Market momentum, macroeconomic factors, and investor sentiment: Using the VAR model to evidence from Taiwan stock exchange

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Abstract

While the VAR models further considers the effect of the lagged variables and examines the interactions among the macro economy, investor sentiment, and momentum. The results which show the existence of the interactions support our predictions, implying that the pricing of stocks or firms should take account of future macroeconomic situation and investor sentiment to get an optimal price. The evidence indicates that the market momentum is affected by exchange rate and oil price. This effect can be possibly attributed to the US dollar fluctuation aroused by the volatility of the oil prices, and in turn affecting the consumers’ aspiration level. The changes in the consumers’ aspiration will further influence market momentum. Suggesting that the momentum can be attributed to investor sentiment, our conclusion supports the argument of Baker and Wurgler (2006).

Keywords: Momentum, Investor sentiment, Macroeconomic factors, VAR