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Exchange rate risk and Philippine stock returns: before and after the Asian financial crisis

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Abstract

This paper examines the impact of exchange rate risk on Philippine stock returns during the Asian financial crisis. The results presented show that exchange rate risk, however measured, has a significant positive impact on stock returns. This finding is consistent with the hypothesis that investors began to hedge their exposure to exchange rate risk during the crisis.

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Notes

- ¹ Orthogonality of factors is not really necessary for most forms of the APT. Furthermore, enforcing orthogonality may be innocuous by itself since the R^2 between the two factors is 0.0503 which has a p-value under a t-test of 0.0138.
- ² Jorion also used a six-factor model based on Chen et al. The factors were changes in exchange rate, industrial production, expected and unexpected inflation risk premium, term structure, and market excess return. The other factors are not used in this study based on the results of Aquino ([2002](#)–2003) that these other factors do not appear to be separately priced in the stock market.
- ³ Both the Phisix and the all shares index are market capitalization weighted based on all outstanding shares.
- ⁴ Using the Augmented Dickey–Fuller test, the unit root hypothesis for both series is rejected at 0.01 level of significance.

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