Excess Asset Returns Predictability in an Emerging Economy: The Case of Colombia

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The study examines the predictive capacity of book-to-market and earnings-to-price ratios in forecasting excess asset returns in an emerging market economy like Colombia's. The objective is to determine the magnitude in which these ratios help to forecast excess returns and if there is any evidence that one of the ratios outperforms the other. Furthermore, the study addresses the impact of the spread between the domestic and the foreign policy interest rate in the excess asset returns. Using Bayesian techniques, the findings suggest that the magnitude of the effect is similar for both ratios and that the impact is slightly higher

in the case of firms with higher book-to-market ratios. Moreover, the study identifies evidence that the spread of interest rates explains the excess returns in a way according to the Uncovered Interest Parity theory.