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News and Expected Returns in East Asian Equity Markets: The RV-GARCHM Model

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Abstract

Using intraday data to construct realized variance estimates combined with daily data on equity returns from January 1996 to May 2017, equity markets in East Asia are found to be relatively more risky than other markets. The framework uses an intertemporal capital asset pricing model with conditional moments based on realized volatility and a GARCH-in-mean specification to study the impact of news. Significant non-linear dynamics are also identified, with a positive relationship between expected returns and news associated with small shocks, and a negative relationship for large shocks. A similar relationship is found for the Australian market, but not for the US and UK equity markets.

Keywords: Relative risk aversion; Realized GARCH; Realized volatility; Risk-return trade-off; Mean impact curve.

JEL Classification: C13, C150, C220, C250, G15

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