

# Summary of *Cross-stock momentum and factor momentum*

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## 1. What are the research questions?

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

## 2. Why are the research questions interesting?

- The paper explores the distinction between cross-stock momentum and factor momentum, which is crucial for understanding stock return predictability.
- It provides a rare insight into the dynamics of stock linkages that can influence investment strategies and asset pricing.

## 3. What is the paper's contribution?

- The results based on the asymmetry show that cross-stock momentum is not entirely driven by factor momentum.
- The finding contributes to the understanding of factor momentum exploiting the asymmetry in cross-stock linkages.
- They find evidence that the persistent parts of long-run co-movements are incorporated into the short-run co-movements.
- They contribute to the asset pricing literature using machine learning.

## 4. What hypotheses are tested in the paper?

- H1: Cross-stock momentum is distinguishable from factor momentum due to the asymmetry in lead-lag linkages.
- H2: Industry momentum is not entirely subsumed by factor momentum, and the asymmetry in industry linkages plays a significant role.

### a) Do these hypotheses follow from and answer the research questions?

- Yes.

### b) Do these hypotheses follow from theory? Explain logic of the hypotheses.

- H1: This hypothesis is rooted in the information dissemination theory in financial markets.
- H2: The publication of sustainability ratings would lead to fund flows that are, at least in part, a response to the sustainability aspect of the funds, rather than other factors such as past performance or market trends

## 5. Sample: comment on the appropriateness of the sample selection procedures.

- The sample covers a comprehensive dataset from 1926 to 2018, including stocks from NYSE, AMEX, and NASDAQ, providing a robust basis for the analysis.
- Limitations: The exclusion of microcap stocks and the use of rolling windows for constructing the prediction matrix may introduce some bias but are standard practices in the field.

## 6. Comment on the appropriateness of variable definition and measurement.

- The use of the PP method and singular value decomposition (SVD) for characterizing cross-stock linkages is innovative and allows for a parsimonious representation of complex relationships.

- The measurement of asymmetric and symmetric components of cross-stock linkages provides a nuanced understanding of momentum strategies.

**7. Comment on the appropriateness of the regress/predict model specification.**

- The regression models used in the paper assume linear relationships between cross-stock linkages and returns, which may not fully capture the nonlinear dynamics of stock interactions.

**8. What difficulties arise in drawing inferences from the empirical work?**

- The time-varying nature of cross-stock linkages and the potential for omitted factors could complicate the interpretation of the results.
- The study's focus on historical data may limit the applicability of the findings to current market conditions.

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

- Future research could explore the impact of cross-stock momentum and factor momentum on high-frequency trading strategies.
- Another extension could involve the analysis of cross-stock linkages in global markets to understand the international implications of the findings.