

Macroeconomic Determinants of Cyclical Variations in Value, Size, and Momentum Premium in the UK

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Abstract : The paper examines the asymmetries in size, value and momentum premium over the economic cycles in the UK and their macroeconomic determinants. Using Markov switching approach we find clear evidence of cyclical variations of the three premiums, most noticeably variations in size premium. We associate Markov switching regime 1 with economic upturn and regime 2 with economic downturn as per OECD's Composite Leading Indicator. The macroeconomic indicators prompting such cyclicity the most are interest rates, term structure and credit spread. The role of GDP growth, money supply and inflation is less pronounced in our sample.

Keywords : macroeconomic determinants, Markov Switching, size, value

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