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Learning, Dispersion of Beliefs, and Risk Premiums in an Arbitrage-Free Term Structure Model

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Stanford research paper

In this paper, researchers explore the idea that knowing how much professionals disagree about how quickly the U.S. economy is emerging from a recession may produce actionable insight into the future performance of the bond market.

The authors also assert that the forecasting power of the information they analyzed is distinct from that of macroeconomic factors such as inflation and output growth, and thus the yield-relevant information they identify is distinct from information about the state of the business cycle. Indeed, they contend that after accommodating for learning, macro factors have relatively weak real-time predictive power.

eliminate the risk of experiencing investment losses.

The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown 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statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.