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ABSTRACT

Using historical data (January 1927 to December 2014), this paper shows that stock return predictability is time-varying based on several well-known predictors from the literature. However, only 7 of 14 predictors exhibit this time-varying predictability pattern. For the remaining predictors, either there is no predictability or predictability is not time-dependent. We also examine the determinants of time-varying predictability. We show that (a) both expected and unexpected shocks emanating from financial variables, and (b) phases of predictability (which capture market volatility) explain return predictability.

Keywords: *Heteroskedasticity*; *Time-varying Predictability*; *Predictive Regression*.