

Cross-Section of Returns in Frontier Markets: Evidence from the GCC Markets

Bader S. Alhashel

Jeramia Poland



Indian School of Business

December 18, 2018

What the paper does

- Arbitrage factors are tested in the GCC markets (combined and individually)

What the paper does

- Arbitrage factors are tested in the GCC markets (combined and individually)
- CAPM & FF-3 are tested in the GCC markets

What the paper does

- Arbitrage factors are tested in the GCC markets (combined and individually)
- CAPM & FF-3 are tested in the GCC markets
- The results are in-line with prior research (developed, emerging, and frontier)

What the paper depends on

- Interest in GCC

What the paper depends on

- Interest in GCC
- Factors have not been tested before in GCC

What the paper depends on

- Interest in GCC
- Factors have not been tested before in GCC
- Return anomalies exist in GCC markets (prior lit)

What the paper depends on

- Interest in GCC
- Factors have not been tested before in GCC
- Return anomalies exist in GCC markets (prior lit)
- Diversification investment (growing)

What the paper depends on

- Interest in GCC
- Factors have not been tested before in GCC
- Return anomalies exist in GCC markets (prior lit)
- Diversification investment (growing)
- Oil markets

What the paper depends on

- Interest in GCC
- Factors have not been tested before in GCC
- Return anomalies exist in GCC markets (prior lit)
- Diversification investment (growing)
- Oil markets
- "Out-of-sample" factor tests

What the paper has going for it and what it doesn't

- The execution is good

What the paper has going for it and what it doesn't

- The execution is good
- The setting has potential

What the paper has going for it and what it doesn't

- The execution is good
- The setting has potential
- The novelty of the emerging or frontier GCC probably not enough

What the paper has going for it and what it doesn't

- The execution is good
- The setting has potential
- The novelty of the emerging or frontier GCC probably not enough
- The results are not too surprising

Comment

- As is the paper really needs to convince the readers that the GCC is both different from prior markets and the same
 - tension between OOS testing and validation of prior results

Comment

- As is the paper really needs to convince the readers that the GCC is both different from prior markets and the same - tension between OOS testing and validation of prior results
- To argue the reader should be interested in GCC results in themselves there has to be some reason to expect unexpected results (different return generating factors)

Comment

- As is the paper really needs to convince the readers that the GCC is both different from prior markets and the same - tension between OOS testing and validation of prior results
- To argue the reader should be interested in GCC results in themselves there has to be some reason to expect unexpected results (different return generating factors)
- (lack of) Results for GCC and Kuwait (FF-3)

Comment

- As is the paper really needs to convince the readers that the GCC is both different from prior markets and the same - tension between OOS testing and validation of prior results
- To argue the reader should be interested in GCC results in themselves there has to be some reason to expect unexpected results (different return generating factors)
- (lack of) Results for GCC and Kuwait (FF-3)
- "Out-of-sample": only yields meaningful results if the validation set has the same data generating process (same factors)

Comment

- As is the paper really needs to convince the readers that the GCC is both different from prior markets and the same - tension between OOS testing and validation of prior results
- To argue the reader should be interested in GCC results in themselves there has to be some reason to expect unexpected results (different return generating factors)
- (lack of) Results for GCC and Kuwait (FF-3)
- "Out-of-sample": only yields meaningful results if the validation set has the same data generating process (same factors)
- The asset pricing model tests don't add much without and evaluation on the impact of prior work

Suggestions

- Create some tension around the GCC - unexpected results

Suggestions

- Create some tension around the GCC - unexpected results
- Don't refer to the GCC - go bigger and more fundamental

Suggestions

- Create some tension around the GCC - unexpected results
- Don't refer to the GCC - go bigger and more fundamental
- Position as test of asset pricing factors in commodity (petrol) heavy economy - $\text{MCap_comm} / \text{MCap}$; return sensitivity

Suggestions

- Create some tension around the GCC - unexpected results
- Don't refer to the GCC - go bigger and more fundamental
- Position as test of asset pricing factors in commodity (petrol) heavy economy - $\text{MCap_comm} / \text{MCap}$; return sensitivity

Suggestions

- Create some tension around the GCC - unexpected results
- Don't refer to the GCC - go bigger and more fundamental
- Position as test of asset pricing factors in commodity (petrol) heavy economy - $\text{MCap_comm} / \text{MCap}$; return sensitivity
- • Gorton and Rouwenhorst (2006); Buyuksahin, Haigh, and Robe (2008); Bhardwaj, Gorton, and Rouwenhorst (2015) document the lack of relationship between equity and commodity returns

Suggestions

- Create some tension around the GCC - unexpected results
- Don't refer to the GCC - go bigger and more fundamental
- Position as test of asset pricing factors in commodity (petrol) heavy economy - $\text{MCap_comm} / \text{MCap}$; return sensitivity
- - Gorton and Rouwenhorst (2006); Buyuksahin, Haigh, and Robe (2008); Bhardwaj, Gorton, and Rouwenhorst (2015) document the lack of relationship between equity and commodity returns
 - As cited its seen as a diversification location

Suggestions

- Create some tension around the GCC - unexpected results
- Don't refer to the GCC - go bigger and more fundamental
- Position as test of asset pricing factors in commodity (petrol) heavy economy - $\text{MCap_comm} / \text{MCap}$; return sensitivity
- - Gorton and Rouwenhorst (2006); Buyuksahin, Haigh, and Robe (2008); Bhardwaj, Gorton, and Rouwenhorst (2015) document the lack of relationship between equity and commodity returns
 - As cited its seen as a diversification location
 - Discount rates could be set by risk factors outside the observed market

Suggestions

- Create some tension around the GCC - unexpected results
- Don't refer to the GCC - go bigger and more fundamental
- Position as test of asset pricing factors in commodity (petrol) heavy economy - $\text{MCap_comm} / \text{MCap}$; return sensitivity
- - Gorton and Rouwenhorst (2006); Buyuksahin, Haigh, and Robe (2008); Bhardwaj, Gorton, and Rouwenhorst (2015) document the lack of relationship between equity and commodity returns
 - As cited its seen as a diversification location
 - Discount rates could be set by risk factors outside the observed market
 - Compare / contrast - US 1970s; Russia; South America w/ GCC and Kuwait

Suggestions

- Create some tension around the GCC - unexpected results
- Don't refer to the GCC - go bigger and more fundamental
- Position as test of asset pricing factors in commodity (petrol) heavy economy - $\text{MCap_comm} / \text{MCap}$; return sensitivity
- - Gorton and Rouwenhorst (2006); Buyuksahin, Haigh, and Robe (2008); Bhardwaj, Gorton, and Rouwenhorst (2015) document the lack of relationship between equity and commodity returns
 - As cited its seen as a diversification location
 - Discount rates could be set by risk factors outside the observed market
 - Compare / contrast - US 1970s; Russia; South America w/ GCC and Kuwait
- Alternatively, institutional penetration or type

Summary

- The papers content is well done

Summary

- The papers content is well done
- A clearer stand needs to be taken on why GCC

Summary

- The papers content is well done
- A clearer stand needs to be taken on why GCC
- The motivation needs to claim bigger

Summary

- The papers content is well done
- A clearer stand needs to be taken on why GCC
- The motivation needs to claim bigger
- The data may provide the distinctions needed