

“From Text to Beta: Macroeconomic Disclosures and Firm-level Systematic Risk”

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Abstract:

This study uses a novel approach to identify priced systematic risk by developing a firm-year measure of earnings sensitivity to future aggregate shocks using macroeconomic disclosures in 10-Ks. These disclosures (i) provide an improved measure of forward-looking earnings sensitivity to aggregate shocks; (ii) reveal the economic drivers of such sensitivity; and (iii) capture priced systematic risk. Macroeconomic disclosures are dispersed throughout the 10-K, increase over time, vary with the business cycle, and exhibit significant within-firm variation highlighting the time-varying nature of risk exposure. Overall, corporate disclosures offer unique insights into the economic drivers of systematic risk and cost of capital.