# Article information:

Do Intermediaries Matter for Aggregate Asset Prices? - HADDAD - 2021 - The Journal of Finance - Wiley Online Library  
<https://onlinelibrary-wiley-com.virtual.anu.edu.au/doi/10.1111/jofi.13086>

# Article summary:

1. The health of financial intermediaries such as investment banks, commercial banks, or hedge funds is correlated with low aggregate asset prices and high-risk premia, suggesting that the financial sector's health matters for aggregate asset prices.

2. To determine how much variation in aggregate risk premia can be attributed to intermediaries versus households, the authors compared variation in risk premia across more and less intermediated asset classes and found relatively more predictability for asset classes that are more intermediated (e.g., mortgage-backed securities, credit default swaps, currencies, commodities) and relatively less predictability for asset classes that are less intermediated (e.g., stocks).

3. The authors propose a simple model to capture the distinction between household and intermediary risk aversion and use proxies for intermediary risk-bearing capacity, asset class returns, and the degree to which intermediaries are active in each asset class to test their hypothesis. They find that their results hold even when accounting for uncertainty in mean returns estimates using a Bayesian approach.

# Article rating:

May be slightly imbalanced: The article presents the information in a generally reliable way, but there are minor points of consideration that could be explored further or claims that are not fully backed by appropriate evidence. Some perspectives may also be omitted, and you are encouraged to use the research topics section to explore the topic further.

# Article analysis:

The article "Do Intermediaries Matter for Aggregate Asset Prices?" by Haddad (2021) explores the relationship between financial intermediaries and aggregate asset prices. The author argues that the health of the financial sector matters for asset prices, but it is unclear how much variation in risk premia can be attributed to intermediaries versus households. To address this question, the author compares variation in risk premia across more and less intermediated asset classes.

Overall, the article provides a thorough analysis of the topic and presents compelling evidence to support its claims. However, there are some potential biases and limitations to consider.

One potential bias is that the article focuses primarily on the role of intermediaries in driving asset prices, while downplaying the importance of other factors such as macroeconomic conditions or geopolitical events. While it is true that financial intermediaries play a significant role in shaping market outcomes, it is important not to overlook other drivers of asset prices.

Another limitation is that the article relies heavily on proxies for intermediary risk appetite rather than directly measuring this variable. While these proxies may be informative, they are unlikely to capture all aspects of intermediary behavior and may introduce measurement error into the analysis.

Additionally, while the article acknowledges that household risk aversion may also impact asset prices, it does not fully explore this possibility or consider alternative explanations for observed patterns in risk premia. For example, changes in market liquidity or investor sentiment could also contribute to fluctuations in asset prices.

Despite these limitations, the article makes an important contribution to our understanding of how financial intermediaries influence aggregate asset prices. By comparing predictability across different types of assets with varying degrees of intermediation, the author provides compelling evidence that intermediaries do indeed play a significant role in shaping market outcomes.

Overall, while there are some potential biases and limitations to consider when interpreting this research, it provides valuable insights into an important topic and highlights areas for further investigation.

# Topics for further research:

* Factors influencing asset prices beyond financial intermediaries
* Direct measures of intermediary risk appetite in asset pricing
* Household risk aversion and its impact on asset prices
* Market liquidity and its role in asset price fluctuations
* Investor sentiment and its influence on asset prices
* Alternative explanations for patterns in risk premia beyond intermediaries

# Report location:

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