



THE OHIO STATE UNIVERSITY

FISHER COLLEGE OF BUSINESS

Depressed Risk Premia or Mispricing:
Where Did Commodity Returns Go After Financialization?

Fahiz Baba-Yara and Massimiliano Bondatti

Discussant: **Andrei S. Gonçalves**

2022 Australasia Finance and Banking Conference

Outline

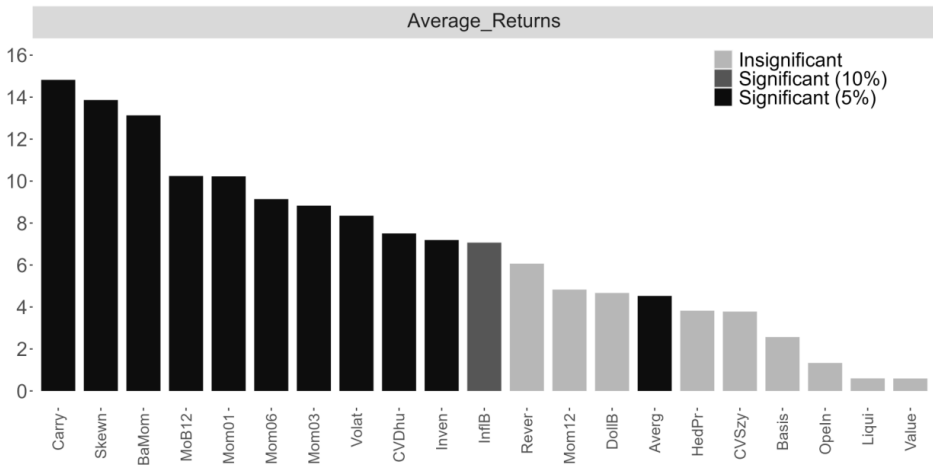
The Paper in a Nutshell

My Comments

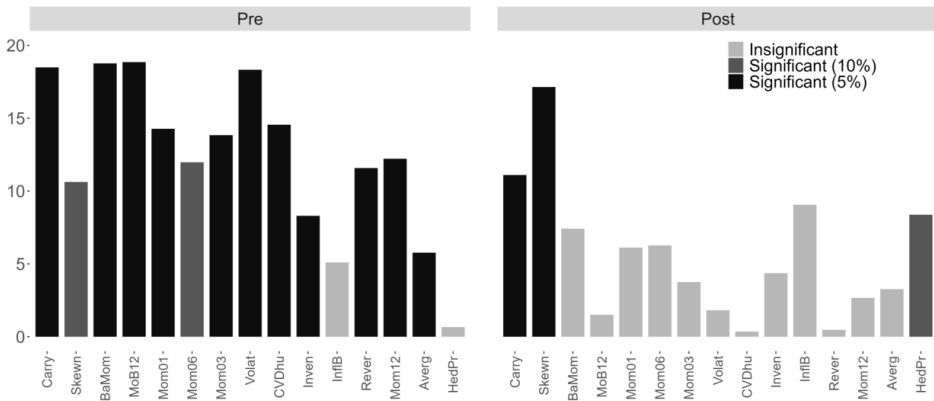
Final Remarks

Commodity Investment Strategies (Prior Literature)

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Commodity Investment Strategies (Pre vs Post Financialization)



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	Returns to Strategies	
	(1)	(2)
Post-Financialization	-0.511**	
Post-FinaToPublication		
Post-Publication		
Observations	8,499	
Factor Fixed Effect	Yes	

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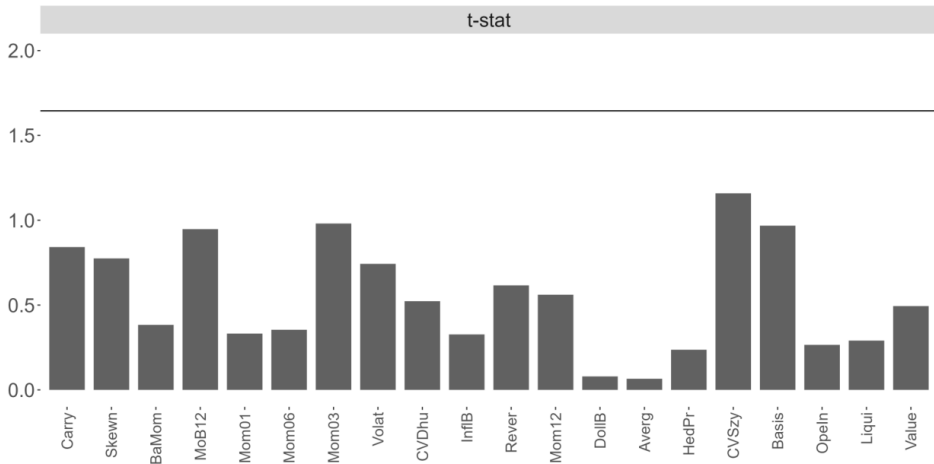
	Returns to Strategies	
	(1)	(2)
Post-Financialization	-0.511**	
Post-FinaToPublication		
Post-Publication		-0.460**
Observations	8,499	8,499
Factor Fixed Effect	Yes	Yes

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	Returns to Strategies			
	(1)	(2)	(3)	(4)
Post-Financialization	-0.511**		-0.438**	
Post-FinaToPublication				-0.437**
Post-Publication		-0.460**	-0.144	-0.577**
Observations	8,499	8,499	8,499	8,499
Factor Fixed Effect	Yes	Yes	Yes	Yes

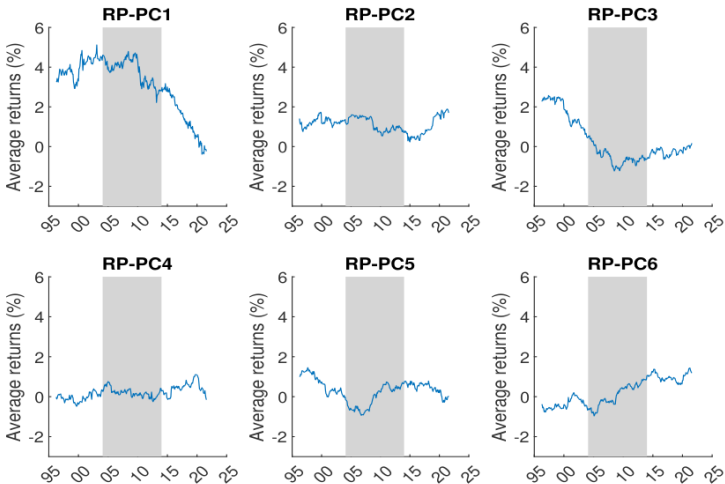
Alphas from a Latent Factor Model

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Risk Premia on the Latent Factors

10-years Rolling-Window Average Price of Risk



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- One of the key points:
- What exactly does that mean?
- Roll (1977):
- Kozak, Nagel, and Santosh (2018):
- Can you identify the drivers of the (latent factors') “drifting” risk premia?

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2) Paper Would Benefit from an Economic Model

- The paper has a very interesting stylized fact:
- However, the link to economics can be improved
- The prior literature has provided models linking financialization to price volatility/informativeness
- Can you build on these models to show that (theoretically) financialization leads to a decline in the $\mathbb{E}[r]$ of commodity strategies?
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- The paper is written with commodities in mind
- Nothing wrong with that: commodities are important
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