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Intertemporal risk-return tradeoff in the short-run

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"Intertemporal Risk-Return Tradeoff in the Short-Run"

- Using data for 1926-2015, we find that the sign of the intertemporal risk-return relation is strongly related to daily market returns.

- The risk-return tradeoff is weak or negative following positive market returns, and significantly positive following negative market returns, consistent with positive (negative) returns causing aggregate overpricing (underpricing).

- The asymmetry in the intertemporal risk-return relation is further confirmed by the indirect relation between contemporaneous volatility innovations and market returns.

- The estimates of the relative risk aversion parameter are strongly affected by the inclusion of a term capturing investor adjustment behavior.