



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Department of Accounting

“Macro to Micro: Country exposures, firm fundamentals and stock returns”

Dr Irem Tuna
LBS

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Venue: OLD.6.06

Abstract

We outline a systematic approach to incorporate macroeconomic information into firm level forecasting from the perspective of an equity investor. Using a global sample of 324,982 firm-years over the 1998-2010 time period, we find that combining firm level exposures to countries (via geographic segment data) with forecasts of country level performance, is able to generate superior out of sample forecasts for firm fundamentals and that this forecasting benefit is not incorporated into sell side analyst earnings forecasts in a timely manner. Finally, we provide some evidence that country exposures are able to improve explanatory power of characteristic regressions of equity returns and this return predictability does not appear to be explained by standard risk factors.