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# Economic, Financial, and Fundamental Global Risk In and Out of the EMU

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We explore the different factors that drive expected returns in world markets. Our research offers two innovations. First, the introduction of the Euro currency unit greatly reduces the complexity of including foreign exchange risk in asset pricing models. We use a synthetic Euro excess return along with a Yen excess return to assess country equity sensitivities to currency risk factors. Second, when combining the currency factors with a group of economic factors, we measure the incremental information in the factor proposed in Fama and French (1998). We find that a global price-to-book factor offers little additional explanatory power over and above a model that includes economic risk factors.

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