Why does idiosyncratic risk increase with market risk?

Söhnke M. Bartram, Gregory Brown, and René M. Stulz*

The latest version of this paper is available at

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2802486

* Respectively, Professor of Finance, University of Warwick, Professor and Sarah Graham Kenan Distinguished Scholar, Kenan-Flagler Business School, The University of North Carolina at Chapel Hill, and Everett D. Reese Chair of Banking and Monetary Economics, Fisher College of Business, The Ohio State University, NBER, and ECGI. We thank Laura Veldkamp for providing uncertainty index data. The paper has been improved by thoughtful comments from Árpád Ábrahám, Eugene Fama, Francesco Franzoni, Joseph Gerakos, Ronald Gilson, Andrei Gonçalves, Luigi Guiso, Robert Hodrick, Ron Kaniel, Camelia Kuhnen, Neil Pearson, Herakles Polemarchakis, Stefan Ruenzi, Gill Sadka, Jacob Sagi, Andrei Salem, Laszlo Sander, Sheridan Titman, Winston Dou and workshop participants at ANU, Bank of Italy, Durham University, EIEF, Essex University, EUI, Frankfurt School of Finance and Management, IWH, Lancaster University, Queens University Belfast, Paris Dauphine University of Basel, University of Mannheim, University of North Carolina, University of Reading, University of Surrey, the 2017 American Economic Association, 2016 Axioma Quant Forum, the 2016 GEA conference in Berlin, and 5th Luxembourg Asset Management Summit. The authors acknowledge financial support from the British Academy/Leverhulme Trust, Center for Financial Studies and Inquire Europe. Bartram gratefully acknowledges the

warm hospitality of the UCLA Anderson School of Management, London Business School, CFS House of Finance,

EIEF and EUI during visits to these institutions. William Waller provided excellent research assistance.