Can book-to-market, size and momentum be risk factors that predict economic growth?

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Abstract

We test whether the profitability of HML, SMB, and WML can be linked to future Gross Domestic Product (GDP) growth. Using data from ten countries, we find that HML and SMB contain significant information about future GDP growth. This information is to a large degree independent of that in the market factor. Even in the presence of popular business cycle variables, HML and SMB retain their ability to predict future economic growth in some countries. Our results support a risk-based explanation for the performance of HML and SMB. Little evidence is found to support such an explanation in the case of WML.

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