



An International Analysis of Earnings, Stock Prices and Bond Yields

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Abstract

Abstract: This paper assesses the contemporaneous relationship between stock prices, earnings and long-term government bond yields for a large number of countries. The time period of our data spans several decades. In a time series framework our analysis first tests the presence of a long-term contemporaneous relationship between these three variables (the so-called Fed model). Next, we assess if government bond yields play a significant role in the long-run relationship. Our empirical results question the validity of the Fed model in the sense that we show that long-term market movements are mainly driven by the earnings yield and not the differential between bond and earnings yields. As such, our analysis validates the results of [Asness \(2003\)](#) for a much larger collection of countries while using a dynamic time series (cointegration) framework. Finally, we also show that changes in long-term government bond yields have a short-term impact on stock prices.

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