Equities

Macro to Micro: Country Exposures, Firm Fundamentals and Stock Returns

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In an increasingly interconnected global system of economic and financial markets, understanding the macroeconomic landscape is important. Rapid changes in the relative economic importance of countries suggest that a company's geographic exposure should be useful to an investor seeking to forecast future cash flows and associated risks.

However, surprisingly little archival, empirical research has examined these relations. In this paper we seek to address that information gap by examining whether information about a company's geographic exposure is useful for forecasting firm fundamentals and stock returns.

We outline an approach to incorporate macroeconomic information into firm-level forecasts. Using a large sample of publicly traded firms around the world, we show that combining geographic segment sales disclosures and forecasts of country-level performance generates significant improvement in forecasting firm level profitability. This predictive power is particularly strong for domestic firms. We also find that stock prices are slow to incorporate this information.

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