

# Essays on Forecasting in Economics and Finance

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## **Chapter 1: Forecasting with Large Datasets: Trimming Predictors and Forecast Combinations** (Job Market Paper), with Jon Samuels.

A longstanding finding in the forecasting literature is that averaging forecasts from different models improves upon forecasts based on a single model, with equal weight averaging working particularly well. We show that the simple average approach can be improved by trimming the set of potential models prior to forecast combination. We compare different trimming schemes and propose a new version based on the Model Confidence Set (MCS) (Hansen et al.(2010)). Applying our analysis to U.S. macroeconomic aggregates, we find significant gains in out-of-sample forecast accuracy from our proposed trimming method. We argue that parameter estimation error in small samples provides an explanation for these gains. Finally, we show that once the worst models are trimmed, there are minimal gains from using approaches like BMA that assign different weights to the remaining forecasts.

## **Chapter 2: Financial Intermediaries Fluctuations: Do they Forecast Economic Activity?**

The current financial crisis has renewed the interest of researchers about the interrelations between the macroeconomy and the financial sector. It has also brought the fluctuations of financial intermediaries to the forefront of the discussions about the transmission of financial crisis to the real economy. This paper conducts a real-time, out-of-sample analysis of the forecasting power of financial intermediaries balance sheets to a wide range of economic activity measures. Using a Bayesian Model Averaging approach, I then evaluate to what extent the informational content of financial intermediaries balance sheet fluctuations is not captured by more traditional measures of macroeconomic activity and financial distress. I find little evidence that balance sheet of most financial intermediaries provide information beyond the one contained in traditional macro and financial series. I do find however evidence of non-linearities, where balance sheet information seem to gain in relevance during times of crisis.

## **Chapter 3: International Evidence on Bond Risk Premia**

This paper revisits the study of time-varying excess bond returns in international bond markets. Using newly available yield curve data from 10 different countries with independent monetary policy, I test the robustness of Cochrane and Piazzesi (2005). For most countries in my sample, I find more modest predictive power for forward rates than originally found by Cochrane and Piazzesi (2005) for the US. Their single-factor model captures well the predictability in international data, and this factor also tends to have a tent-shape in most countries of my sample. CP factors are more idiosyncratic across countries than yields or forward rates. Finally, I show that the recent financial crisis has significantly affected the predictability of excess bond returns.