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Determinants of Dow Jones Returns

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Oral Presentation O2.1

DETERMINANTS OF DOW JONES RETURNS

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As of 2010, there was \$14 trillion invested in the New York Stock Exchange (NYSE) and \$55 trillion invested in stock markets worldwide. In this study, we use the Arbitrage Pricing Theory (APT) to identify the main determinants of the Dow Jones returns for the period 1990-2011. We test several hypotheses on the relationship between index specific variables such as Dividend Yield, Earnings Yield, Book-Market and the index returns. We also document the relationship between several macroeconomic factors including T-bill rate, Default Spread, Term Spread, Unemployment and Inflation and index returns. Our results indicate a significant relationship between Earnings Yield, Unemployment, Inflation, Term Spread, T-bill rate and the index returns.

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