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Spanish stock market sensitivity to real interest and inflation rates: an extension of the Stone two-factor model with factors of the Fama and French three-factor model

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Notes

¹ To avoid the possible existence of multicollinearity between the explanatory variables, it is usually used some orthogonalization procedure. Following Lynge and Zumwalt ([1980](#)), Flannery and James ([1984](#)), Sweeney (1998) and Fraser et al . ([2002](#)), the market return has been regressed on a constant and the series of real interest and inflation rates using OLS (ordinary least squares) estimation. Thus, the effect of each factor is isolated and the movement that remains is captured by the residuals.

² I adjust stock prices by splits.

³ I take into account that the last day of the month for which I have information about prices must not be previous than seven days before to the last calendar day of the month.

⁴ These models, in contrast to structural models, do not need additional information for doing forecasts. This is the main advantage of this procedure. The expected returns are calculated using the historical data.

⁵ Unit roots tests are performed to ensure that the series are stationary. The results are consistent with the hypothesis of a unit root.

⁶ I have used the monthly data from 1980 to 2010. The early sample.

⁷ Unit roots tests are performed to ensure that the series are stationary. The results are consistent with the hypothesis of a unit root.

⁸ This regression model is used to estimate the impact of 'oil and energy' on the market return. The results show a positive and significant impact.

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