

The Dynamic Effects of Uncertainty and Risk Aversion on Real Activity Betas of Stock Markets Factor Risks^{*}

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Abstract

This paper employs a MIDAS decomposition of real activity betas into a high- and low frequency components to study how uncertainty and risk aversion affects the relation between investment-style factor returns and the real economy. For most investment-style factors, including the stock market excess return, there is a positive and significant relation between uncertainty and risk aversion and the beta of returns with real activity. Moreover, these effects start increasing at the beginning of recessions, with stronger effects occurring at the end of recessions. However, exactly the opposite effects are found for the quality/profitability-based factors.

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