

Online Appendix Table.

List of industries

This table lists the 38 industries that are used in the construction of the bilateral segmentation measure. The industry classification follows the Industry Classification Benchmark (ICB), as adopted by Datastream.

Industry name

Oil & Gas Producers
Oil Equipment & Services
Alternative Energy
Chemicals
Forestry & Paper
Industrial Metals & Mining
Mining
Construction & Materials
Aerospace & Defense
General Industrials
Electronic & Electrical Equipment
Industrial Engineering
Industrial Transportation
Support Services
Automobiles & Parts
Beverages
Food Producers
Household Goods & Home Construction
Leisure Goods
Personal Goods
Tobacco
Health Care Equipment & Services
Pharmaceuticals & Biotechnology
Food & Drug Retailers
General Retailers
Media
Travel & Leisure
Fixed Line Telecommunications
Mobile Telecommunications
Electricity
Gas, Water & Multiutilities
Banks
Nonlife Insurance
Life Insurance
Real Estate Investment & Services
Financial Services
Software & Computer Services
Technology Hardware & Equipment

Online Appendix Table

System of Three Equations

This table reports results from two-step GMM estimation of a system of three equations: Annual country-industry returns and earnings growth rates are modeled as a function of lagged (one-year) industry- and country-level as well as international predictors, while industry earnings yields are modeled as a function of predicted contemporaneous annual returns and earnings growth rates. All data are employed at the monthly frequency between 1990 and 2007 ($N = 57,323$). Included country-industry portfolios are those used in the construction of the segmentation measure for the Balanced sample (subject to data availability). Standard errors are robust to heteroscedasticity and autocorrelation of up to 20 months. Coefficient estimates with absolute t -statistics larger than 1.96 appear in bold. N denotes the number of observations. Industry returns and earnings growth rates (measured in USD) as well as industry earnings yields are from main data set, which is obtained from Datastream. Industry dividend yields are obtained from Datastream. The U.S. Treasury yield, the U.S. default spread, and the U.S. terms spread are from Federal Reserve Economic Data (FRED). Short term government yields are from Global Financial Data. Industrial production (IP) growth rates are obtained from the International Financial Statistics (IFS) database. The R^2 is the amount of variation in the industry earnings yield explained by the estimated linear combination of predicted returns and earnings growth rates.

	Discount rates	Expected earnings growth	Earnings yields
Intercept	0.2558 (0.0452)	0.5753 (0.0389)	0.0845 (0.0845)
Predicted return			0.0344 (0.0071)
Predicted earnings growth rate			-0.1348 (0.0094)
EU - indicator	-0.1549 (0.0429)	-0.0226 (0.0264)	
DY - local (industry-level)	0.8995 (0.2212)	-2.6937 (0.2782)	
DY - world (industry-level)	1.0737 (0.5833)	1.7014 (0.5463)	
DY - Core Europe (industry-level)	-0.4207 (1.0105)	-4.0941 (0.5405)	
Short-term (1 year) US Treasury yield in (%)	-0.0492 (0.0067)	-0.0098 (0.0036)	
Short-term Govt. yield (in %)	-0.0106 (0.0017)	-0.0163 (0.0017)	
Default spread - USA (in %)	0.0417 (0.0181)	-0.1233 (0.0257)	
Term spread - USA (in %)	0.0192 (0.0055)	0.0060 (0.0048)	
IP growth - local (country-level, Y-o-Y)	-0.9504 (0.2109)	0.0559 (0.1611)	
IP growth - USA (country-level, Y-o-Y)	3.2545 (0.3715)		
Earnings growth (USD) - local (industry-level, Y-o-Y)	0.0540 (0.0126)	-0.0864 (0.0072)	
EU x DY - Core Europe (industry-level)	2.6802 (1.0081)		
EU x Short-term (1 year) US Treasury yield in (%)	0.0184 (0.0061)		
EU x Default spread - USA (in %)		0.0272 (0.0268)	
EU x IP growth - local (country-level, Y-o-Y)	0.7904 (0.2270)	0.0870 (0.1755)	
EU x IP growth - USA (country-level, Y-o-Y)	-1.3351 (0.3830)		
EU x Earnings growth (USD) - local (industry-level, Y-o-Y)	-0.0337 (0.0141)		
R^2			0.174