The Pricing Of Asymmetric Market Risk

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Abstract

Understanding how financial markets price risk remains a central pursuit in empirical asset pricing. This paper investigates how asymmetric market risk is priced in the UK stock market by applying the realized semibeta approach introduced by Bollerslev et al. (2022). The analysis provides interesting findings showing different statistical relationships across the semi betas, underscoring the asymmetric behaviour of market risk. These findings remain consistent across a range of robustness tests. Overall, the results emphasize the relevance of incorporating downside risk into asset pricing frameworks and suggest important applications for portfolio construction and risk evaluation.