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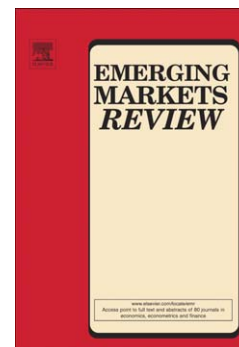
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TESTING FOR STOCK RETURN PREDICTABILITY IN A LARGE CHINESE PANEL [*]

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Abstract

This paper proposes a simple panel data test for stock return predictability that is flexible enough to accommodate three key salient features of the data, namely, predictor persistency and endogeneity, and cross-sectional dependence. Using a large panel of Chinese stock market data comprising more than one million observations, we show that most financial and macroeconomic predictors are in fact able to predict returns. We also show how the extent of the predictability varies across industries and firm sizes.

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