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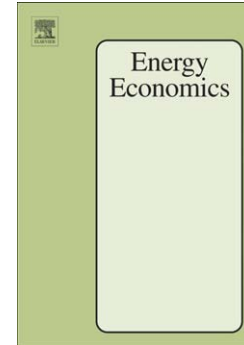
Has Oil Price Predicted Stock Returns for Over a Century?

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**Has Oil Price Predicted Stock Returns for Over a Century?#****Paresh Kumar Narayan\* and Rangan Gupta\*\***

## ABSTRACT

This paper contributes to the debate on the role of oil prices in predicting stock returns. The novelty of the paper is that it considers monthly time-series historical data that span over 150 years (1859:10-2013:12) and applies a predictive regression model that accommodates three salient features of the data, namely, a persistent and endogenous oil price, and model heteroskedasticity. Three key findings are unraveled: First, oil price predicts US stock returns. Second, in-sample evidence is corroborated by out-sample evidence of predictability. Third, both positive and negative oil price changes are important predictors of US stock returns, with negative changes relatively more important. Our results are robust to the use of different estimators and choice of in-sample periods.

JEL classification: C22, E37, G17, Q43

Keywords: Stock returns, Predictability, Oil price

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