Summary of Cross-stock momentum and factor momentum

Feng Lixuan 20241211

1 What are the research questions?

- Is there any feature of cross-stock momentum separates from factor momentum?

2 Why are the research questions interesting?

- one stock past return can predict other connected firms' return
    - stocks connected by the same industry, the supply chain...
- are there important features still hidden in the data?
    - the difficulty of distinguishing between factor and pure firm-specific momentum
    - industry momentum stems from factor momentum.

3 What is the paper's contribution?

- Literature on distinguish cross-stock momentum from factor momentum
    - Prior:factor momentum subsumes industry momentum.
    - Extend: cross-stock momentum is not entirely driven by factor momentum.
- Contributes to the under- standing of factor momentum.
    - Prior: factor momentum is mostly from high cross-stock links
    - Extend: cross-autocorrelations derived from factor momentum are likely symmetric.
- Literature on cross-stock linkages
    - Prior:based on shared analysts, customer and supplier in the supply chain...
    - Extend: time-varying feature of the cross-stock linkages responsible for return alphas.
- Literature on asset pricing using machine learning
    - Prior: principal component analysis, Lasso...
    - Extend: use the PP for feature extraction and dimension reduction.

4 What hypotheses are tested in the paper?

- Hypotheses
    - cross-stock momentum is not entirely driven by factor momentum
    - cross-stock linkages contribute substantially to factor momentum.
- Proof
    - significant alphas using the asymmetry of industry linkages
    - factor momentum profit is mostly derived from the high cross-stock links

5 Sample

- Data such as stock returns: CRSP monthly files(1926–2018)

6 Dependent and independent variables

- Dependent variable: returns
- Independent variable: Cross-stock linkages, Factor momentum

7 Regression/prediction model specification

- uses the principal portfolio (PP) method to extract data-driven cross- stock linkages.

8 Describe at least one publishable and feasible extension of this research.

- is there other features of cross-stock momentum that separates it from factor momentum?