MOMENTUM

Value and Momentum Everywhere

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We find consistent value and momentum return premia across eight diverse markets and asset classes, and a strong common factor structure among their returns. Value and momentum returns correlate more strongly across asset classes than passive exposures to the asset classes, but value and momentum are negatively correlated with each other, both within and across asset classes.

Our results indicate the presence of common global risks that we characterize with a three-factor model that describes a new set of 48 global across-asset-class test assets, the Fama–French portfolios and a variety of hedge fund indices. Global funding liquidity risk is a partial source of these patterns, which are identifiable only when examining value and momentum jointly across markets.

Our findings present a challenge to existing behavioral, institutional and rational asset pricing theories that largely focus on U.S. equities. The strong correlation structure among value and momentum strategies across such diverse asset classes is difficult to reconcile under existing behavioral theories, for example. The high return premium and Sharpe ratio of a global across-asset-class diversified value and momentum portfolio presents an even more daunting hurdle for rational risk-based models to accommodate than the traditional approach of considering either value or momentum separately in a single asset market.

In further investigating the underlying economic sources driving value and momentum returns, we hope our simple three-factor framework can be useful for future research that is becoming increasingly concerned with pricing global assets across markets.

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