Excess Asset Returns Predictability in an Emerging Economy: The Case of Colombia

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We examine the extent in which the ratios of book-to-market and earnings-to-price predict excess asset returns in an emerging market economy like Colombia. We want to find the magnitude in which these ratios help to forecast excess returns and if there is any evidence that one of the ratios outperforms the other. In addition, we want to address the impact of the spread between the domestic and the foreign policy interest rate in the excess asset returns. Using Bayesian techniques, we find that the magnitude of the effect is similar for both ratios and that the impact is slightly higher in the case of firms with higher book-to-market ratios. Moreover, we find evidence that the spread of interest rates explains the excess returns in a way according to the Uncovered Interest Parity theory.

Fuente: https://www.banrep.gov.co/en/excess-asset-returns-predictability-emerging-economy-case-colombia