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Does Oil and Gold Price Uncertainty Matter for the Stock Market?

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Abstract

We proxy uncertainty in the stock, oil and gold markets with the variance risk premia, extracted from futures and option contracts. We observe that an independent increase in the stock, oil or gold markets uncertainty coincides with negative returns in different industries. However, only the stock market uncertainty is a *systematic* priced factor in the entire cross section of stocks' expected returns. The oil price uncertainty is a *sector-specific* factor, and due to the industry segmentation of the market, it is only priced within oil-relevant industries. Gold price uncertainty is an *asset-specific* factor that is neither priced across nor within industries.

1 Introduction

Uncertainty cuts investment, reduces the production of consumer durable goods (Bernanke (1983)) and creates temporary drops in employment and aggregate output (Bloom (2009)). Uncertainty originates from different sources. For example, it might arise from uncertainty about future stock returns, uncertainty about future price of energy or inflationary uncertainty. Moreover, different sectors of the economy have different levels of exposure to each source of uncertainty; while uncertainty about the future price of oil is

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