How Global is Predictability?

November 3, 2023

We show that asset pricing has a strong global component in the sense that a common global model has stronger predictability of stock returns than local models estimated in each country - even when the global model is estimated without the use of local data. While locally estimated models add no value to a global model, asset pricing nevertheless has a small local component. To detect the local component, we develop a refined transfer learning model that gains power and precision by building off the global component, denoted the "generalized elastic net" (GENet). We estimate that the predictive parameters are 94% global.
here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.