Performance of international and global equity mutual funds: Do country momentum and sector momentum matter?

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Highlights

- We analyze the impact of country and sector momentum factors on fund performance.
- More than 50% of funds have a significant exposure on at least one of the factors.
- Including both factors decreases fund alphas.
- Both factors influence performance persistence of funds.
- Both factors impact results when studying luck versus skill in the cross-section.

Abstract

This is the first paper analyzing the impact of index momentum factors on the performance of international and global equity funds. Extending an international, index-based version of the Fama and French (1993) three-factor model by adding the factors of country momentum and sector momentum, we find that more than 50% of funds exhibit significant exposure to at least one of these factors. Including both new factors in performance evaluation clearly impacts results when analyzing (i) the risk-adjusted performance, (ii) the performance persistence of funds, and (iii) luck versus skill in the cross-section of funds. Our main results are robust against models which additionally cover a stock-based momentum factor as well as single country, regional and sector factors.

JEL classification

G11; G12; G15

Keywords

International equity funds; Global equity funds; Country momentum; Sector momentum; Fund performance

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