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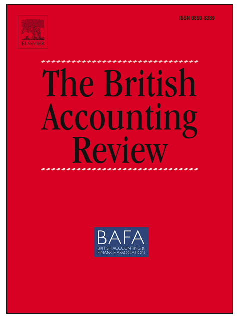

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Chris Brooks, Adrian Fernandez-Perez, Joëlle Miffre, Ogonna Nneji

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Commodity Risks and the Cross-Section of Equity Returns

Chris Brooks, Adrian Fernandez-Perez, Joëlle Miffre and Ogonna Nneji*

Abstract

The article examines whether commodity risk is priced in the cross-section of global equity returns. We employ a long-only equally-weighted portfolio of commodity futures and a term structure portfolio that captures phases of backwardation and contango as mimicking portfolios for commodity risk. We find that equity-sorted portfolios with greater sensitivities to the excess returns of the backwardation and contango portfolio command higher average excess returns, suggesting that when measured appropriately, commodity risk is pervasive in stocks. Our conclusions are robust to the addition to the pricing model of financial, macroeconomic and business cycle-based risk factors.

Keywords: Long-only commodity portfolio, term structure portfolio, commodity risks, cross-section of equity returns

JEL classifications: G12, G13

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