Academic Research

Can we treat empirical regularities as state variables in the ICAPM? Evidence from Australia

If the investment opportunity set changes over time, then investors should allocate their resources to hedge against these changes. This is the central premise of Robert Merton's Intertemporal Capital Asset Pricing model (ICAPM). This paper examines whether three asset pricing anomalies, size, value and momentum are consistent with the ICAPM. Changes in macroeconomic variables should drive changes to the investment opportunity set. Therefore, if the returns of the size, value or momentum strategies can be explained by a macroeconomic asset pricing model, they can considered consistent with the ICAPM. This paper shows various macroeconomic models explain the returns to all three strategies, suggesting the size, value and momentum premiums can be considered state variables in the context the ICAPM.

Click on the below link to read more about this research:

Academic Research (https://www.sciencedirect.com/science/article/pii/S0927538X12000790)

Important information

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