

The Conditional Distribution of Excess Returns: An Empirical Analysis

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Abstract

This paper presents a new method for nonparametric estimation of the conditional distribution function of excess returns. The method, based on techniques recently developed for generalized additive models, avoids the "curse of dimensionality" problem while retaining interpretability and may be viewed as dual to the one based on modelling the quantiles of the conditional distribution. Our results indicate the presence of nonlinearities in the impact of a monetary aggregate on the conditional probability of future excess returns that do not arise from structural breaks and constitute a robust feature of the data.

JEL classification: C13, C14, G12.

Keywords: Additive models, asset pricing, nonparametric methods, regression quantiles.

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