately higher risk premium. In addition, the cross-sectional dispersion of illiquidity, volatility, and returns widens when funding conditions deteriorate. We find that this risk is priced: the funding liquidity risk premium explains the cross-section of returns across liquidity-, volatility-, and size-sorted portfolios. Funding shocks play a significant role in equity liquidity, volatility, and valuation.
17:00	*Cocktail and appetizers*