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The Impact of Exogenous Macro Economic Events on Flyer Fund Stock and Sector Returns

Eric Flanigan
University of Dayton, stander@udayton.edu

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The Alpha Impact of Rising Oil Prices, Interest Rates and Market Volatility on Flyer Fund Sector/Stock Returns

Name: Eric Flanigan
Advisor: Dr. Bob Dean
Professor Leslie Douglas

Study Purpose:
• Determine impact of oil price, interest rate and market volatility increases on Flyer Fund sector/stock returns compared to market return

Research Approach:
• Develop response functions and betas for Flyer Fund sectors/stocks using Bloomberg market factor model

Model Specifications:
\[
\log P_{it} = \log A + B(\log \text{Oil}_t) \\
\log P_{it} = \log A + B(\log \text{Int}_t) \\
\log P_{it} = \log A + B(\log \text{VIX}_t)
\]

Where:
• \(P_{it}\) = Price of the sector/stock
• \(A\) = Intercept
• \(B\) = Beta
• \(\text{Oil}\) = Price of Oil
• \(\text{Int}\) = Interest Rate
• \(\text{VIX}\) = Market Volatility
• \(t\) = Rolling 60 month Period

Conclusions from Mix 2:
Flyer Fund outperforms the benchmark with rising oil prices (6%), increased volatility (VIX +15%), and higher interest rates (10 yr Treasury +100bps).

Sector Alpha Analysis:
1. Highest positive alpha – Health Care (0.30)
2. Highest negative alpha – Industrials (-0.06)
3. Three of eight sectors had positive alpha
4. Three of eight sectors had negative alpha
5. Two of eight sectors had zero alpha
6. Overall portfolio alpha +0.24

Stock Selection Analysis:
1. Held one of the three top performers in Health Care. (Novartis)
2. Held none of the three top performers in Industrials
3. Stock selection needs to be improved