

Do Anomalies Really Predict Market Returns? New Data and New Evidence*

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Abstract

Using new data from U.S. and global markets, we revisit market risk premium predictability by equity anomalies. We apply a repertoire of machine learning methods to 42 countries to reach a simple conclusion: anomalies, as such, cannot predict aggregate market returns. Any ostensible evidence from the U.S. lacks external validity in two ways: it cannot be extended internationally and does not hold for alternative anomaly sets—regardless of the selection and design of factor strategies. The predictability—if any—originates from a handful of specific anomalies and depends heavily on seemingly minor methodological choices. Overall, our results challenge the view that anomalies as a group contain helpful information for forecasting market risk premia.

Keywords: equity anomalies, return predictability, machine learning, international stock markets, equity premium

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1. Introduction

Asset pricing literature typically views return predictability from two perspectives. The first strain examines *cross-sectional* predictability, exploring whether stock characteristics assist in answering why some stocks outperform others.¹ The other focuses on the *time-series* dynamics of the market equity premium.² A few recent studies have attempted to link these two seemingly disjointed lines of research. Engelberg et al. (2023) scrutinize whether aggregate versions of cross-sectional stock characteristics make good time-series predictors. They find little evidence to support this thesis. In turn, Dong et al. (2022) investigate the information content of cross-sectional anomaly strategies. Using a large pool of factor returns and various forecasting models, they document that past returns on long-short anomaly portfolios help to predict the market risk premium within the U.S. market.

In this paper, we comprehensively reexamine market return predictability by equity anomalies. Using new data from both U.S. and international markets, we examine hundreds of anomalies in 42 countries around the world. Our baseline sample contains more than 80,000 stocks, 10 million return observations, and one billion monthly stock characteristics. With this data at hand, we take advantage of machine learning models and forecast market equity premia based on anomaly portfolio returns. With a focus on variable selection and dimension reduction techniques, machine learning is well equipped to tackle challenging prediction problems by reducing degrees of freedom and condensing redundant variation among predictors (Gu et al., 2020). Finally, we employ various evaluation methods: out-of-sample R^2 (R_{OS}^2), utility gains, and Sharpe ratio comparisons.

Our findings yield a simple, yet unequivocal conclusion: *equity anomalies, as such, cannot predict market returns*. Any apparent predictability lacks external validity in two critical aspects: stock market selection and anomaly sample. While some evidence may be spotted in individual markets—such as the United States—it originates from a handful of specific anomalies and depends heavily on seemingly unimportant methodological choices.

First, the return predictability does not extend to international stock markets. To demonstrate this, we apply the models from Dong et al. (2022): ordinary least squares regressions (OLS), elastic net (ENet), simple combination (Comb), combination elastic net (C-ENet), predictor average (Avg), principal component regression (PC), and partial least squares (PLS). Using data from 1990 to 2021, we feed these models with up to 153

¹ See, e.g., Fama and French (1993, 2015, 2018), Harvey et al. (2016), Green et al. (2017), Hou et al. (2020), and Chen and Zimmermann (2022).

² See, e.g., Rapach et al. (2005, 2010, 2013), Campbell and Thomson (2008), Welch and Goyal (2008), Hollstein et al. (2020), and Goyal et al. (2021).

anomaly portfolios from Jensen et al. (2023). We aim to verify whether any useful information can be extracted from factor returns.

We find no robust evidence of market risk premium predictability in global markets. The average R_{OS}^2 's across all 42 countries in our sample are *negative* or indistinguishable from zero. The few significant R_{OS}^2 coefficients seem to be almost randomly scattered across countries and models. In other words, there is no systematic international evidence that machine learning models based on equity anomalies reliably forecast market portfolio returns. These negative conclusions are supported by alternative measures of prediction performance. An overview of strategies' utility gains and Sharpe ratios confirms that the equity anomalies have negligible practical value for international investors. Pursuing anomaly-based forecasts fails to generate measurable utility gains within global markets. Furthermore, it does not lead to reliable improvement in the risk-adjusted portfolio performance. The Sharpe ratios on portfolios that are formed using anomaly-based predictions fail to beat simple naïve strategies, such as buy-and-hold or allocations based on predictions from a historical mean model.

Our findings are robust to various methodological modifications. They hold not only for long-short portfolios but also for long and short legs separately. They do not depend on specific portfolio breakpoints used to form anomaly strategies—surviving both in tercile and quintile portfolios. Finally, they are qualitatively influenced neither by choice of a recursive or rolling training window nor by the precise length of these windows.

The second major weakness of the market return predictability concerns the anomaly selection: it fails to work for alternative anomaly sets. To illustrate this, we revisit the playing field from the seminal paper by Dong et al. (2022): the U.S. stock market from 1970 to 2017. Besides the anomalies from Dong et al. (2022), we scrutinize the performance of the most well-known anomaly sets from the asset pricing literature: 153 tercile and decile portfolios based on data from Jensen et al. (2023), 207 anomalies from Chen and Zimmermann (2022), and 188 factors from Hou et al. (2020). Among all the tested samples, the return predictability holds only for one in four: the original sample of Dong et al. (2022). No other anomaly set generates any evidence of a similar pattern.

Though the predictability cannot be detected for full alternative anomaly sets, perhaps it holds for some of its parts. Imaginably, some combinations of individual factors could generate reliable forecasts. To scrutinize this conjecture, we randomly select samples of 100 anomalies from various sets. We find that the selection dimension indeed affects return predictability. Modifications of the anomaly sets can lead to considerable differences in forecasting performance. For certain models, such as ENet or C-ENet, the R_{OS}^2 can span from deeply negative to slightly positive—depending on which anomalies are supplied to the model. Nevertheless, despite this apparent dispersion, our primary conclusion still prevails: virtually no combination of factors can produce reliable forecasts.

Typically, even the best percentile of the random draws fails to generate significantly positive R_{OS}^2 .

Importantly, the prediction performance may depend not only on *which* anomaly portfolios are picked but also on *how* they are formed. Arbitrary decisions concerning portfolio construction may markedly influence their return distributions (Menkveld et al., 2023; Soebhag et al., 2023; Walter et al., 2022). Do they also matter for market return predictability? Perhaps, some specific construction of factor portfolios sets the stage for reliable forecasts. To investigate this possibility, we consider various methodological choices that are commonly applied to anomaly portfolio design in the asset pricing literature. Using the 153 signals from Jensen et al. (2023) and 207 from Chen and Zimmermann (2022), we investigate, e.g., different weighting schemes, stock price limits, winsorization rules, or cutoff points. Rather than checking individual specifications, we take a holistic approach—amassing 2592 distinct implementations of factor strategies.

The outcomes of this experiment confirm that the portfolio design affects the prediction performance. The same forecasting model, supplied with an identical selection of anomalies, may have R_{OS}^2 differing by even several percentage points. Nonetheless—again—our baseline inference remains intact: anomalies are not reliable predictors of market portfolio returns. Hardly any implementation of the hundreds of factor portfolios from Jensen et al. (2023) and Chen and Zimmermann (2022) can generate reliable forecasts. Moreover, only a handful can compare with the predictive abilities of the 100 portfolios from Dong et al. (2022). Last, we observe no systematic difference between the predictability of significant and insignificant anomalies, refuting the mispricing correction mechanism, which serves as the theoretical foundation for market return predictability by anomaly portfolios.

Our study is most closely related to Dong et al. (2022). Our findings challenge their conclusions that factor returns contain information about future market portfolio performance. On the other hand, our results align with Engelberg et al. (2023), who argue that information from the cross-section, i.e., stock characteristics, has little value for forecasting aggregate market risk premia.

From a broader perspective, our paper bridges the two strains of anomaly research: on cross-sectional predictability of stock returns (e.g., Fama & French, 1993, 2015, 2018; Harvey et al., 2016; Bali et al., 2016; Green et al., 2017; Hou et al., 2020; Baltussen et al., 2021; Chen & Zimmermann, 2022) and forecasting market risk premium in the time-series (e.g., Rapach et al., 2005, 2010, 2013; Campbell & Thomson, 2008; Welch & Goyal, 2008; Hollstein et al., 2020; Goyal et al., 2021; Engelberg et al., 2023). From the perspective of our findings, these two worlds remain disconnected; the anomaly returns do not help predict aggregate market returns.

Last, our article contributes to the long-standing discussion on the replication crisis in finance and data snooping within anomaly research (Fama, 1998; Lo & MacKinlay, 1990; Schwert, 2003). In this context, Jensen et al. (2023) distinguish between internal and external validity. Recent work has brought mixed evidence. Harvey et al. (2016), as well as Linnainmaa and Roberts (2018), argue that numerous anomalies are likely to be false. Many studies document that return predictability may not survive real-life trading constraints (Hou et al., 2020; Chen & Velikov, 2023), hangs on minor methodological choices (Bali & Cakici, 2008; Cakici & Zaremba, 2022), and fails to extend to international markets (Goyal & Wahal, 2015). On the other hand, Jensen et al. (2023), Chen and Zimmermann (2022), and Jacobs and Müller (2020) conclude that most anomalies are likely to be true. While the replication debate has mainly focused on *cross-sectional return predictability*, the more limited *time-series* literature has recently gained momentum. Fresh evidence casts doubt on the validity of such well-established predictors, such as dividend growth (Hjalmarsson & Kiss, 2021) or Treasury rates (Gray & Huynh, 2021). Goyal et al. (2021) collect 46 variables from 27 papers to show that only a handful of them perform decently out-of-sample. Hollstein et al. (2020) extend a similar analysis internationally to conclude that return predictability may depend on market development. In line with these views, our study highlights the dangers of generalizing conclusions from a specific market, study period, or empirical design to a broader setting.

The remainder of this paper proceeds as follows. Section 2 summarizes our empirical strategy: research sample, anomaly selection, prediction models, and performance evaluation methods. Section 3 presents the results for international markets. Section 4 reevaluates the U.S. evidence. Section 5 explores why our results differ from earlier evidence. Finally, Section 6 concludes the paper.

2. Data and Methods

2.1. Data Sources and Sample Preparation

Our international sample covers 42 equity markets from around the world. The overall study period is from January 1990 to December 2021. However, the precise start dates differ across countries; we accept a country for our analysis when at least 25 factors are available. Table 1 illustrates the composition of our sample.

[Insert Table 1 here]

Market data for the United States is obtained from CRSP. Market data for other countries, as well as all accounting data, comes from Compustat.³ We measure the portfolio

³ We collect all data using the publicly available code from Jensen et al. (2023). See <https://github.com/bkelly-lab/ReplicationCrisis>.

performance with monthly returns; however, the stock characteristics are based on monthly, weekly, or daily observations. Following the typical approach in asset pricing research, we express all market data in U.S. dollars (e.g., Fama & French, 2012, 2017; Hanauer, 2020; Baltussen et al., 2021; Hollstein, 2021; Windmüller, 2022) using the exchange rates from Compustat.⁴ Consistently, the risk-free return is captured by the U.S. one-month Treasury bill rate. Furthermore, the market portfolio returns for each country are calculated as the value-weighted average return of all stocks available.

We prepare and clean the data using standard methods found within asset pricing literature. In particular, we reproduce the procedures from Jensen et al. (2023). Our sample contains only common stocks, which Compustat recognizes as primary securities of the underlying firms. We categorize them into countries based on the location of their exchange. Finally, following Jensen et al. (2023), we winsorize the international stock returns each month at 0.1% and 99.9% using CRSP breakpoints.⁵

Once we apply all the filters, our international sample contains 80,581 unique companies and 10,216,980 monthly stock return observations.

2.2. International Anomaly Portfolios

Our international tests rely on factor returns from Jensen et al. (2023). To avoid any arbitrariness in anomaly selection, we use all 153 stock characteristics available therein. This comprehensive sample captures the universe of the most prominent equity anomalies documented within asset pricing literature. Table A1 in the Internet Appendix lists all the characteristics that are used in the dataset. We calculate all the variables following the procedures in Jensen et al. (2023) based on their original replication code.⁶ Given over three decades of data on over 80,000 firms across 42 markets, our sample contains 1,121,104,394 monthly characteristic observations.

To avoid arbitrariness in factor portfolio formation, we reproduce procedures from Jensen et al. (2023). Each month, we rank all stocks on characteristics and group them into terciles. A factor strategy is then represented by a zero-investment long-short portfolio that buys (sells) a value-weighted tercile of stocks with the strongest (weakest) anomaly characteristic. Notably, to minimize the influence of small and thinly-traded companies, we determine the breakpoints using non-microcap stocks. We classify stocks as microcaps

⁴ In an additional analysis, we verify that our results also hold for when local currency returns are used. The change of the currency convention does not materially affect the overall findings. Further details are available in Table A17 in the Online Appendix.

⁵ In an unpublished analysis, we also experimented with non-winsorized data and observed that this operation had no measurable effect on our key findings.

⁶ We are grateful for making this available at <https://github.com/bkelly-lab/ReplicationCrisis>.

if their market capitalization falls below the 20th percentile in a month. Next, we distribute the microcaps into the terciles based on their characteristic.

In addition to the above, we apply several restrictions associated with data availability. As seen in Jensen et al. (2023), we require at least five firms per long and short leg. If the number of companies on either of the sides falls below five, we set the return to missing. Furthermore, we include only the factors with at least 75% of non-missing returns throughout the study period. If this condition cannot be met, we exclude the factor entirely from the sample.

Table 2 presents the summary statistics for the anomaly portfolios that are used in our sample. The total number of factors strategies pooled across all markets is 5,058. The aggregate number of monthly factor return observations pooled across all factors, markets, and total study period equals 1,960,394.

[Insert Table 2 here]

2.3. Prediction Models

Our approach assumes employing machine learning models to predict market portfolio returns. With their ability to digest vast amounts of data, distill information from multiple signals, and avoid overfitting, machine learning routines are well-fitted to extract return predictability from the anomaly zoo. Regarding the choice of specific algorithms, we use seven prediction models employed originally by Dong et al. (2022).⁷ All the models aim to forecast the month t market excess return ($r_{M,t}$) with long-short anomaly portfolio returns available through month $t-1$. For all the models, we define the market M excess return at time t as:

$$r_{M,t} = E_{t-1}(r_{M,t}) + \varepsilon_{M,t}, \quad (1)$$

where $t = 1, \dots, T$. We estimate the expected excess return as a function of monthly returns on long-short anomaly portfolios a available in the market M at time $t-1$:

$$E_{t-1}(r_{M,t}) = g(a_{M,t-1}). \quad (2)$$

The function $g(\cdot)$ is flexible and depends on the forecasting algorithm. The monthly anomaly returns from time $t-1$, which serve as inputs to the prediction model, are represented by the P -dimensional vector $a_{M,t-1}$. If a given factor return is missing, we replace it with the cross-sectional median of all factor returns available within the respective

⁷ See Dong et al. (2022), along with its Internet Appendix entry, for a detailed description of the models. To assure a possibly close replication, we build on the original replication code available along with the published article.

market. For conciseness, we describe the forecasting models only briefly; in addition, a comprehensive explanation is available from Dong et al. (2022) and the Internet Appendix therein.

Conventional ordinary least squares regression (OLS). The linear regression via the ordinary least squares assumes fitting multiple predictive regressions that use all long-short anomaly returns as model inputs. The algorithm is relatively straightforward; it requires no hyperparameters or a split into training and validation samples. For high dimensional models, however, it may be prone to overfitting—resulting in poor out-of-sample accuracy (Gu et al., 2020).

Elastic net (ENet). ENet attempts to reduce overfitting by shrinking the slope coefficients with a penalty term (Zou & Hastie, 2005). Specifically, the penalty function combines the components from the least absolute shrinkage and selection operator (LASSO) and the ridge regression of Hoerl and Kennard (1970). We tune the regularization hyperparameters by using the corrected Akaike (1973) criterion of Hurvich and Tsai (1989).

Simple combination (Comb). The Comb method, advocated by Rapach et al. (2010), replaces the multivariate predictive regressions from OLS with a series of univariate regressions. Concretely, in the first step, we estimate the univariate regressions of future market excess returns on each of the long-short anomaly portfolio returns separately. Then, we compute the arithmetic mean of the individual univariate predictions.

Combination elastic net (C-ENet). Rapach and Zhou (2020) and Han et al. (2021) propose the C-ENet to cope with the Comb tendency to shrink the forecasts excessively towards the prevailing mean. While Comb averages the univariate regression forecasts based on all variables, C-ENet forms averages of forecasts that ENet selects.

Predictor average (Avg). The Avg method aims to cope with overfitting in another way. First, it combines the available return predictors in a single signal. Specifically, Dong et al. (2022) perform this operation by calculating the average return on the long-short anomaly portfolio returns. Subsequently, this consolidated predictor is employed in a univariate ordinary least squares regression to forecast the market excess returns.

Principal component (PC). The PC method is implemented in two steps. To begin with, we derive the first principal components from the full set of cross-sectional anomaly returns. Then, we use this component to predict the market excess return via a simple univariate ordinary least squares regression.

Partial least squares (PLS). While PC effectively reduces the number of dimensions, the extraction procedure is disconnected from the returns themselves. Kelly and Pruitt (2013, 2015) offer an alternative three-pass regression that concentrates on the predictors with

the strongest links with stock returns. The method assumes forming a new factor from a set of covariates that is maximally correlated with future market returns. Next, we use this lagged factor as an independent variable in an ordinary least squares regression in order to predict the market portfolio excess return.

We implement and estimate all the above models using the standard procedures from the literature. The return predictions are always out-of-sample because we only use data available through month $t-1$ to predict month t . We split the study period into subperiods, as required by a specific model—training period, validation period, and testing period—which all maintain the temporal order. The first ten years are used as a training sample, and the subsequent five as the validation period. If a given method does not require cross-validation (e.g., OLS), we use the entire 15 years as the training period. The country-specific start dates may vary depending on the length of the actual study period (we always begin the study period whenever at least 25 different factors are available). The testing period begins no earlier than January 2005.

Regardless of the differences between countries and forecasting models, our baseline approach assumes a recursive training window. This means that we re-calculate the models each month, extending the training sample by one month at each re-estimation. Importantly, we estimate the models for each country separately.

2.4. Evaluation Methods

In order to assure the robustness of our findings, we use three different evaluation methods—all of which build on Dong et al. (2022): out-of-sample predictive R^2 coefficient (R_{OS}^2), annualized utility gains, and Sharpe ratio comparisons. The three methods complement each other and provide different perspectives on return predictability. Out-of-sample R_{OS}^2 assesses the predictive accuracy of our models by comparing their mean squared forecast errors to a prevailing mean benchmark model. It allows us to directly compare our predictive models with established benchmarks, giving us an insight into how much our models improve (or worsen) their predictive ability. On the other hand, utility gains capture the practical economic impact of the model's forecast. By considering the asset allocation of a risk-averse investor, they help to quantify the economic benefits of using a particular model's forecast rather than a standard forecast. This provides a more concrete economic perspective on the model's value, which is of direct interest to many readers. Finally, the improvement in the Sharpe ratio provides a practitioner's perspective. It assesses whether the use of a particular model's predictions incrementally and significantly improves the risk-return profile of an asset allocation strategy. This metric adds a risk management dimension to the evaluation of our models, which is essential in real-world applications.

2.4.1. Out-of-Sample R^2 Measure

R_{OS}^2 evaluates the prediction accuracy by comparing the models' mean squared forecast errors (MSFE) with those of a prevailing mean benchmark model. To obtain it, we begin by calculating the monthly forecast errors:

$$\hat{e}_{0,t|t-1} = r_{M,t} - \hat{r}_{M,t|t-1}^{PM}, \quad (3)$$

$$\hat{e}_{1,t|t-1} = r_{M,t} - \hat{r}_{M,t|t-1}, \quad (4)$$

where $\hat{e}_{0,t|t-1}$ and $\hat{e}_{1,t|t-1}$ denote the monthly forecast errors of the prevailing mean benchmark prediction and the competing model, respectively, and the $\hat{r}_{M,t|t-1}^{PM}$ and $\hat{r}_{M,t|t-1}$ are the two model's predictions. $r_{M,t}$ indicates the actual realized market return. The prevailing mean forecast is calculated as the average market excess return from the beginning of the study period through $t-1$; this utilizes all information available at the time of portfolio formation. Welch and Goyal (2008) argue that the prevailing mean forecast is difficult to beat due to the inherently low predictability of market returns.

Next, we compute the MSFE as:

$$\widehat{MSFE}_j = \frac{1}{T} \sum_{t=1}^T \hat{e}_{j,t|t-1}^2 \text{ for } j = 0, 1, \quad (5)$$

where T indicates the total number of out-of-sample observations. Finally, we obtain the Campbell and Thompson (2008) R_{OS}^2 measure by comparing the MSFE of the competing model forecast with the prevailing mean benchmark forecast:

$$R_{OS}^2 = 1 - \frac{\widehat{MSFE}_1}{\widehat{MSFE}_0}. \quad (6)$$

We calculate the statistical significance of R_{OS}^2 estimates using the Clark and West (2007) statistic for MSFE comparisons. Using this test to evaluate:

$$H_0: MSFE_0 \leq MSFE_1 \text{ versus } H_A: MSFE_0 > MSFE_1, \quad (7)$$

is equivalent to testing

$$H_0: R_{OS}^2 \leq 0 \text{ versus } H_A: R_{OS}^2 > 0. \quad (8)$$

Specifically, we run a one-sided test to verify whether R_{OS}^2 significantly exceeds zero. Since we study seven different models, we consider the statistical significance in two ways. First, we treat them separately—ignoring that several competing models are treated simultaneously. Second, as we consider several prediction models simultaneously, this increases the probability of type I errors. Hence, we address the multiple testing framework

by using the Bonferroni adjustment. This divides the significance threshold by the number of simultaneously considered comparisons. For example, for the one-sided 5% significance level, the relevant t -statistics are equal to 1.645 and 2.45. Admittedly, the Bonferroni correction may seem relatively strict as it does not account for the correlation between individual tests. Therefore, we report both adjusted and unadjusted significance and leave the evaluation to the reader.

Last, to provide a global assessment of return predictability, we supplement the country-specific R_{OS}^2 measures with two further statistics. First, we compute cross-sectional averages across countries. Second, we also report the R_{OS}^2 values for the pooled international sample calculated as in Han et al. (2023).

2.4.2. Utility Gain

To illustrate the economic gains from pursuing the model's forecast, we consider a risk-averse investor who allocates their assets across equities (market portfolio) and Treasury bills each month. The assumed objective function faced by the investor is

$$\arg \max w_{t|t-1} \hat{r}_{M,t|t-1} - 0.5\gamma w_{t|t-1}^2 \hat{\sigma}_{t|t-1}^2, \quad (9)$$

where $w_{t|t-1}$ is the share of the portfolio allocated to the market portfolio in period t , γ is the relative risk-aversion coefficient, and $\hat{r}_{M,t|t-1}$ and $\hat{\sigma}_{t|t-1}^2$ denote the forecasts of market excess returns for month t and its variance. The optimal equity allocation in Eq. (9) can be solved by:

$$w_{t|t-1}^* = \left(\frac{1}{\gamma}\right) \left(\frac{\hat{r}_{M,t|t-1}}{\hat{\sigma}_{t|t-1}^2}\right). \quad (10)$$

The sample variance in Eq. (10) is calculated using the 60-month trailing estimation window. Furthermore, for practical purposes, we limit the equity allocation to the range from -100% to 200%. Next, the average realized utility for the portfolios that are formed using the competing model (\bar{U}_1) and the prevailing mean benchmark forecast (\bar{U}_0) are estimated using their mean realized portfolio returns (\bar{r}_1, \bar{r}_0) and variances ($\hat{\sigma}_1^2, \hat{\sigma}_0^2$) over the testing periods as:

$$\bar{U}_j = \bar{r}_j - 0.5\gamma\hat{\sigma}_j^2 \text{ for } j = 0, 1. \quad (11)$$

In Eq. (11), we assume that $\gamma = 3$. We then calculate the average annualized utility gain (UG_1) of the investor that pursues a competing model's forecast instead of the prevailing mean forecast:

$$UG_1 = 12(\bar{U}_1 - \bar{U}_0). \quad (12)$$

UG_1 has an intuitive interpretation as the maximum annual management fee (expressed in percentage terms) that a rational investor would accept for accessing the information to competing forecasts in place of the prevailing mean prediction.

2.4.2. Sharpe Ratio Improvement

Finally, to provide a practitioner perspective, we calculate the Sharpe ratios on the portfolios formed using the competing model forecasts and the prevailing mean benchmark model. The portfolios allocate actively between the stock market and Treasury bills in line with Eq. (1). Hence, the Sharpe ratios are given by:

$$SR_j = \frac{\bar{r}_j^{ex}}{(\hat{\sigma}_0^{ex})^2} \text{ for } j = 0, 1. \quad (13)$$

where \bar{r}_1^{ex} (\bar{r}_0^{ex}) and $\hat{\sigma}_1^{ex}$ ($\hat{\sigma}_0^{ex}$) are the mean and standard deviation, respectively, of the portfolio excess return in the out-of-sample period for the investor that follows the competing model (prevailing mean) forecast. Subsequently, we compare the Sharpe ratios using the well-known statistics of Ledoit and Wolf (2008). This allows us to ascertain whether using a given model's predictions incrementally and significantly improves the risk-return profile of an asset allocation strategy.

3. Empirical Findings: International Evidence

We begin the discussion of our results with the findings from the international markets. Next, we zoom closer to the U.S. market to perform additional tests. The analyses rely on three testing methods: out-of-sample R^2 , utility gains, and Sharpe ratios. We comment on each of them separately below.

Table 3 presents the prediction performance of different models across 42 markets. The general picture emerging from the table seems disappointing: the anomalies cannot predict market excess returns. The positive and significant R_{OS}^2 values can be observed in a handful of cases. Several high R_{OS}^2 coefficients are seen in Israel, Japan, and Norway; however, overall, the significant values make an impression of being almost randomly scattered across the different models and countries. The quantity of insignificant R_{OS}^2 measures prevails. Furthermore, the R_{OS}^2 values for the pooled international sample fail to pass any significance threshold and are, in fact, all slightly negative.

[Insert Table 3 here]

Admittedly, the international data offer shorter time series than the U.S. market. Consequently, one might expect lower statistical significance. Nevertheless, as can be seen in the bottom section of Table 3, the R_{OS}^2 are not only typically insignificant but also negative on average. Essentially, all models also fail to produce convincing results. The cross-

country average R_{OS}^2 coefficients range from -5.08% to 0.12% . The only positive mean is recorded for the Comb model (0.12%); however, even in this case, the statistical significance is too low to pass the 5% threshold. Overall, the R_{OS}^2 coefficients are statistically significant at the 5% level in between three and 11 countries—depending on the model. When we additionally account for the multiple model comparisons, almost none of the models prove significant in more than one country. The only exception is the Avg model applied in Japan, where the R_{OS}^2 coefficient amounts to 4.31% (t -stat 2.69). To sum up, Table 3 fails to provide evidence that the anomalies can predict market portfolio returns within international markets.

Table 4 sheds further light on the benefits of using anomaly returns to predict market performance by presenting the utility gains. The conclusions seem equally disappointing: we hardly find evidence of anomaly-based forecasts generating utility gains. The average utility gains are negative in almost all cases—except for Comb, which does not pass the 5% significance threshold anyway. Admittedly, the utility gains for certain models and countries seem high. For example, in Israel, the gains for ENet and C-ENet reach 9.64% and 7.18% —respectively. Nevertheless, these few instances cannot change the broader image—which provides little support for the predictability.

[Insert Table 4 here]

Next, we supplement the results from Section 3 with a further practical perspective. Table 5 shows the annualized Sharpe ratios on the strategies based on competing models' forecasts around the world. The numbers in parentheses are Ledoit and Wolf's (2008) statistics for the ratio comparison. They indicate whether a strategy can beat the portfolio formed using the prevailing mean benchmark forecast. The performance measure of the benchmark strategy itself is reported in the leftmost column.

[Insert Table 5 here]

The conclusions from Table 5 are consistent with our earlier findings: the anomaly-based forecasts do not provide a measurable improvement in investment performance. Although we can observe certain variability in the risk-adjusted performance across the models and countries, the overall picture leaves little room for optimism: international market performance is typically subdued. The average annualized Sharpe ratio across countries' prevailing mean benchmark strategy is 0.15. The equivalent Sharpe ratios for the competing models vary from 0.16 (OLS) to 0.22 (ENet). Only in the case of Comb, the average Sharpe ratio—equaling 0.22 (t -stat = 2.08)—significantly beats the strategy based on a benchmark forecast. To sum up, from a practical perspective, we see little—if any—value added in pursuing the market return forecasts based on the cross-sectional anomaly returns.

While the comparisons in Table 5 rely on the prevailing mean benchmark forecast, Löffler (2022) argues that using a strategy based on average historical returns may be inappropriate. In practice, the simple buy-and-hold benchmark is much harder to beat and does not require any allocation or market timing decision. Hence, we also reproduce the analysis from Table 5 by using the market portfolios as the benchmark strategy. The results are summarized in Table A2 in the Internet Appendix. Indeed, the market portfolio displays a higher Sharpe ratio (0.37 on an annualized basis) than the prevailing mean strategy (0.15)—and, indeed, it is harder to beat. To be precise, according to Ledoit and Wolf's (2008) tests, no forecast model in any country outperforms the alternative benchmark strategy.

Finally, to assure the validity of our findings, we supplement our examinations with several additional robustness checks. We want to ensure that our findings do not hang on some arbitrary methodological choices. Specifically, we modify several assumptions that underly the implementation of our models.

Thus far, our international tests have focused on the models trained based on long-short tercile anomaly strategies using a 15-year recursive in-sample window. Now, we relax four essential assumptions that are embedded in this framework. First, alongside the long-short portfolios, we check the role of long and short legs separately. Second, we modify the breakpoints used to construct the strategies. While terciles ensure diversified portfolios even in relatively small markets, they may result in a relatively narrow spread between top and bottom characteristics, i.e., a weaker signal of mispricing. Hence, we replace the terciles with quintiles.⁸ Third, we consider an alternative in-sample period of 10 years. For the models requiring validation, it comprises seven-year training and three-year validation windows; this is opposed to the previously used 10- and five-year frames. Whereas such an approach may potentially lead to less “tuned” models, it enables the extension of the testing period from 17 to 22 years.⁹ Fourth, in addition to the recursive training window, we investigate the rolling (or sliding) variant. The rolling-window approach emphasizes the use of the most recent data. Therefore, it may theoretically downplay the impact of older or obsolete predictors that could have already lost their information content. As in our earlier tests, we stick to the 15-year length of the in-sample period (10-year training and five-year validation).

⁸ Our tests of quintile portfolios cover only 39 countries instead of 42. This is because three markets—Brazil, Kuwait, and Saudi Arabia—have an insufficient number of stocks to run the tests. The descriptive statistics of these portfolios are provided in Table A3 in the Internet Appendix.

⁹ Importantly, in the case of one method (OLS), we continue to use the 15-year in-sample window. This exception is dictated by the considerations of the degrees of freedom in the regressions. With a 10-year window, the number of observations might be lower than the number of estimated parameters for the first three years of our sample.

For brevity, we limit the presentation of the results of these robustness checks in the main manuscript to aggregate summary statistics only. For each of the tested variants, Table 6 presents the R^2_{OS} the coefficient for the pooled global sample, the average R^2_{OS} value across individual markets, as well as the number of significant single-country R^2_{OS} measures in each case. The detailed outcomes of these analyses for particular countries are available in the Internet Appendix (see Tables A4 to A6).

[Insert Table 6 here]

Our robustness checks' results fully confirm the earlier findings. The anomaly portfolios fail to reliably predict aggregate market returns. The pooled global R^2_{OS} are predominantly slightly negative and fail to pass any commonly accepted significance thresholds. The average country-specific R^2_{OS} values also typically fall below zero. The few sole exceptions, typically for the Comb strategy, are still hardly distinguishable from zero and insignificant. For each of the strategies, the R^2_{OS} are significantly positive only in a handful of countries— from zero to 10. Nonetheless, if we control for the multiple hypothesis testing using the Bonferroni correction, the strategies successfully forecast returns in one or two countries per specification at best. In short, our tests do not support the view that anomalies assist in predicting future market returns.

4. U.S. and Further Evidence

The analysis of the international markets fails to provide compelling evidence for market return predictability with equity anomalies. The patterns in global markets seem to differ vividly from the United States, where the phenomenon was initially documented.

To assure robustness, we explore the U.S. market using five different sets of anomalies. We focus on the most respectable anomaly sets in literature, which are commonly employed in asset pricing research. Besides our 153 tercile portfolios from Jensen et al. (2023) (henceforth: JKP3), we also use the original anomaly set of Dong et al. (2022)— comprising 100 representative anomalies (henceforth: DLRZ).¹⁰ Next, we use the same data and procedures as in JKP3 and form analogous decile portfolios (JKP10). The only difference between JKP3 and JKP10 lies in the choice of the breakpoint. The use of deciles aims at aligning the portfolio construction closer with DLRZ, where this cut-off point is employed. Notably, the wider spread in the decile portfolios is associated with stronger mispricing and—consequently—with a sharper predictive signal. The fourth portfolio set is the 207 anomalies from Chen and Zimmerman (2022) (CZ).¹¹ Finally, the

¹⁰ Notably, the replication package for the Dong et al. (2022) paper, which is available at <https://onlinelibrary.wiley.com/doi/abs/10.1111/jofi.13099>, contains only the anomaly returns and lacks the code to compute them independently. The code to reproduce the anomaly portfolios is also not available from the authors.

¹¹ We thank the authors for making this data available at <https://www.openassetpricing.com/>.

last group contains the 188 testing portfolios based on Hou (2020) et al. (HXZ).¹² The detailed composition of the DLRZ, CZ, and HXZ anomaly sets are provided in Tables A7 to A9 in the Internet Appendix.

Notably, the factor sets differ substantially in terms of data source, stock filtering procedures, portfolio construction methods, as well as size and composition of the anomaly universe. For example, considering the choice of breakpoints: JKP3 relies on tercile portfolios, DLRZ uses deciles, HXZ deciles or quintiles, and CZ employs different rules carefully following the original research design. While at this point, we want to have a general overview of the return predictability in the United States, we explore these methodological differences closer in further analyses. To ensure comparability with the seminal study of Dong et al. (2022), we follow their original study period choice in all the tests of the U.S. market. Hence, our sample, in this case, runs from January 1970 to December 2017. As in our earlier tests, the in-sample period equals 15 years, comprising 10-year training and five-year validation windows.¹³

Table 7 summarizes the different anomaly samples employed in the tests of the U.S. market. Most sets display comparable performance statistics, such as average returns or volatility. However, the exceptions are the CZ and HXZ factors—which exhibit noticeably higher profitability than DLRZ, JKP3, and JKP10.

[Insert Table 7 here]

4.1. Preliminary Evidence

Table 8 summarizes the prediction performance of different models for the U.S. market, reporting the R_{OS}^2 values, utility gains, and Sharpe ratios. The results seem critically sensitive to the choice of the anomaly sample: they hold for DLRZ but not others. Observe, for example, the R_{OS}^2 coefficients in Panel A. The return predictability for the original DLRZ sample is stellar. The R_{OS}^2 scores are mostly positive and statistically significant; furthermore, Comb, C-ENet, and PLS even pass the Bonferroni-adjusted 5%-threshold. Except for OLS, all the models produce sizeable positive R_{OS}^2 ranging from

¹² The 188 factors are a subset of those anomalies explored by Hou et al. (2020) that proved significant in their tests. For details, see Xue (2022). We are grateful to the authors for providing this dataset at: <https://global-q.org/testingportfolios.html>.

¹³ For the OLS method applied to the CZ and HXZ anomaly sets, we exceptionally extend the in-sample period to 20 years. This departure from baseline methodology is dictated by the otherwise insufficient number of degrees of freedom. With the 15-year window, the number of anomalies could exceed the number of monthly observations in the initial years of the sample. Importantly, we experiment with alternative training windows—both shorter and longer—and their choice have no qualitative impact on the findings.

0.89 to 2.81. The OLS, which suffers from an overfitting problem, clearly underperforms—falling behind the other models. Overall, our results perfectly match the original results of Dong et al. (2022).

[Insert Table 8 here]

The picture for other samples, however, is remarkably different: the R_{OS}^2 values are prevalently negative. In literally none of the cases do they significantly exceed zero. The highest R_{OS}^2 score, which is recorded for the Avg method fed with the JKP10 anomalies, reaches only 0.85% and remains insignificant at the 5% level with a t -value of 1.57. The analysis of other measures of prediction performance leads to similar conclusions. The utility gains (seen in Table 8, Panel B) are impressively high for the DLRZ dataset. Leaving the OLS aside, they range from 2.59% for Comb to 6.38% for PLS. For other samples, the gains are substantially lower—and sometimes even negative. For example, in the case of our baseline anomaly sample (JKP3), they range from -2.09% for C-ENet to 3.30% for PLS. The results for the remaining prediction algorithms are qualitatively similar.

Finally, Panel C concentrates on the Sharpe ratio comparisons. The annualized Sharpe ratio of the portfolio based on the prevailing mean forecast equals 0.42. Each strategy based on DLRZ in Panel A, except for OLS, beats this benchmark. Their Sharpe ratios range from 0.59 (Comb) to 0.81 (ENet). However, the statistical significance of this outperformance is relatively low. Only two strategies (Comb and C-ENet) display Ledoit and Wolf's (2008) statistics marking significance at the 5% level on a standalone basis; furthermore, none pass this threshold in the multiple hypotheses framework.

As seen in Panels B and C, relaxing the assumptions concerning the anomaly set detrimentally affects the portfolio performance. The Sharpe ratios are no different in this regard: for JKP3, JKP10, CZ, and HXZ, they are typically substantially lower than for DLRZ. Specifically, they fail to significantly beat the prevailing mean forecast benchmark in any of the considered specifications.¹⁴

To wrap up our discussion of the preliminary findings for the U.S. market, the market return predictability by anomalies is not robust to using alternative anomaly strategies as model inputs. The forecasting models can produce substantial economic gains when fed with DLRZ while failing for others. The magnitude of the market return predictability by equity anomalies may hinge on at least two dimensions. First, it may be affected by

¹⁴ As we already noted when discussing Table 5, while our comparisons rely on the prevailing mean forecast, the buy-and-hold benchmark offers a viable alternative—which tends to be harder to beat. In an unreported analysis, we find that its annualized Sharpe ratio equals 0.57. In consequence, none of the competing models can outperform it; even the strategies based on the DLRZ dataset fail to succeed.

the composition of the anomaly set. Additionally, the anomaly portfolio's structure may also play a role. We now look closer into these aspects one by one.

4.2. Anomaly Selection

The general assertion that *anomalies predict market returns* yields a vital question: which anomalies? The finance literature has documented hundreds of cross-sectional predictors in stock returns (Harvey et al., 2016; Hou et al., 2020; Chen & Zimmermann, 2022). Their role and information content about future market returns may be uneven. Given the substantial differences in the predictive power of the various anomaly sets seen in Section 4.1, the selection of signals may be an important factor. Hence, we are interested in how sensitive the return predictability is to the choice of anomalies that are included in the set of predictors.

To explore this issue, we run a bootstrap simulation of alternative samples of anomalies. We randomly select 100 anomalies from different datasets. Specifically, we use the four samples of long-short portfolios for the U.S. market that were described in Section 4.1 (JKP3, JKP10, CZ, and HXZ) and run 1,000 bootstrap simulations for each of them. During each draw, we randomly chose 100 anomalies—the number that was originally employed by Dong et al. (2022). Next, for each selection, we employ all seven models described in Section 2.3 to predict market returns and use the full battery of prediction performance evaluation measures: predictive R_{OS}^2 , utility gains, and Sharpe ratios. We want to see the potential dispersion in results that would stem from the selection of factors.

Figure 1 displays the distributions of predictive R_{OS}^2 measures calculated based on the random samples of anomalies. For comparison, we also illustrate the initial results based on the DLRZ sample. Supplementary Table A10 in the Internet Appendix provides more detailed statistics on the R_{OS}^2 distributions, along with the associated Clark and West's (2007) t -statistics. Notably, we limit the presentation of the OLS results to the appendix; this is because both Dong et al. (2022) and our analyses generate incomparably large negative R_{OS}^2 .

[Insert Figure 1 here]

The random draws reveal a substantial variation in the prediction performance associated with various anomaly sets. The dispersion is particularly vivid for certain prediction models—such as ENet, C-ENet, or PLS. Notably, these models emphasize a small set of selected variables. Observe, for example, the JKP3 bootstrap results. For ENet, the 1st and 99th distribution percentiles of R_{OS}^2 equal roughly -4.5% and 1% , respectively. Depending on the anomaly choice, it implies that the prediction accuracy could be either substantially negative or slightly positive. The patterns are qualitatively similar for all

anomaly sets, marking a consistent magnitude of dispersion for the same methods. The only exception is the Comb model, in which the variation in results is substantially lower.

Most importantly, regardless of the model and anomaly set, the bootstrapped results fall visibly behind the original forecasting accuracy seen in Dong et al. (2022). The DLRZ anomaly sample generates incomparably higher R_{OS}^2 than our bootstrap experiment, consistently beating the best single random draw. Let us reiterate it: literally, no combination of anomalies from any of our samples produces results comparably strong as the original DLRZ sample. Table A10, Panel B, in the Internet Appendix, confirms the same observation at the t -statistics level. Even the top percentile yields insignificant findings for most anomaly sets and prediction models. In other words, not only is it unfeasible to match the actual results from Dong et al. (2022) with any combination of established factors, but it is also hardly possible to generate any significant predictability at all.

While Figure 1 focused on the R_{OS}^2 coefficient, Figures A1 and A2 in the Internet Appendix extend this analysis to the other prediction performance measures: utility gains and Sharpe ratios. The results are consistent, confirming the key conclusions from the R_{OS}^2 analysis. The utility gains and Sharpe ratios exhibit notable dispersion originating from anomaly selection—with the highest variation observable for ENet, C-ENet, and PLS, and the lowest for Comb. Again, the DLRZ sample performs remarkably better than all simulated anomaly sets.

4.3. Anomaly Portfolio Construction

Our considerations in Sections 4.1 and 4.2 reveal that the established sets of anomalies from the U.S. market fail to generate any evidence of return predictability. However, each of these sets relies on some specific portfolio construction rules. Recent studies documented that the design of factor portfolios may critically affect their properties, in consequence, expected returns (Menkveld et al., 2023; Soebhag et al., 2023; Walter et al., 2022). Most importantly, the large number of arbitrary construction choices paves the way for many different factor portfolio designs. Not only is there no broadly acclaimed way to form the factor strategies, but these discretionary decisions may also materially affect the market return predictability.

Can some specific portfolio designs improve the performance of our prediction models? To scrutinize this issue, we reproduce our calculations with alternative implementations of factor strategies. To explore this issue, we consider eight common methodological decisions on sample preparation and portfolio construction. They pertain to weighting scheme, anomaly significance, microcaps inclusion, minimum share price, selection of share codes, industry exclusions, return winsorization, and breakpoint selection. A detailed description of the data and methods used in this experiment is available in Section B of the Internet Appendix. In total, the combination of all possible decisions yields 2592

variants of portfolio construction. Notably, these also include all methodological approaches employed by Dong et al. (2022), including the specific combination of sample selection and portfolio construction choices made in their study. For each of these variants, we run our standard tests to see whether any of these combinations lead to measurable improvements in return predictability.

Figure 2 presents the distributions of prediction performance measures for all 2592 portfolio designs.¹⁵ Clearly, the research design choices affect the effectiveness of market return forecasts. The dispersion of results is substantial, in particular ENet and C-ENet. Observe, for instance, ENet results for the JKP dataset. The worst 1% of portfolio specifications produces R_{OS}^2 lower than -6%, while the best top percentile exceeds 0.07% (see Table A11 in the Internet Appendix for details). In other words, one could conclude that the anomaly-based forecasts either destroy or generate value for investors—depending on the assumed portfolio construction. The market return predictability seems strongly reliant on the research design.

[Insert Figure 2 here]

Importantly, as seen in Figure 2, nearly all construction variants in Figure 2 fare considerably worse than the models based on the original DRLZ anomaly sample. For most models, the prediction performance of the DLRZ sets vastly outperforms even the best possible combination of all methodological choices—for both JKP and CZ datasets. Moreover, a further look at the t -statistic distributions in Table A11 (in the Internet Appendix) suggests that very few factor implementations yield significant results. The t -statistics exceed the 5%-significance threshold only in between 1% and 10% of the factor designs—at best. For some methods, such as ENet, even the top percentile fails to generate any significant predictability. Finally, if we additionally account for the Bonferroni adjustment for multiple model testing, the predictability cannot be confirmed even for the top percentile of the portfolio variants.

Last, we are also interested in how particular choices affect the market return predictability with anomalies. For example, what is the marginal benefit of utilizing a specific weighting scheme or share price filter? To shed light on this issue, for each methodological choice, we calculate the average R_{OS}^2 scores across all the portfolio specifications that it includes. For example, for value-weighted portfolios, we calculate the average R_{OS}^2 across the 864 specifications among all 2592 that involve this security weighting scheme.

The results in Table 9 indicate that the forecasting model performance might be sensitive to several categories of portfolio design choices. Overall, the return predictability seems

¹⁵ We provide further details of the distributions—as well as the OLS results—in Table A11 in the Internet Appendix.

to benefit from emphasizing the role of large and liquid companies in anomaly portfolios. For example, the R_{OS}^2 coefficients are noticeably better for value-weighted portfolios than for equal-weighted ones. Analogously, excluding microcaps and filtering out penny stocks boost prediction accuracy marginally. Nevertheless, one conclusion remains unchanged regardless of this relative variation in results: the evidence for return predictability is unclear at best.

[Insert Table 9 here]

A separate remarkable insight from Table 9 is the role of anomaly significance. Specifically, we do not observe any evident link between the prediction performance and the significance of anomalies. Specific models fare even marginally better on average when fed with portfolios with insignificant mean returns rather than significant ones. Notably, this observation is inconsistent with the “mispricing correction mechanism,” which serves as the theoretical foundation for return predictability by anomaly returns in Dong et al. (2022). Consequently, our findings not only fail to align with the earlier empirical evidence but also contradict the proposed theoretical mechanism.

To conclude, the prediction performance of equity anomalies partly depends on anomaly portfolio design. Specific construction methods can improve forecasting performance. Nonetheless, the overall picture is clear: hardly any specifications produce significant predictability.

5. Why Do Our Results Differ?

Our findings thus far visibly depart from the seminal study of Dong et al. (2022). While they document robust market return predictability by equity anomalies, we can hardly detect any. Since our methodological approach is identical—and the tests in Section 4.3. encompass all possible choices taken and not taken by Dong et al. (2022)—the discrepancy must stem from the sample of equity anomalies and the implementation of the anomalies. Hence, we now look closer at the contribution of individual anomalies to return predictability, as well as the role of various implementation choices.

5.1. Return Predictability by Individual Anomalies

We begin with an overview of the predictability of market returns by various anomalies. To this end, we run univariate predictive regressions of market portfolio excess returns by individual factors. We examine five sets from our previous analyses: DLRZ, JKP10, JKP3, CZ, and HXZ. Table 10 tabulates the results of this exercise, with Panel A reporting the R_{OS}^2 values for the top 15 anomalies in each dataset, and Panel B provides additional summary statistics. The full R_{OS}^2 statistics for all anomalies can be found in Table A12 in the Internet Appendix.

[Insert Table 10 here]

A quick glance reveals remarkable differences between the different anomaly sets. The Dong et al. (2022) selection stands out, both in terms of the number of significant predictors and their sheer predictive power. As seen in Panel B, as many as 18 anomalies, representing 18% of the dataset, are significant return predictors at the 5% level (on a stand-alone basis). On the other hand, in other datasets, the analogous proportion does not exceed 7%. In particular, in the selection of 207 anomalies by Chen and Zimmermann (2022), not a single portfolio helps to predict market returns reliably. Notably, among all the anomaly samples we consider, Chen and Zimmermann (2022) come closest to replicating the original studies by strictly following their portfolio construction procedures.

Finally, it is worth noting that when we adjust the test statistics for the multiple hypotheses framework—using either the Bonferroni or Romano and Wolf (2016) approach—no single anomaly in any dataset passes the 5% significance threshold. Admittedly, both adjustments are relatively strict. Nevertheless, it is a refreshing reminder that, given a sufficiently large number of anomalies, return predictability can occur by chance.

In addition to the larger number of significant predictors, the DLRZ anomalies also have a higher average R_{OS}^2 values. For example, the average R_{OS}^2 for the top 15 strategies shown in Panel A is 1.94% for the DLRZ and ranges from 0.39% (CZ) to 0.95% (JKP10) for the other datasets. When all anomalies from DLRZ are considered, the average R_{OS}^2 for the 100 strategies is positive, equal to 0.27%, while for other datasets, such averages are negative, ranging from -0.43% (CZ) to -0.20% (JKP3). In other words, while a typical anomaly in DLRZ helps predict market portfolio returns, a typical anomaly in other recognized datasets has no predictive ability at all. The anomalies used by Dong et al. (2022) clearly outperform other samples.

Which anomalies are the best predictors of future returns? Panel A of Table 10 reveals a surprising truth. First, consider the DLRZ sample. The leaders contain almost exclusively two types of predictors: issuance effects and anomalies related to earnings surprises. Specifically, the top 15 variables include three net share issuance anomalies that differ only in rebalancing frequency (NSIMO, NSIANN, NSIFY), two composite equity issuance variables (CEIANN, CEIMO), and two share issuance anomalies (SHR5MO, SHR5ANN). The second notable category is anomalies related to earnings surprises and beating analysts' forecasts: FERR, CSUE, and SUE.

Interestingly, the predictors related to the issuance and earnings surprise often top the list in other samples as well: JKP10, JKP3, CZ, and HXZ. Nonetheless, neither their R_{OS}^2 are as high as in DLRZ, nor are they comparably abundant. In fact, there are more

significant issue-related predictors in the DLRZ anomaly sample than there are significant predictors in any of the other samples. The DLRZ sample contains the broadest representation of the successful categories of issuance and earnings surprise variables. As many as nine anomalies (out of 100) are directly related to issuance (CEIANN, CEIFY, CEIMO, NSIANN, NSIFY, NSIMO, SHR1, SHR5ANN, SHR5MO), and six more are related to earnings surprises (FERR, CHFEPS, CSUE, SUE, EAR, RSUP).

Notably, not only does the DLRZ sample contain more significant anomalies, but their predictive ability exceeds that of variables from other samples. For example, the top five anomalies in DLRZ have R^2_{OS} ranging from 2.40% (CEIMO) to 4.29% (NSIMO). For comparison, literally, no other anomaly in any of the other datasets reaches a similar level of predictive power - even though some of them reflect similar economic phenomena.

In summary, the power of the original Dong et al. (2022) sample lies in its composition and design. The DLRZ dataset contains more anomaly categories with superior predictive abilities: issuance and earnings surprises. Moreover, their individual predictive power is significantly higher than that of their counterparts from other data sets.

5.2. Which Anomalies Drive the Models' Forecasts?

So far, we have examined the predictive power of individual anomalies treated on a stand-alone basis. But which of them contribute to the aggregate predictions of different models? To explore this, we perform several additional analyses.

5.2.1. The Importance of Individual Anomalies

First, we compute the variable importance (VI) of individual anomalies. Specifically, similar to Gu et al. (2020) and Leipold et al. (2022), we define VI as the reduction in the overall predictive R^2_{OS} due to discarding information from a selected anomaly. We perform this exercise for the DLRZ set, i.e., the 100 anomalies from the original Dong et al. (2022) study.

[Insert Table 11 here]

As reported in Table 11, the variable importance analysis shows that the methods are very well able to concentrate on the relevant variables (signal) and to disregard irrelevant variables (noise). The models extract predictability almost exclusively from the two variable categories that were found to be most important in Table 10: issuance and earnings surprises. These two categories dominate the top of the variable importance ranking. All other anomalies play a minor role. In other words, all return predictability seems to be driven by a handful of closely related signals.

The tests in Sections 5.1 and above highlight the unique role of issuance anomalies. To further illustrate this phenomenon, we zoom in on the monthly rebalanced net stock issuance anomaly (NSIMO), which showed the strongest predictive power in Section 5.1. To illustrate its importance, we contrast it with the aggregate models of Dong et al. (2022). Specifically, we run the forecast encompassing tests of Harvey et al. (1988). We are interested in whether the forecasting models that aggregate information from 100 anomalies encompass the NSIMO-based forecasts. Table 12 reports the results.

[Insert Table 12 here]

As shown in Panel A, no model encompasses the NSIMO predictions. The only exception is OLS, where the results are not significant. On the other hand, the results in Panel B answer the opposite question: Does the NSIMO anomaly encompass the predictions of the aggregate models? In this case, the answer is yes. No single coefficient is statistically significant. In other words, the aggregate models do not provide valuable information about future returns beyond what is already represented by NSIMO. Simply put, NSIMO alone beats all other forecasting models.

The results in Table 12 illustrate the critical dependence of return predictability on factor selection. A single well-designed issuance anomaly from the data set can beat the aggregate models, rendering them redundant. A natural question follows: What happens if such a specific anomaly is missing from the dataset? Section 5.2.2 explores this question in more detail.

5.2.2. Market Return Predictions with Limited Anomaly Samples

To further understand the importance of different categories of anomalies, we now examine the predictability of market returns based on limited samples of anomalies. Our results so far suggest a unique role for issuance anomalies, followed by the signals associated with equity issuance, as well as earnings surprises and beating analysts' forecasts. Interestingly, these groups of relevant anomalies align with the findings of Daniel et al. (2020), who demonstrate that share issuance and earnings surprises explain the cross-section of stock returns particularly well. This may suggest that the time-series predictability originates specifically from those anomalies that capture the best cross-sectional variation in stock returns. To examine their impact on the overall results, we now examine the dependence of market return predictability on their inclusion in the anomaly sample.

We begin by creating two groups of predictors that represent similar economic phenomena; we call them issuance (CEIANN, CEIFY, CEIMO, NSIANN, NSIFY, NSIMO, SHR1, SHR5ANN, SHR5MO) and surprise (FERR, CHFEPS, CSUE, SUE, EAR,

RSUP) anomalies. The average pairwise correlation coefficient within these two categories is 0.63 and 0.40, respectively, indicating their close internal relationship. Notably, the correlation between certain specific pairs of anomalies is close to one, signaling that they are almost identical. For example, the Pearson correlation coefficient between RSUP and SUE (the 6th and 7th highest R_{OS}^2 in Table 10) is 0.9996, and the correlation between CEIANN and CEIMO (the 3rd and 5th highest R_{OS}^2 in Table 10) is 0.9.

Table 13 reports the prediction performance of models aggregating different anomaly sets. In general, we use the DLRZ set, i.e., the original 100 anomalies from Dong et al. (2022). Specification (1) shows the results for the full sample, with the large and mostly significant R_{OS}^2 values. What happens if we restrict the anomaly selection to only the nine issuance anomalies? As we can see in specification (2), the predictive performance improves considerably. The R_{OS}^2 values increase noticeably, ranging from 0.73% (OLS) to 3.11% (C-ENet). Furthermore, they are highly significant for all models, even for OLS.

[Insert Table 13 here]

Specification (3) extends the set of factors considered to 15 and also adds the surprise anomalies. In this case, performance is still strong, and for some models, even stronger, exceeding 4% for Avg and PLS. Moreover, all associated timing strategies generate high Sharpe ratios, typically beating those based on naive forecasts.

What happens when we exclude these critical anomalies from the sample? As we can see in specification (4), the picture changes dramatically. As soon as only the issuance anomalies are eliminated, the predictability of returns disappears almost completely. Four out of seven models no longer have a significantly positive R_{OS}^2 . Only two models—COMB and Avg—still have positive and significant R_{OS}^2 , but even in these two cases, the t-statistics are borderline insignificant (1.69, 1.82). Specification (5) illustrates what happens when we also drop the group of six surprise anomalies. The results continue to deteriorate. No prediction model can generate a positive and significant predictive R_{OS}^2 . Similarly, the Sharpe ratios do not exceed their counterparts based on naive forecasts.

To summarize our above considerations, the superior predictive abilities of the models in Dong et al. (2022) derive their strength from the composition of the anomaly sample. Specifically, they over-represent specific categories of anomalies with unique predictive power, such as issuance and earnings surprises. These few correlated predictors alone suffice to generate reliable forecasts that outperform aggregate models. On the other hand, removing them from the sample eliminates any trace of return predictability.¹⁶

¹⁶ Importantly, Dong et al. (2022) perform a series of subsample analyses in their paper based on different groups of anomalies (Table IA.XIII in the Appendix therein). Nonetheless, none of the subgroups effectively eliminates all issuance or surprise anomalies, which prove critical in our case.

To better understand the nature of the return predictability by the critical anomalies—and the net issuance in particular—we run four additional exercises. First, we explore various research design choices to explore their impact on return predictability by NSIMO, the most prominent issuance anomaly. Second, we extend the tests of NSIMO anomaly to international markets. Third, we examine an extended study period from 1927 to 2021. Fourth, we build on the findings of McLean et al. (2009) to explore the link between return predictability by issuance anomalies and the country-specific constraints on issuance activity. These tests, described in detail in Section C of the Internet Appendix, reveal the fragility of the observed patterns. The return predictability by issuance is highly sensitive to research design and cannot be confirmed under many alternative implementations. Furthermore, we fail to find evidence for a similar phenomenon in international markets and an extended study period for the U.S. market. Third, it does not follow cross-sectional patterns associated with return predictability. Lastly, let us reiterate that—as seen in Table 10—even the high R_{OS}^2 for issuance anomalies fail to pass the multiple hypotheses testing framework.

Identifying fully the economic mechanism behind the effect of issuance anomalies on future market returns is beyond the scope of our paper and should be explored in future studies. While we refrain from making a final judgment, we acknowledge that this may even be a statistical artifact characteristic only for the U.S., resulting from studying many anomalies simultaneously or specific to a particular research implementation.

6. Concluding Remarks

In an attempt to link the time-series and cross-sectional asset pricing literature, our study revisits the evidence on market risk premium predictability by equity anomalies. We build on the methodological framework of Dong et al. (2022) and extend their findings to international markets and alternative implementation settings. We take a holistic approach and examine the prediction performance of seven models applied to up to 153 anomalies in 42 countries. Our conclusions are disappointing: the anomalies fail to predict market excess returns. Any alleged evidence lacks external validity in two aspects: stock market sample and anomaly selection.

First, it does not extend internationally. In the prevailing majority of countries and tests, the models fail to produce positive and significant R_{OS}^2 in international markets. This conclusion is robust to different tests, as well as various methodological modifications.

Second, the predictability does not extend to other anomaly sets. To demonstrate this point, we scrutinize anomalies that come from the well-known samples of Hou et al. (2020), Chen and Zimmermann (2022), and Jensen et al. (2023). To ensure comparability, we now turn to the original study period of Dong et al. (2022), i.e., from 1970 to

2018. We find that the return predictability critically depends on the choice of anomalies as inputs: it is strong for the factors of Dong et al. (2022) but does not stretch to other samples.

To further strengthen this evidence, we explore various subsets of anomalies from the abovementioned samples. Specifically, we randomly choose combinations of 100 anomalies and examine their performance. Our simulations show that different anomaly selections can cause a sizeable dispersion in prediction results. Most importantly, however, virtually no combination can generate reliable forecasts.

Finally, we are also interested in the role of anomaly portfolio construction in the determination of return predictability. Ultimately, the long-short strategies could be formed in many ways—leading to variation in their eventual properties. Hence, we consider a battery of choices in anomaly portfolio design, including different weighting schemes, share price filters, winsorization rules, or breakpoint settings. Eventually, we obtain 864 distinct variants of anomaly strategies.

The results indicate that these methodological choices substantially impact the eventual prediction performance. For example, R_{OS}^2 for the same model fed with the same selection of anomalies may range from profoundly negative to slightly positive—depending on the portfolio formation choices. Nevertheless, our primary conclusion remains intact: as a rule, anomalies fail to predict market returns. Hardly any design applied to hundreds of anomalies from Jensen et al. (2023) or Chen and Zimmermann (2022) can generate trustworthy forecasts or match the predictive abilities of the 100 portfolios of Dong et al. (2022). Also, there are no systematic differences between significant and insignificant anomalies, casting doubt on the “mispricing correction mechanism,” which serves as a theoretical foundation for the market portfolio return predictability by anomalies.

Notably, following the work of Dong et al. (2022) and Engelberg et al. (2023), our paper focuses on the implications of cross-sectional predictability for time-series predictability. A potential limitation of our paper is that we do not investigate the implications of time-series predictability for cross-sectional predictability. However, theories explaining cross-sectional predictability—whether risk-based, mispricing-based, or data mining—do not necessarily imply a strong or direct relationship between anomaly returns and market returns. Our finding of no predictability thus aligns with all of the above explanations.

To sum up, our conclusions challenge the earlier findings from the U.S. market. The existing evidence strongly depends on the examination settings: study period, market choice, anomaly selection, and portfolio construction. This sensitivity to methodological choices yields a considerable risk of false discoveries—statistical artifacts may be mistaken for real economic phenomena. Once certain methodological choices are modified, the forecasting abilities of stock market anomalies can no longer be confirmed.

Data Availability

The data (and the code to retrieve the data) underlying the empirical sample in this paper was obtained from the web pages of the following papers:

- Chen, A. Y., and Zimmermann, T. (2022) Open source cross-sectional asset pricing, *Critical Finance Review*, 11(2), 207-264.
 - webpage: <https://www.openassetpricing.com/>
- Dong, X., Li, Y., Rapach, D. E., and Zhou, G. (2022) Anomalies and the expected market return, *Journal of Finance* 77(1), 639–681.
 - webpage: <https://onlinelibrary.wiley.com/doi/abs/10.1111/jofi.13099>
- Hou, K., Xue, C., and Zhang, L. (2020) Replicating anomalies, *Review of Financial Studies* 33(5), 2019–2133.
 - webpage: <https://global-q.org/testingportfolios.html>
- Jensen, T. I., Kelly, B. T., and Pedersen, L. H. (2023) Is there a replication crisis in finance? *Journal of Finance*, forthcoming.
 - webpage: <https://github.com/bkelly-lab/ReplicationCrisis>

For Chen and Zimmermann (2022) and Jensen et al. (2023), the publicly available code was used to download the data from WRDS databases (e.g., CRSP, Compustat) and calculate factor portfolio returns. In the cases of Dong et al. (2022) and Hou et al. (2020), the factor return data was retrieved directly from the authors' websites.

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Figure 1. Predictive R^2_{OS} Distributions for Random Anomaly Sets

The figure illustrates the predictive R^2_{OS} coefficient by Campbell and Thompson (2008) for random selections of different long-short anomaly portfolios. We consider six different prediction models: the elastic net (ENet), simple combination (Comb), combination elastic net (C-ENet), predictor average (Avg), principal components (PC), and partial least squares (PLS). These are supplied with 100 long-short anomaly portfolios randomly selected from one of four anomaly sets: 153 tercile and decile portfolios based on Jensen et al. (2023) (JKP3, JKP10); 207 portfolios from Chen and Zimmermann (2022) (CZ); and 188 anomalies from Hou et al. (2020) (HXZ). Panels A, B, C, and D report the results for 1,000 random draws from the JKP3, JKP10, CZ, and HXZ sets—respectively. The underlying sample comprises U.S. stocks, and the study period is from January 1970 to December 2017. The R^2_{OS} is reported in percentage terms. The histograms are supplied by the Gaussian kernel density plots. The gray dashed vertical lines represent the draw with the highest R^2_{OS} , and the orange vertical lines indicate the results of Dong et al. (2022).

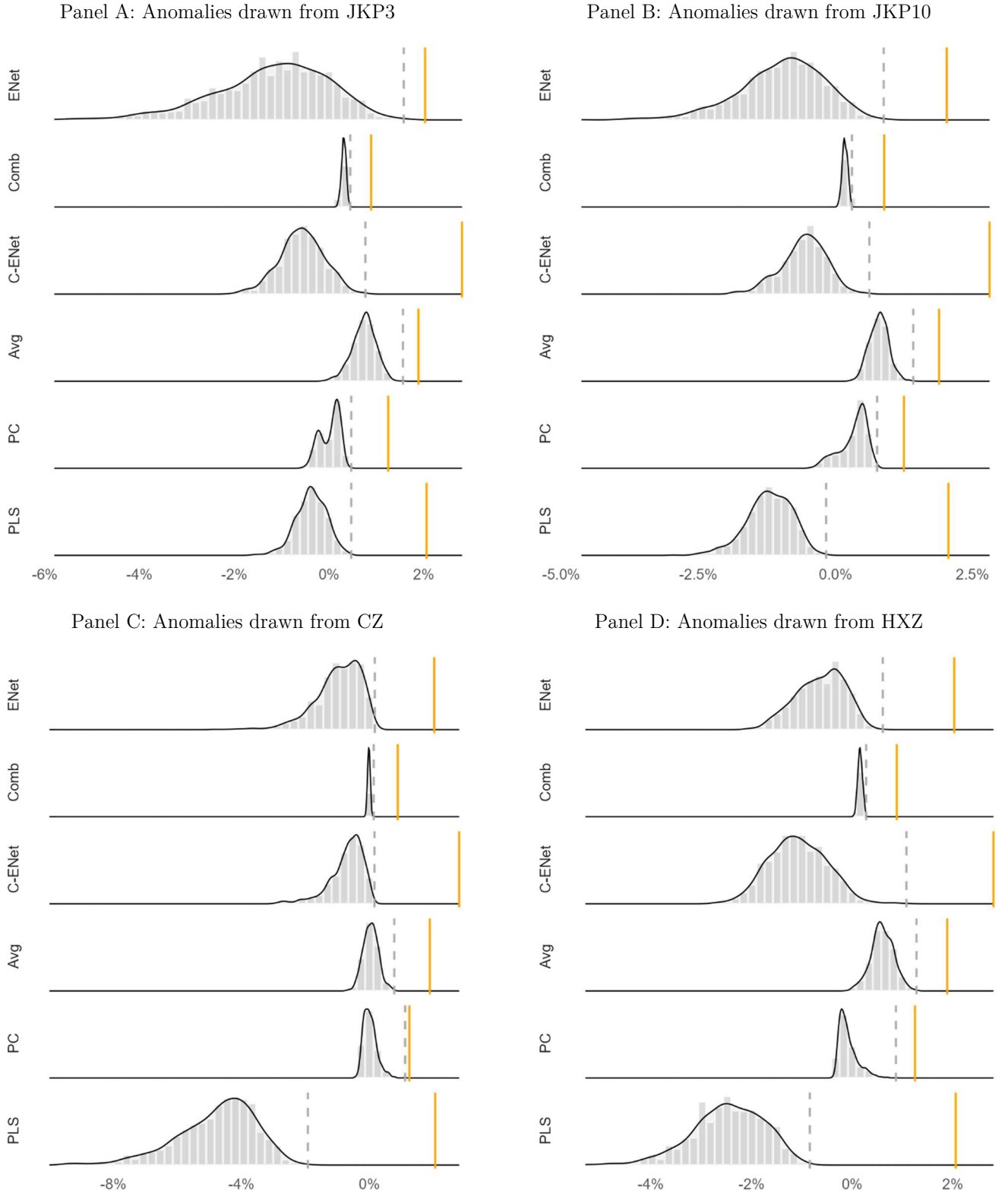
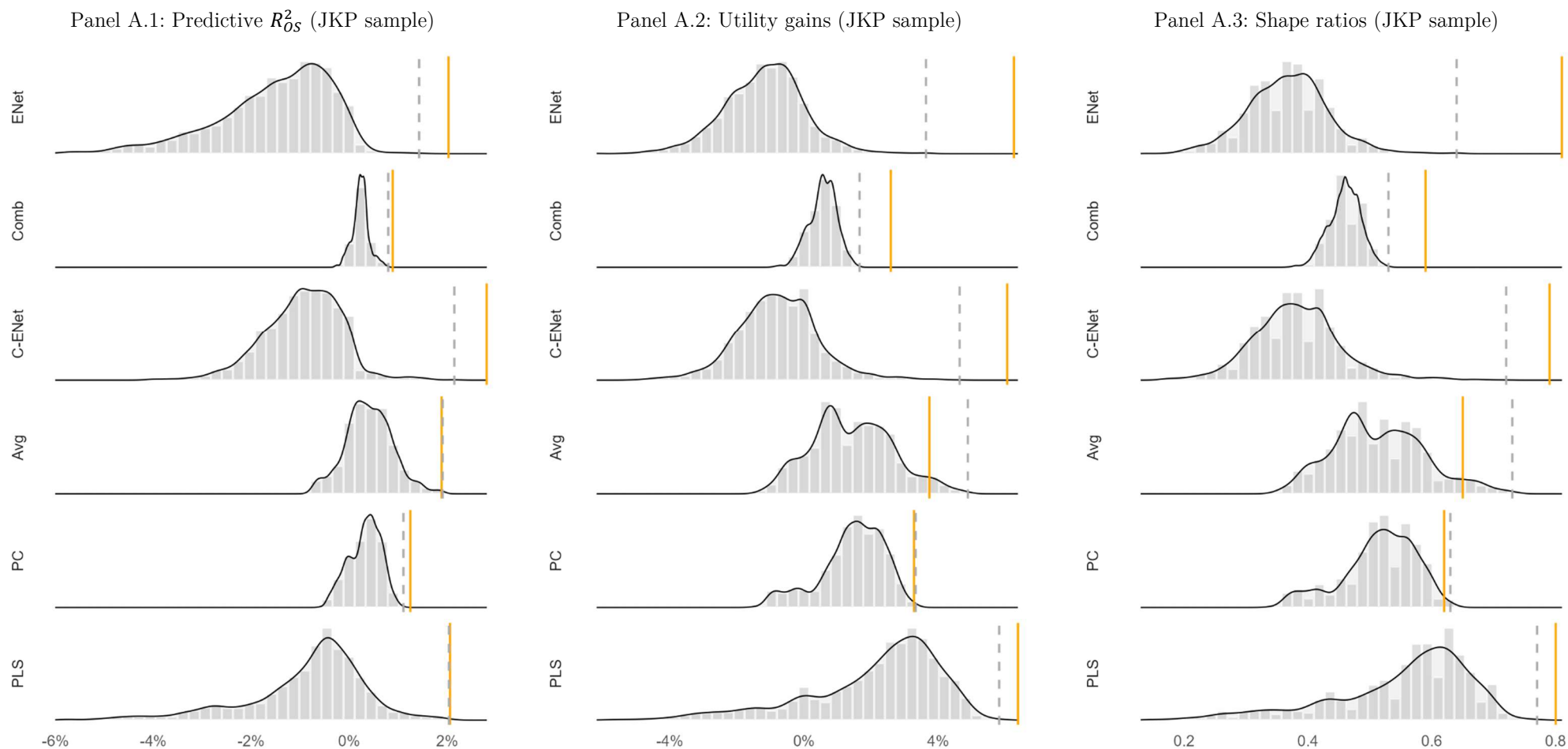
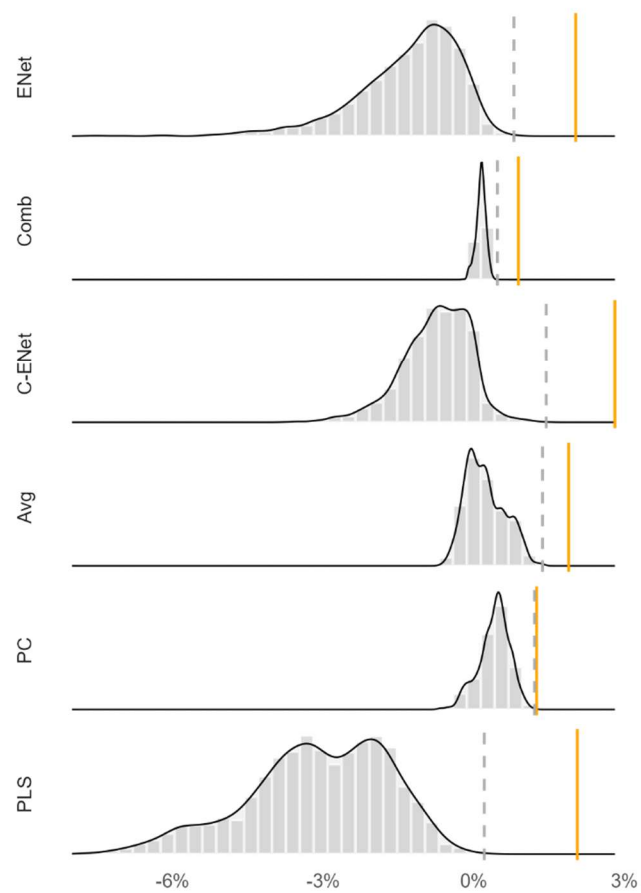


Figure 2. Prediction Performance Distributions for Alternative Anomaly Portfolio Designs

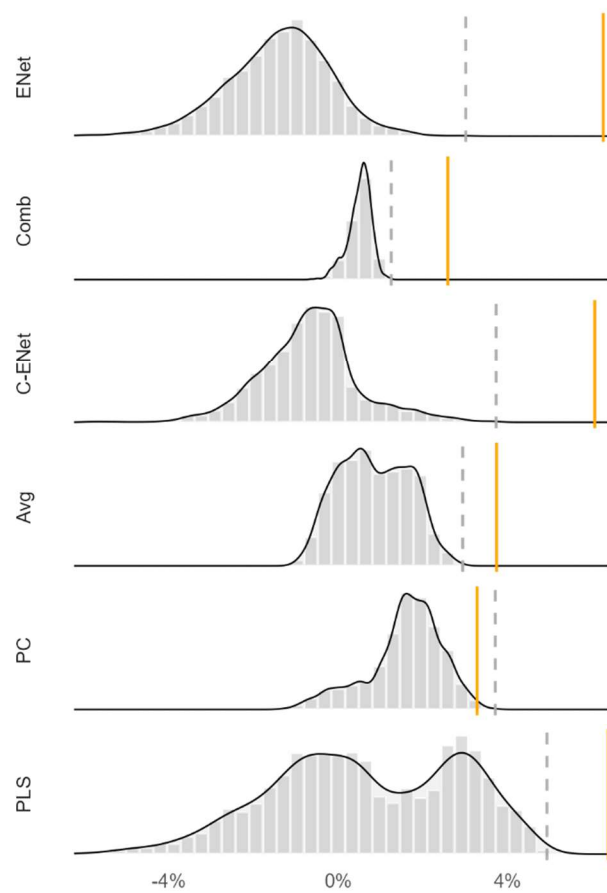
The figure illustrates the distributions of prediction performance measures for various methodological choices to predict market returns with anomaly portfolios. The considered prediction models include: the elastic net (ENet), simple combination (Comb), combination elastic net (C-ENet), predictor average (Avg), principal components (PC), and partial least squares (PLS). The models in Panels A and B use anomalies from the sample of Jensen et al. (2023) and Chen and Zimmermann (2022), respectively (JKP, CZ). The equity univers comprises U.S. stocks. The study period is from January 1970 to December 2017, and the testing period starts in January 1985. The distributions are based on 2592 variants of anomaly implementations, accounting for different weighting schemes (equal-, value-, or capped-value weighting); minimum share price (1\$, 5\$, or none); treatment of financial companies (included or excluded), utility companies (included or excluded), and micro-cap stocks (included or excluded); inclusion of different CRSP share price codes (all or 10 and 11 only); winsorization of stock returns (at 99%, 99.9%, or none); equity universes used to determine portfolio breakpoints (CRSP or NYSE), and anomaly significance (all, significant only, insignificant only). The reported performance measures are the out-of-sample R^2 coefficients (R_{OS}^2) by Campbell and Thompson (2008), the annualized average utility gains, and annualized Sharpe ratios for an investor who allocates between the U.S. market portfolio and risk-free Treasury bills. The histograms are supplied by the Gaussian kernel density plots. The gray dashed vertical lines represent the best replication among all 2592 variants, and the orange lines indicate the original results from Dong et al. (2022).



Panel B.1: Predictive R^2 (CZ sample)



Panel B.2: Utility gains (CZ sample)



Panel B.3: Shape ratios (CZ sample)

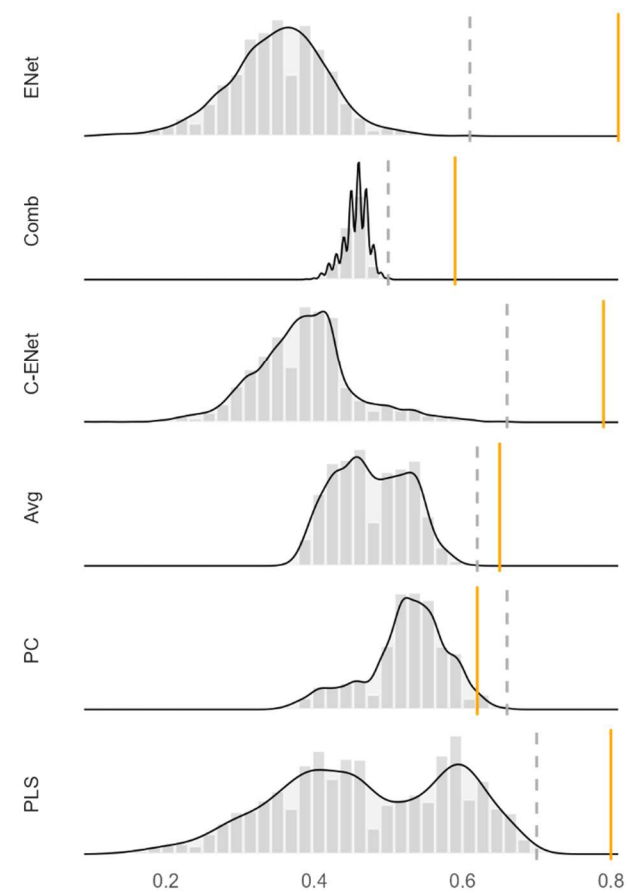


Table 1. Research Sample for International Tests

The table presents the 42 markets covered in our sample for international examinations. *Start date* indicates the first month when a country is included in the sample; the end date for all markets is December 2021. The table also presents the total (*Total # firms*) and average (*Average # firms*) number of companies in the market.

Country	Start date	Total # firms	Average # firms	Country	Start date	Total # firms	Average # firms
Argentina	Sep 1991	164	61	Kuwait	Sep 2001	237	138
Australia	Jan 1990	3783	1158	Malaysia	Jan 1990	1431	726
Austria	Feb 1990	203	72	Mexico	May 1992	280	84
Belgium	Feb 1990	335	127	Netherlands	Jan 1990	421	160
Brazil	May 1998	396	98	New Zealand	Jan 1990	322	105
Canada	Jan 1990	3095	1031	Norway	Jan 1990	733	171
Chile	Dec 1993	277	112	Philippines	Jun 1994	336	167
China	Aug 1996	4750	1496	Poland	Jul 1996	1232	377
Denmark	Jan 1990	428	147	Portugal	Jan 1995	146	52
Finland	May 1990	303	109	Russia	Oct 1996	681	143
France	Jan 1990	1974	636	Saudi Arabia	Dec 2001	238	123
Germany	Jan 1990	1857	670	Singapore	Jan 1990	1148	471
Greece	Dec 1994	432	176	South Africa	Jan 1990	1064	308
Hong Kong	Jan 1990	2891	1072	Spain	Jan 1990	462	145
India	Feb 1990	5110	1563	Sweden	Jan 1990	1505	345
Indonesia	May 1992	893	313	Switzerland	Jan 1990	510	208
Ireland	Sep 1990	125	42	Taiwan	Jan 1990	2629	1059
Israel	Feb 1996	873	292	Thailand	Jan 1990	1120	469
Italy	Jan 1990	838	258	Turkey	Apr 1991	592	260
Japan	Jan 1990	5894	3302	UK	Jan 1990	6070	1788
Korea	Jan 1990	3498	1249	USA	Jan 1990	21305	5565

Table 2. Anomaly Portfolios for International Markets

The table presents the summary statistics for the monthly returns on anomaly portfolios used in international market tests. For each anomaly, we sort stocks based on an underlying return-predicting variable. The long-short anomaly strategies buy (sell) value-weighted terciles of stocks with the strongest (weakest) stock characteristics. The set of anomalies in each market comprises up to 153 stock characteristics from Jensen et al. (2023). The study periods for different markets are provided in Table 1. *#factors* is the total number of anomalies available in a given market. The *t*-statistics in the middle section pertain to the alphas from the three-factor model of Fama and French (1993). The sample comprises 42 markets. The means and standard deviations of returns (the rightmost section) are reported in percentage terms. The last column contains the average pairwise Pearson product-momentum correlation coefficients between anomaly portfolio returns.

	#factors	Three-factor model alphas				Anomaly portfolio returns		
		# t-stat >1.645	# t-stat >1.96	# t-stat >2.58	# t-stat >3	Average of sample means	Average of sample std. dev.	Average correla- tion
Argentina	67	14	9	4	2	0.33	9.19	0.03
Australia	135	65	52	31	19	0.14	3.23	0.05
Austria	108	22	17	9	4	0.11	4.77	0.04
Belgium	125	42	34	20	11	0.10	4.73	0.04
Brazil	121	38	32	14	7	0.23	5.80	0.08
Canada	151	76	68	50	37	0.25	4.48	0.06
Chile	128	25	20	8	2	0.10	3.84	0.03
China	135	67	61	43	29	0.16	4.04	0.05
Denmark	130	52	44	21	11	0.22	5.11	0.05
Finland	127	43	32	12	7	0.18	7.27	0.04
France	138	61	54	32	22	0.17	3.55	0.06
Germany	136	68	55	35	22	0.24	4.12	0.05
Greece	102	51	45	27	16	0.53	7.16	0.09
Hong Kong	130	50	37	22	12	0.13	4.74	0.06
India	45	32	26	14	9	0.18	5.89	0.09
Indonesia	125	57	49	33	26	0.29	5.99	0.04
Ireland	98	25	19	7	5	0.18	9.70	0.05
Israel	117	40	31	20	14	0.18	5.26	0.03
Italy	130	36	27	10	2	0.16	4.41	0.04
Japan	136	49	39	23	16	0.10	3.13	0.04
Korea	120	56	40	25	16	0.29	5.97	0.04
Kuwait	105	15	7	2	1	0.04	4.55	0.03
Malaysia	123	42	32	24	14	0.09	4.24	0.07
Mexico	128	18	11	3	3	0.06	4.56	0.04
Netherlands	135	45	35	15	6	0.10	4.78	0.05
New Zealand	111	39	26	12	5	0.15	4.29	0.04
Norway	125	53	32	18	8	0.22	5.00	0.05
Philippines	84	25	15	6	1	0.15	5.16	0.07
Poland	82	19	12	8	5	0.13	5.10	0.03
Portugal	120	31	21	7	3	0.22	5.91	0.03
Russia	109	36	28	15	4	0.24	6.95	0.04
Saudi Arabia	135	31	17	2	1	0.04	5.51	0.08
Singapore	128	46	35	16	7	0.13	4.59	0.06
South Africa	133	39	30	14	8	0.23	4.98	0.04
Spain	131	52	44	24	10	0.21	4.53	0.05
Sweden	133	49	39	17	8	0.11	5.17	0.04
Switzerland	135	51	39	16	8	0.14	4.36	0.05
Taiwan	112	53	39	20	13	0.12	5.14	0.03
Thailand	117	46	38	22	12	0.14	5.61	0.07
Turkey	108	17	9	4	2	0.12	6.84	0.03
UK	147	64	50	25	18	0.15	3.36	0.07
USA	153	107	96	71	53	0.15	3.05	0.08

Table 3. Prediction Accuracy in International Markets

The table presents the out-of-sample R^2 coefficients (R^2_{OS}) by Campbell and Thompson (2008) for the market excess returns forecast in 42 countries based on long-short anomaly portfolio returns. There are seven forecasting models considered: conventional ordinary least squares (*OLS*), elastic net (*ENet*), simple combination (*Comb*), combination elastic net (*C-ENet*), predictor average (*Avg*), principal components (*PC*), and partial least squares (*PLS*). The predictions are based on up to 153 long-short value-weighted tercile anomaly portfolios from Jensen et al. (2023). The total study period is from January 1990 to December 2021; the testing period starts in January 2005. The models are estimated using a recursive training window. The R^2_{OS} are expressed in percentage terms. The numbers in parentheses are Clark and West's (2007) t -statistics. The values in bold are significant at the 5% level in standalone tests (t -stat > 1.645). The underline font indicates the 5%-significance after the Bonferroni adjustment for multiple testing framework (t -stat > 2.45). The bottom section presents the summary statistics for international markets: the cross-country averages with corresponding bootstrap t -statistics, pooled R^2_{OS} coefficients of Han et al. (2023) for international sample, and the numbers of countries with t -statistics above the significance thresholds.

	OLS	ENet	Comb	C-ENet	Avg	PC	PLS
Argentina	-91.89 (-0.36)	-0.67 (0.34)	-0.51 (-1.22)	-3.59 (-0.03)	-0.39 (0.01)	-2.37 (-1.94)	-17.51 (-1.34)
Australia	-111.38 (-0.05)	-1.02 (0.70)	0.22 (0.71)	-5.42 (-1.47)	-0.29 (0.27)	-0.49 (0.13)	-6.61 (0.78)
Austria	-51.13 (1.63)	-3.04 (-0.25)	0.34 (0.76)	-2.11 (0.07)	-1.83 (-0.78)	0.24 (0.82)	-3.67 (1.02)
Belgium	-93.29 (2.07)	-1.86 (1.49)	1.24 (1.48)	2.65 (1.44)	-0.28 (0.55)	3.71 (1.58)	5.11 (1.70)
Brazil	-170.06 (-0.41)	-4.75 (0.08)	-0.75 (-0.85)	-1.39 (-0.73)	-5.91 (-1.17)	-5.12 (-0.80)	-7.54 (-0.90)
Canada	-145.44 (0.97)	-2.34 (0.16)	-0.01 (0.14)	-1.44 (0.29)	-0.22 (0.38)	-0.13 (-0.02)	-1.10 (0.06)
Chile	-111.48 (-0.04)	-1.09 (-0.81)	0.09 (0.44)	-0.42 (-0.82)	-0.15 (0.60)	0.17 (0.82)	-4.72 (0.31)
China	-163.20 (0.47)	-2.76 (0.84)	0.07 (0.30)	-2.71 (-0.06)	-0.74 (-0.80)	-0.57 (-1.78)	-22.63 (0.79)
Denmark	-202.35 (-1.80)	-5.91 (-1.92)	0.00 (0.10)	-2.47 (-1.31)	-0.01 (0.44)	-0.98 (0.03)	-4.60 (0.31)
Finland	-237.95 (1.00)	-0.26 (0.61)	0.35 (0.48)	-2.66 (-0.78)	0.61 (1.31)	0.53 (0.60)	0.11 (0.46)
France	-96.19 (0.31)	0.02 (0.37)	-0.12 (-0.50)	-0.99 (-1.60)	-0.08 (-0.05)	-0.56 (-0.28)	-5.42 (-0.27)
Germany	-245.10 (-1.34)	0.42 (0.83)	0.10 (0.44)	1.74 (1.27)	0.34 (0.59)	-0.07 (0.30)	-1.35 (0.49)
Greece	-171.53 (0.90)	-5.36 (0.09)	-0.18 (0.05)	1.16 (1.28)	-4.70 (0.43)	-3.08 (0.23)	-8.16 (-0.02)
Hong Kong	-134.21 (0.68)	-5.22 (0.51)	0.39 (1.00)	-1.90 (-0.33)	-0.56 (0.75)	-0.14 (-0.25)	-2.12 (1.07)
India	-14.23 (1.35)	-1.27 (1.81)	0.06 (0.43)	-0.11 (1.13)	-0.37 (-0.08)	-0.21 (-0.08)	-5.63 (0.82)
Indonesia	-185.57 (1.09)	-0.53 (1.32)	0.57 (0.91)	-0.12 (0.39)	0.75 (0.68)	-0.20 (0.56)	-2.55 (1.05)
Ireland	-112.29 (0.16)	-2.07 (0.65)	-0.75 (-1.44)	-0.77 (-0.61)	-1.50 (-0.78)	-2.61 (-1.02)	-10.78 (-1.22)
Israel	-182.19 (-0.34)	3.62 (2.24)	1.27 (2.16)	3.07 (2.02)	-1.30 (-0.18)	1.34 (1.31)	3.82 (2.06)
Italy	-141.61 (-1.05)	-3.63 (-0.27)	-0.14 (-0.93)	1.54 (1.16)	-0.34 (-1.05)	-0.64 (-1.35)	-8.90 (-0.65)
Japan	-281.37 (0.62)	-0.04 (0.24)	0.59 (2.18)	-0.33 (0.38)	4.31 (2.69)	0.06 (0.41)	1.60 (2.02)
Korea	-144.13 (-0.02)	-7.55 (-1.18)	-0.21 (-0.51)	-3.51 (-1.69)	-0.45 (-0.53)	-0.54 (-0.09)	-7.96 (-0.56)
Kuwait	-172.77 (0.44)	3.83 (2.01)	0.27 (0.75)	-0.98 (-0.65)	-0.45 (0.00)	-0.68 (-0.70)	-7.11 (0.14)
Malaysia	-308.76 (-0.54)	-29.10 (0.68)	0.75 (1.82)	0.49 (1.15)	1.22 (1.30)	0.28 (0.71)	0.73 (1.82)
Mexico	-216.86 (1.41)	-1.89 (0.40)	0.57 (2.04)	-1.19 (-0.30)	2.03 (1.58)	-1.27 (-0.45)	0.52 (2.01)
Netherlands	-123.08 (0.78)	-10.38 (-0.13)	0.34 (0.84)	-0.42 (0.32)	1.15 (1.06)	1.01 (1.02)	-1.81 (1.24)
New Zealand	-77.70 (-0.66)	-3.18 (-2.24)	-0.37 (-2.12)	-1.25 (-0.64)	-1.91 (-1.69)	-0.69 (-0.75)	-5.82 (-2.21)
Norway	-87.14 (0.47)	0.69 (1.37)	0.77 (1.99)	0.73 (1.45)	1.17 (1.19)	2.50 (1.80)	3.20 (2.11)
Philippines	-60.47 (1.86)	-5.89 (-0.02)	0.47 (0.83)	-0.86 (-1.68)	-1.16 (-0.18)	0.67 (0.77)	-1.87 (0.71)
Poland	-109.47 (0.13)	-4.79 (-0.84)	-0.03 (0.03)	-0.84 (0.17)	-0.21 (-1.17)	-0.72 (-1.15)	-8.55 (0.17)
Portugal	-345.95 (-0.14)	-1.33 (0.60)	0.35 (0.75)	-0.91 (-0.82)	-1.00 (-0.14)	1.27 (1.26)	-7.89 (1.04)
Russia	-136.73 (0.40)	0.17 (1.26)	0.11 (0.37)	-0.07 (-0.18)	-0.34 (-0.16)	-0.57 (-0.17)	-3.80 (-0.06)
Saudi Arabia	-536.89 (0.97)	-46.81 (-1.05)	-1.10 (-2.07)	0.00 (0.00)	-2.02 (-1.48)	-3.41 (-1.17)	-17.19 (-2.11)
Singapore	-158.83 (0.37)	2.67 (1.52)	0.41 (1.24)	2.51 (1.65)	0.06 (0.30)	0.70 (0.90)	2.22 (1.39)
South Africa	-128.74 (1.43)	-2.39 (-0.54)	-0.25 (-1.35)	-1.12 (-0.80)	-1.11 (-0.38)	-0.84 (-1.80)	-23.38 (-1.06)
Spain	-126.54 (0.57)	-0.34 (-1.23)	-0.41 (-2.05)	-2.99 (-1.19)	-0.51 (-1.39)	-0.45 (-0.61)	-12.63 (-2.00)
Sweden	-121.33 (0.84)	1.35 (1.53)	0.15 (0.80)	-0.71 (-1.57)	1.08 (1.03)	-0.52 (-0.76)	0.24 (0.76)
Switzerland	-164.74 (-1.49)	-0.19 (0.64)	0.05 (0.28)	-0.27 (0.06)	-0.22 (-0.37)	-0.78 (-1.69)	-3.45 (0.28)
Taiwan	-159.02 (0.38)	-1.00 (0.18)	-0.59 (-1.19)	-1.47 (-0.10)	0.03 (0.42)	-1.68 (-1.14)	-2.56 (-0.39)
Thailand	-125.03 (-0.78)	-0.34 (-0.17)	0.01 (0.15)	-1.94 (-0.61)	0.22 (0.62)	0.47 (1.25)	-3.45 (0.01)
Turkey	-177.00 (-0.55)	-11.30 (-0.42)	-0.33 (-1.11)	-2.48 (-0.75)	-2.01 (-1.78)	-0.59 (-1.42)	-14.10 (-0.61)
UK	-132.22 (1.78)	6.56 (1.87)	1.34 (1.68)	2.30 (1.42)	3.12 (1.54)	3.77 (1.81)	6.00 (1.76)
USA	-185.10 (-0.88)	-3.14 (-0.88)	-0.21 (-0.47)	-0.57 (-1.05)	0.64 (0.81)	-0.56 (-0.46)	-2.05 (-0.64)
<i>Summary statistics</i>							
Average	-160.50 (-11.58)	-3.62 (-2.74)	0.12 (1.49)	-0.76 (-2.78)	-0.32 (-1.24)	-0.33 (-1.33)	-5.08 (-4.95)
Pooled R^2_{OS}	-187.32 (-0.55)	-3.00 (-0.55)	-0.11 (-0.23)	-0.82 (-0.82)	0.78 (1.30)	-0.37 (-0.24)	-3.02 (0.11)
# t -stat > 1.645	3	4	6	2	1	2	7
# t -stat > 2.45	0	0	0	0	1	0	0

Table 4. Utility Gains in International Markets

The table presents the annualized average utility gains of an investor that uses anomaly portfolio returns to predict market excess returns in 42 countries instead of the prevailing mean benchmark forecast. There are seven forecasting models considered: conventional ordinary least squares (*OLS*), elastic net (*ENet*), simple combination (*Comb*), combination elastic net (*C-ENet*), predictor average (*Avg*), principal components (*PC*), and partial least squares (*PLS*). The predictions are based on up to 153 long-short value-weighted tercile anomaly portfolios from Jensen et al. (2023). The total study period is from January 1990 to December 2021; the testing period starts in January 2005. The models are estimated using a recursive training window. The utility gains are expressed in percentage terms. The bottom section presents the summary statistics for international markets: the cross-country averages with corresponding *t*-statistics.

	OLS	ENet	Comb	C-ENet	Avg	PC	PLS
Argentina	-27.09	-2.39	-1.57	-13.02	-0.02	-7.07	-24.20
Australia	-16.08	-3.32	0.71	-7.33	-1.73	-1.77	-4.84
Austria	-4.27	-8.12	-0.23	-2.13	-10.66	-7.96	-14.00
Belgium	7.80	7.22	2.18	4.21	1.01	6.26	7.54
Brazil	-14.81	-9.05	-1.93	-1.80	-13.56	-11.23	-16.60
Canada	-7.39	-1.26	0.00	0.36	0.65	-2.10	0.71
Chile	-10.54	-2.63	0.26	-0.57	-1.43	0.32	-6.46
China	-21.90	-4.87	-0.25	-2.06	-1.79	-0.90	-13.93
Denmark	-21.53	-8.79	-0.50	-2.75	-2.32	-1.72	-7.96
Finland	-5.24	-0.41	1.27	-2.65	-0.22	0.28	-0.21
France	-8.39	-0.19	-0.84	-1.20	-0.48	-2.45	-7.69
Germany	-5.95	-3.37	-0.07	1.25	-0.23	0.19	-6.40
Greece	-26.85	-6.09	0.11	1.58	-3.02	-2.00	-8.23
Hong Kong	-6.31	-5.35	1.15	0.07	-0.38	-0.56	0.66
India	-3.92	2.83	0.79	2.38	1.87	1.74	2.08
Indonesia	0.17	5.16	1.96	-0.41	3.18	1.44	0.14
Ireland	-21.41	-7.39	-1.90	-0.20	-3.27	-3.68	-12.52
Israel	-5.57	9.64	2.13	7.18	-1.69	-1.33	4.85
Italy	-21.52	-3.88	-0.28	3.08	-0.63	-1.05	-12.43
Japan	1.56	-0.36	0.90	0.27	7.97	0.02	6.72
Korea	-13.74	-9.27	0.28	-5.98	-1.80	0.46	-7.14
Kuwait	1.63	4.00	0.27	-2.21	1.48	-1.67	-5.21
Malaysia	-9.91	-0.67	1.77	1.33	3.66	1.08	5.08
Mexico	-9.73	-3.90	1.54	-1.58	6.93	-0.12	4.36
Netherlands	-2.33	-5.41	0.01	-1.14	1.39	-0.15	0.35
New Zealand	-12.38	-7.82	-0.83	-0.96	-3.47	-2.51	-8.89
Norway	-21.17	2.19	1.41	2.94	-0.97	3.45	6.14
Philippines	6.92	0.40	0.97	-1.54	-1.90	1.30	4.50
Poland	-14.13	-5.57	0.19	-1.08	-0.28	-2.20	-7.44
Portugal	-11.72	0.84	0.38	-1.01	-3.02	2.88	-1.65
Russia	-13.97	0.25	0.57	-1.17	0.70	0.64	-3.85
Saudi Arabia	1.13	-5.10	-1.20	0.00	-2.07	-2.35	-14.22
Singapore	-12.22	3.07	1.44	5.96	-0.09	2.45	4.46
South Africa	-7.67	-2.58	-0.57	-3.91	-2.88	-1.89	-18.25
Spain	-9.67	-0.73	-0.72	-3.25	-2.01	-0.41	-10.45
Sweden	-16.58	5.67	0.31	-1.96	-0.59	-0.63	1.07
Switzerland	-9.79	2.21	0.24	-0.38	-0.01	-1.28	2.73
Taiwan	-8.27	-0.41	-1.21	-0.18	-0.42	-3.15	-2.22
Thailand	-23.40	0.00	0.00	-3.78	0.61	1.05	-6.68
Turkey	-43.28	-8.27	-0.48	-4.18	-4.43	-1.24	-14.00
UK	4.03	4.52	3.22	1.58	5.91	7.52	7.28
USA	-9.29	-0.31	-0.08	-0.02	2.28	0.82	-1.22
Average	-10.83 (-6.95)	-1.66 (-2.29)	0.27 (1.56)	-0.86 (-1.65)	-0.66 (-1.15)	-0.70 (-1.41)	-4.24 (-3.49)

Table 5. Sharpe Ratios for International Markets

The table presents the annualized Sharpe ratios for an investor who allocates between the local market portfolio and risk-free Treasury bills by using the different models indicated in the first column to predict the market portfolio excess returns in 42 countries. There are seven forecasting models considered: conventional ordinary least squares (*OLS*), elastic net (*ENet*), simple combination (*Comb*), combination elastic net (*C-ENet*), predictor average (*Avg*), principal components (*PC*), and partial least squares (*PLS*). The predictions are based on up to 153 long-short value-weighted tercile anomaly portfolios from Jensen et al. (2023). The total study period is from January 1990 to December 2021; the testing period starts in January 2005. The models are estimated using a recursive training window. The numbers in parentheses are *t*-statistics from the test of Ledoit and Wolf (2008), which compares a competing model with a prevailing mean benchmark forecast (as is indicated in the *Bench.* column). The values in bold are significant at the 5% level in standalone tests ($|t\text{-stat}| > 1.96$). The underline font indicates the 5%-significance after the Bonferroni adjustment for multiple testing framework ($|t\text{-stat}| > 2.69$). The bottom section presents the cross-country averages with corresponding *t*-statistics.

	Bench	OLS	ENet	Comb	C-ENet	Avg	PC	PLS
Argentina	-0.18	0.10 (0.59)	0.12 (0.92)	-0.31 (-0.67)	0.11 (0.83)	0.10 (1.08)	-0.42 (-0.79)	-0.39 (-0.64)
Australia	0.23	0.07 (-0.57)	0.21 (-0.08)	0.28 (0.79)	0.01 (-1.80)	0.20 (-0.23)	0.21 (-0.11)	0.30 (0.24)
Austria	0.11	0.36 (0.74)	-0.15 (-1.10)	0.08 (-0.25)	0.14 (0.08)	-0.26 (-1.88)	-0.06 (-0.61)	-0.04 (-0.48)
Belgium	-0.05	0.56 (2.00)	0.50 (2.22)	0.12 (1.63)	0.31 (1.67)	0.14 (0.71)	0.44 (1.78)	0.51 (1.94)
Brazil	-0.21	0.30 (1.25)	0.09 (0.70)	-0.23 (-0.10)	-0.34 (-0.44)	-0.36 (-0.39)	-0.25 (-0.08)	-0.29 (-0.20)
Canada	0.23	0.25 (0.07)	0.30 (0.36)	0.25 (0.56)	0.30 (0.32)	0.32 (0.57)	0.20 (-0.26)	0.32 (0.54)
Chile	0.23	0.06 (-0.48)	0.07 (-1.44)	0.23 (-0.11)	0.20 (-0.37)	0.22 (-0.03)	0.23 (0.11)	0.04 (-0.65)
China	0.45	-0.07 (-1.38)	0.22 (-0.70)	0.43 (-0.33)	0.33 (-1.01)	0.30 (-1.23)	0.38 (-1.01)	0.03 (-0.81)
Denmark	0.49	<u>-0.09 (-2.69)</u>	0.14 (-2.53)	0.47 (-0.78)	0.36 (-0.74)	0.41 (-0.74)	0.43 (-0.46)	0.27 (-1.36)
Finland	0.21	0.22 (0.03)	0.32 (0.43)	0.29 (0.72)	0.10 (-0.57)	0.21 (0.04)	0.31 (0.44)	0.30 (0.38)
France	0.14	0.11 (-0.07)	0.14 (-0.06)	0.09 (-1.22)	0.05 (-1.61)	0.13 (-0.22)	0.00 (-1.25)	-0.17 (-0.99)
Germany	0.13	0.25 (0.49)	0.16 (0.13)	0.13 (0.10)	0.33 (1.09)	0.16 (0.18)	0.18 (0.26)	0.04 (-0.43)
Greece	-0.65	0.05 (2.05)	-0.05 (1.43)	-0.43 (0.76)	<u>0.14 (2.70)</u>	0.01 (1.45)	-0.02 (1.51)	-0.10 (1.30)
Hong Kong	0.37	0.29 (-0.28)	0.22 (-1.01)	0.43 (1.32)	0.40 (0.27)	0.43 (0.24)	0.36 (-0.53)	0.48 (0.42)
India	0.36	0.38 (0.06)	0.50 (0.56)	0.40 (0.95)	0.46 (0.62)	0.44 (1.52)	0.43 (0.88)	0.55 (0.88)
Indonesia	0.10	0.46 (0.83)	0.51 (1.06)	0.20 (1.01)	0.11 (0.01)	0.34 (0.85)	0.23 (0.51)	0.34 (0.59)
Ireland	-0.22	-0.27 (-0.12)	-0.11 (0.54)	-0.26 (-1.22)	-0.20 (0.25)	-0.28 (-0.63)	-0.25 (-0.19)	-0.36 (-0.65)
Israel	0.26	0.21 (-0.13)	0.75 (1.92)	0.37 (1.45)	0.64 (1.65)	0.24 (-0.12)	0.26 (-0.02)	0.53 (1.01)
Italy	-0.13	-0.21 (-0.25)	0.00 (0.49)	-0.15 (-0.56)	0.28 (1.34)	-0.20 (-1.13)	-0.18 (-0.36)	-0.14 (-0.01)
Japan	-0.17	0.35 (1.06)	-0.09 (0.31)	0.01 (1.75)	0.03 (0.88)	0.73 (2.30)	-0.14 (0.58)	0.59 (1.89)
Korea	0.09	0.15 (0.21)	-0.11 (-0.60)	0.14 (0.28)	-0.23 (-1.17)	-0.10 (-1.36)	0.21 (0.39)	-0.06 (-0.39)
Kuwait	0.71	0.78 (0.13)	0.87 (1.35)	0.72 (0.48)	0.61 (-0.78)	0.77 (0.58)	0.64 (-1.09)	0.47 (-0.90)
Malaysia	0.24	0.00 (-0.79)	0.33 (0.40)	0.35 (1.57)	0.34 (1.07)	0.48 (1.07)	0.30 (0.70)	0.56 (1.05)
Mexico	-0.05	0.10 (0.44)	0.07 (0.72)	0.03 (2.31)	-0.02 (0.26)	0.40 (1.38)	-0.06 (-0.06)	0.39 (1.37)
Netherlands	0.20	0.23 (0.08)	0.03 (-0.76)	0.22 (0.41)	0.19 (-0.12)	0.34 (0.65)	0.25 (0.28)	0.33 (0.53)
New Zealand	0.31	0.04 (-0.95)	-0.05 (-2.45)	0.26 (-2.05)	0.26 (-0.37)	0.10 (-1.77)	0.20 (-1.29)	-0.10 (-1.79)
Norway	0.26	0.09 (-0.59)	0.44 (1.02)	0.35 (1.81)	0.45 (1.68)	0.33 (0.39)	0.52 (1.21)	0.65 (1.53)
Philippines	-0.12	0.62 (1.77)	0.20 (0.85)	0.10 (1.34)	-0.35 (-1.77)	-0.09 (0.08)	0.22 (1.01)	0.49 (1.55)
Poland	-0.06	-0.07 (-0.02)	-0.24 (-0.60)	-0.02 (0.61)	0.06 (0.42)	-0.09 (-0.52)	-0.24 (-1.64)	-0.03 (0.08)
Portugal	0.12	0.05 (-0.16)	0.26 (0.54)	0.18 (0.48)	0.00 (-0.90)	-0.01 (-0.61)	0.43 (1.06)	0.26 (0.41)
Russia	0.22	0.05 (-0.41)	0.22 (-0.43)	0.22 (0.02)	0.19 (-0.99)	0.24 (0.17)	0.23 (0.07)	0.03 (-0.54)
Saudi Arabia	0.66	0.69 (0.06)	0.38 (-0.80)	0.59 (-2.11)	0.66 (0.00)	0.54 (-1.05)	0.53 (-0.76)	-0.14 (-2.43)
Singapore	0.16	0.00 (-0.46)	0.41 (1.13)	0.22 (1.47)	0.50 (1.41)	0.17 (0.08)	0.28 (0.83)	0.45 (1.20)
South Africa	0.15	0.34 (0.68)	0.03 (-0.58)	0.09 (-1.40)	0.00 (-1.09)	0.01 (-0.60)	-0.02 (-2.20)	-0.15 (-1.09)
Spain	-0.03	0.07 (0.27)	-0.05 (-1.06)	-0.07 (-1.56)	-0.16 (-1.05)	-0.09 (-1.42)	-0.04 (-0.26)	-0.38 (-1.09)
Sweden	0.29	0.04 (-0.94)	0.59 (1.61)	0.31 (0.86)	0.21 (-1.58)	0.34 (0.43)	0.26 (-0.54)	0.39 (0.75)
Switzerland	0.40	0.03 (-1.17)	0.52 (0.68)	0.41 (0.65)	0.39 (-0.19)	0.40 (0.01)	0.33 (-1.59)	0.54 (0.55)
Taiwan	0.34	0.22 (-0.32)	0.26 (-0.31)	0.10 (-1.08)	0.27 (-0.20)	0.24 (-0.35)	-0.08 (-1.47)	0.15 (-0.60)
Thailand	0.20	-0.12 (-0.99)	0.20 (0.03)	0.20 (0.03)	-0.01 (-0.95)	0.25 (0.58)	0.29 (1.06)	0.03 (-0.62)
Turkey	0.04	-0.36 (-0.90)	0.09 (0.19)	0.03 (-0.12)	-0.05 (-0.56)	-0.09 (-1.61)	0.01 (-1.00)	-0.12 (-0.50)
UK	-0.04	0.41 (1.72)	0.39 (1.97)	0.20 (1.62)	0.18 (1.14)	0.41 (1.65)	0.49 (1.87)	0.50 (2.10)
USA	0.38	0.04 (-1.12)	0.38 (-0.11)	0.38 (-0.05)	0.38 (-0.02)	0.50 (0.57)	0.43 (0.29)	0.33 (-0.25)
Average	0.15	0.16 (0.30)	0.22 (1.89)	0.18 (2.08)	0.18 (1.07)	0.20 (1.44)	0.18 (1.04)	0.18 (0.59)

Table 6. Prediction Performance in International Markets: Alternative Test Specifications

The table presents the summary statistics for the prediction performance of different models across 42 global stock markets. Seven different models are employed to forecast market excess returns using anomaly portfolio returns: conventional ordinary least squares (*OLS*), elastic net (*ENet*), simple combination (*Comb*), combination elastic net (*C-ENet*), predictor average (*Avg*), principal components (*PC*), and partial least squares (*PLS*). The total study period is from January 1990 to December 2021, and the baseline testing period starts in January 2005. The predictions are based on up to 153 value-weighted anomaly portfolios from Jensen et al. (2023); we consider three types inputs: long-short portfolio returns (left-most section), long leg portfolio excess returns (middle section), and short leg portfolio excess returns (right-most section). *Average R^2_{OS}* is the cross-country average of the single-market out-of-sample R^2 coefficients (R^2_{OS}) by Campbell and Thompson (2008), along with the corresponding bootstrap t -statistic (in parentheses). *Pooled R^2_{OS}* is the pooled R^2_{OS} coefficients of Han et al. (2023) for the pooled international sample. *Average R^2_{OS}* and *Pooled R^2_{OS}* are expressed in percentage terms. The table also reports the number of markets with Clark and West's (2007) t -statistics that are significant at the 5% level in standalone tests ($\#t > 1.645$) and significant after the Bonferroni adjustment for multiple testing framework ($\#t > 2.45$). Panel A reports the results of the baseline approach. Panels B to D consider various modifications of the methodological assumptions: replacing quintiles with terciles in portfolio construction (Panel B), shortening the in-sample period to 10 years (Panel C), and training the models using rolling—rather than extending—training windows (Panel D).

	Long-short portfolio returns				Long leg portfolio excess returns				Short leg portfolio excess returns			
	Average R^2_{OS}	Pooled R^2_{OS}	$\#t > 1.65$	$\#t > 2.45$	Average R^2_{OS}	Pooled R^2_{OS}	$\#t > 1.65$	$\#t > 2.45$	Average R^2_{OS}	Pooled R^2_{OS}	$\#t > 1.65$	$\#t > 2.45$
OLS	-160.50 (-11.58)	-187.32 (-0.55)	3	0	-157.63 (-13.26)	-176.10 (-0.40)	2	0	-169.46 (-8.74)	-162.10 (-0.59)	2	1
ENet	-2.46 (-3.34)	-3.00 (-0.55)	4	0	-2.34 (-3.06)	-1.95 (-1.07)	0	0	-2.34 (-3.06)	-1.95 (-0.54)	4	0
Comb	-0.12 (-0.44)	-0.11 (-0.23)	6	0	-0.10 (-0.37)	-0.20 (0.35)	2	0	-0.10 (-0.37)	0.07 (0.64)	1	0
C-ENet	-0.92 (-3.01)	-0.82 (-0.82)	2	0	-1.02 (-3.84)	-0.21 (0.85)	0	0	-1.02 (-3.84)	-0.28 (0.17)	0	0
Avg	-0.39 (-1.24)	0.78 (1.30)	1	1	-0.36 (-1.12)	-0.21 (0.43)	2	0	-0.36 (-1.12)	0.07 (0.69)	1	0
PC	-0.40 (-1.28)	-0.37 (-0.24)	2	0	-0.36 (-1.13)	-0.24 (0.41)	2	0	-0.36 (-1.13)	0.05 (0.68)	1	0
PLS	-0.52 (-1.49)	-3.02 (0.11)	7	0	-0.52 (-1.42)	-0.16 (0.53)	2	0	-0.52 (-1.42)	0.12 (0.75)	1	0
<i>Panel B: Terciles replaced with quintiles</i>												
OLS	-147.81 (-14.70)	-191.40 (-1.09)	1	0	-138.52 (-13.79)	-168.97 (0.24)	3	0	-161.13 (-10.63)	-158.71 (-0.32)	1	0
ENet	-1.90 (-3.53)	-4.54 (-1.05)	3	0	-1.97 (-3.73)	-0.78 (-0.03)	2	0	-1.97 (-3.73)	-1.07 (0.12)	3	0
Comb	-0.04 (-0.11)	-0.11 (-0.20)	4	0	0.03 (0.14)	-0.19 (0.33)	2	0	0.03 (0.14)	0.14 (0.69)	2	0
C-ENet	-0.92 (-2.61)	-1.62 (-1.48)	2	0	-0.68 (-1.73)	-1.29 (-0.56)	1	0	-0.68 (-1.73)	-0.43 (0.42)	0	0
Avg	-0.34 (-0.93)	0.77 (1.32)	2	0	-0.29 (-0.70)	-0.20 (0.46)	2	0	-0.29 (-0.70)	0.13 (0.77)	2	0
PC	-0.36 (-1.00)	-0.36 (-0.10)	3	0	-0.28 (-0.70)	-0.25 (0.42)	2	0	-0.28 (-0.70)	0.10 (0.74)	2	0
PLS	-0.67 (-1.61)	-2.91 (0.19)	6	0	-0.29 (-0.61)	-0.11 (0.59)	2	0	-0.29 (-0.61)	0.19 (0.83)	3	0
<i>Panel C: 10-year instead of 15-year in-sample period</i>												
OLS	-160.50 (-11.58)	-2.17e5 (-0.96)	3	0	-157.63 (-13.26)	-8.05e6 (1.52)	2	0	-169.46 (-8.74)	-6.57e5 (0.83)	2	1
ENet	-6.99 (-3.76)	-6.04 (0.24)	2	1	-5.92 (-4.85)	-3.78 (-0.91)	4	0	-5.92 (-4.85)	-4.14 (-1.09)	4	0
Comb	0.23 (0.81)	-0.36 (-0.81)	8	1	0.26 (0.88)	-0.69 (-0.35)	5	0	0.26 (0.88)	-0.58 (-0.05)	6	0
C-ENet	-0.66 (-2.26)	-1.80 (-1.85)	2	1	-0.47 (-1.19)	-0.15 (0.91)	4	0	-0.47 (-1.19)	-0.10 (0.88)	3	0
Avg	-0.02 (-0.05)	-0.45 (0.57)	4	0	0.03 (0.09)	-0.76 (-0.23)	5	0	0.03 (0.09)	-0.64 (0.04)	5	0
PC	-0.03 (-0.06)	-0.59 (-0.18)	4	1	0.03 (0.10)	-0.78 (-0.26)	5	0	0.03 (0.10)	-0.66 (0.01)	5	0
PLS	-0.13 (-0.34)	-4.14 (0.22)	10	1	-0.18 (-0.47)	-1.47 (-0.58)	7	0	-0.18 (-0.47)	-0.58 (0.27)	6	0
<i>Panel D: Rolling instead of recursive training window</i>												
OLS	-365.39 (-13.90)	-639.64 (-1.12)	2	0	-353.15 (-14.77)	-779.14 (0.82)	2	0	-383.62 (-10.39)	-620.32 (-1.36)	5	2
ENet	-2.31 (-5.53)	-6.09 (-1.33)	3	0	-2.05 (-3.31)	-1.82 (-0.51)	2	0	-2.05 (-3.31)	-5.81 (-1.25)	2	0
Comb	-0.35 (-1.42)	-0.31 (-0.43)	4	0	-0.29 (-1.10)	-0.83 (0.22)	0	0	-0.29 (-1.10)	-0.56 (0.45)	1	0
C-ENet	-0.51 (-1.83)	0.63 (1.15)	0	0	-0.66 (-2.48)	0.09 (0.65)	2	0	-0.66 (-2.48)	0.70 (1.08)	0	0
Avg	-0.73 (-2.59)	-0.26 (0.65)	1	1	-0.65 (-2.19)	-0.88 (0.34)	0	0	-0.65 (-2.19)	-0.61 (0.53)	1	0
PC	-0.74 (-2.67)	-1.00 (-0.17)	3	0	-0.64 (-2.21)	-0.92 (0.32)	0	0	-0.64 (-2.21)	-0.63 (0.52)	1	0
PLS	-1.12 (-3.06)	-3.90 (-0.03)	5	0	-0.65 (-1.91)	-0.84 (0.43)	0	0	-0.65 (-1.91)	-0.62 (0.57)	1	0

Table 7. Anomaly Portfolios for the U.S. Market

The table presents the summary statistics for monthly returns on anomaly portfolios used for the U.S. market tests. For each anomaly, we sort stocks based on an underlying return-predicting variable. The respective long-short strategies buy (sell) value-weighted portfolios of stocks with the strongest (weakest) anomaly characteristics. The return statistics are reported separately for the long-short differential returns and the long and short legs. The underlying sample comprises NYSE, AMEX, and NASDAQ stocks. The study period runs from January 1970 to December 2017. We consider five different sets of anomalies: the original anomaly set used in Dong et al. (2022) (DLRZ); 153 tercile and decile portfolios based on Jensen et al. (2023) (JPK3, JPK10); 207 portfolios from Chen and Zimmermann (2022) (CZ); and 188 anomalies from Hou et al. (2020) (HXZ). The means and standard deviations of returns are reported in percentage terms.

	DLRZ	JPK3	JPK10	CZ	HXZ
Total number of factors	100	153	153	207	188
Average number of factors available	98	153	153	191	179
Fama and French (1993) three-factor model alphas					
Number of factors with $ t\text{-stat} > 1.645$	58	69	78	127	83
Number of factors with $ t\text{-stat} > 1.96$	48	49	60	113	60
Number of factors with $ t\text{-stat} > 2.58$	28	20	26	76	28
Number of factors with $ t\text{-stat} > 3$	16	6	17	62	21
Average correlation across anomaly excess returns					
Long leg	0.76	0.90	0.78	0.84	0.79
Short leg	0.82	0.90	0.81	0.85	0.84
Long-short	0.08	0.06	0.07	0.05	0.08
Long-leg anomaly portfolio excess returns					
Average of sample means	0.71	0.64	0.69	1.32	1.20
Average of sample standard deviations	5.16	4.65	5.37	6.14	5.43
Short-leg anomaly portfolio excess returns					
Average of sample means	0.33	0.46	0.34	0.78	0.72
Average of sample standard deviations	6.20	5.23	6.40	6.60	5.87
Long-short anomaly portfolio excess returns					
Average of sample means	0.38	0.18	0.34	0.55	0.47
Average of sample standard deviations	4.37	3.02	4.86	3.56	4.06

Table 8. Market Return Predictability in the U.S. Market

The table presents the measures of prediction performance for the U.S. market excess returns forecast based on various sets of long-short anomaly portfolio returns: the out-of-sample R^2 coefficients (R^2_{OS}) by Campbell and Thompson (2008) (Panel A), the annualized average utility gains (Panel B), and the annualized Sharpe ratios for an investor who allocates between the U.S. market portfolio and risk-free Treasury bills (Panel C). We consider five different sets of long-short anomaly portfolios: the original set used in Dong et al. (2022) (DLRZ); 153 tercile and decile portfolios based on Jensen et al. (2023) (JPK3, JPK10); 207 portfolios from Chen and Zimmermann (2022) (CZ); and 188 portfolios from Hou et al. (2020) (HXZ). The total study period is from January 1970 to December 2017; the testing period starts in January 1985. The underlying sample comprises U.S. stocks. The R^2_{OS} and utility gains are expressed in percentage terms. The numbers in parentheses are: in Panel A, Clark and West's (2007); and in Panel B, t -statistics from the test of Ledoit and Wolf (2008), which compares a given Sharpe ratio with the Sharpe ratio of the portfolio formed using the prevailing mean benchmark forecast ($=0.42$). The values in bold are significant at the 5% level in standalone tests (t -stat > 1.645 in Panel A and $|t$ -stat| > 1.96 in Panel C); furthermore, the underline font indicates the 5%-significance after the Bonferroni adjustment for multiple testing framework (t -stat > 2.45 in Panel A and $|t$ -stat| > 2.69 in Panel C).

	DLRZ	JPK3	JPK10	CZ	HXZ
<i>Panel A: Predictive R^2 coefficients</i>					
OLS	-2513.86 (0.53)	-186.46 (-1.37)	-167.93 (0.89)	-27288.47 (1.27)	-61224.58 (0.71)
ENet	2.03 (2.26)	-0.51 (0.95)	-0.35 (0.97)	-1.54 (-0.98)	-4.27 (-1.31)
Comb	<u>0.89 (2.50)</u>	0.31 (1.60)	0.18 (1.03)	-0.01 (0.07)	0.16 (1.10)
C-ENet	<u>2.81 (2.49)</u>	-0.91 (-0.92)	-0.36 (-0.18)	-0.82 (-1.52)	-1.57 (-0.97)
Avg	1.89 (2.13)	0.78 (1.48)	0.85 (1.57)	0.09 (0.58)	0.65 (1.41)
PC	1.25 (1.84)	0.11 (0.77)	0.46 (1.21)	-0.01 (0.43)	-0.16 (-0.54)
PLS	<u>2.06 (2.65)</u>	-0.33 (1.36)	-1.11 (0.95)	-4.72 (0.00)	-2.47 (1.17)
<i>Panel B: Utility gains</i>					
OLS	-4.97	-9.85	-5.11	-11.86	-19.29
ENet	6.26	0.90	1.05	-1.17	-1.96
Comb	2.59	0.76	0.72	0.03	0.05
C-ENet	6.06	-2.09	-0.71	-1.14	-2.12
Avg	3.74	2.54	2.88	1.03	2.14
PC	3.28	1.37	2.35	0.74	-0.25
PLS	6.38	3.30	2.00	0.54	1.48
<i>Panel C: Sharpe ratios</i>					
OLS	0.23 (-0.82)	0.08 (-1.64)	0.26 (-0.72)	-0.02 (-1.99)	<u>-0.37 (-3.33)</u>
ENet	0.81 (1.99)	0.48 (0.38)	0.49 (0.47)	0.37 (-0.50)	0.32 (-1.76)
Comb	0.59 (1.96)	0.47 (1.65)	0.47 (1.42)	0.43 (0.13)	0.43 (0.19)
C-ENet	0.79 (1.79)	0.29 (-1.70)	0.39 (-0.63)	0.35 (-1.70)	0.31 (-0.78)
Avg	0.65 (1.18)	0.58 (1.01)	0.61 (1.13)	0.49 (0.94)	0.56 (1.13)
PC	0.62 (1.13)	0.51 (0.72)	0.57 (1.07)	0.47 (0.47)	0.41 (-0.57)
PLS	0.80 (1.55)	0.62 (0.88)	0.55 (0.50)	0.46 (0.19)	0.52 (0.53)

Table 9. Average Predictive R^2 Coefficients for Different Anomaly Portfolio Designs

The table illustrates the impact of various methodological choices on the predictive performance of long-short anomaly portfolio returns. Seven different models are employed to forecast market excess returns using anomaly portfolio returns: conventional ordinary least squares (OLS), elastic net (ENet), simple combination (Comb), combination elastic net (C-ENet), predictor average (Avg), principal components (PC), and partial least squares (PLS). The models in Panels A and B use anomalies from the sample of Jensen et al. (2023) and Chen and Zimmermann (2022), respectively (JKP, CZ). The equity univers comprises U.S. stocks. The study period is from January 1970 to December 2017, and the testing period starts in January 1985. The distributions are based on 2592 variants of anomaly implementations, accounting for different weighting schemes (equal-, value-, or capped-value weighting); minimum share price (1\$, 5\$, or none); treatment of financial companies (included or excluded), utility companies (included or excluded), and micro-cap stocks (included or excluded); inclusion of different CRSP share price codes (all or 10 and 11 only); winsorization of stock returns (at 99%, 99.9%, or none); equity universes used to determine portfolio breakpoints (CRSP or NYSE), and anomaly significance (all, significant only, insignificant only). For each methodological choice, we calculate the average out-of-sample R^2 coefficients (R_{OS}^2) by Campbell and Thompson (2008) across all specifications calculated using the given approach. The R_{OS}^2 values are reported in percentage terms. The last two columns represent means and medians across all seven considered models, with the OLS model excluded. The underlying sample comprises U.S. stocks, and the study period runs from January 1970 to December 2017; the testing period starts in January 1985.

Panel A: JKP sample

Choice	Option	OLS	ENet	Comb	C-ENet	Avg	PC	PLS
Weighting scheme	Equal-weighted	-89.06	-1.80	0.13	-1.06	0.02	0.27	-1.19
Weighting scheme	Capped value-weighted	-73.46	-1.25	0.27	-0.91	0.51	0.56	-0.44
Weighting scheme	Value-weighted	-52.21	-0.95	0.28	-0.74	0.66	0.22	-0.39
Anomalies	All	-171.23	-1.30	0.25	-1.20	0.65	0.42	-0.58
Anomalies	Insignificant	-11.66	-1.27	0.27	-0.52	0.40	0.24	-0.88
Anomalies	Significant	-72.75	-1.38	0.21	-1.00	0.20	0.36	-0.49
Minimum share price	None	-73.45	-1.24	0.22	-0.90	0.35	0.30	-0.73
Minimum share price	1\$	-73.51	-1.25	0.23	-0.93	0.39	0.31	-0.67
Minimum share price	5\$	-71.01	-1.43	0.28	-0.84	0.45	0.44	-0.40
Financial companies	Included	-72.26	-1.70	0.25	-0.85	0.45	0.32	-0.69
Financial companies	Excluded	-72.80	-0.97	0.23	-0.93	0.34	0.40	-0.51
Utility companies	Included	-73.21	-1.07	0.22	-0.79	0.35	0.35	-0.63
Utility companies	Excluded	-72.25	-1.48	0.27	-0.97	0.42	0.37	-0.53
Micro-cap stocks	Included	-73.81	-1.10	0.18	-0.97	0.35	0.22	-1.17
Micro-cap stocks	Excluded	-71.88	-1.50	0.30	-0.84	0.42	0.47	-0.33
Share codes included	All	-73.37	-1.29	0.21	-0.92	0.36	0.32	-0.77
Share codes included	10 and 11	-72.54	-1.34	0.28	-0.87	0.43	0.40	-0.39
Winsorization	None	-72.26	-1.32	0.24	-0.89	0.35	0.35	-0.60
Winsorization	At 99.9%	-73.18	-1.30	0.23	-0.90	0.38	0.35	-0.60
Winsorization	At 99%	-72.87	-1.32	0.24	-0.89	0.44	0.37	-0.57
Factor breakpoints	Based on CSRP	-78.11	-1.29	0.22	-0.94	0.36	0.34	-0.82
Factor breakpoints	Based on NYSE	-65.78	-1.34	0.26	-0.84	0.42	0.38	-0.45

Panel B: CZ sample

Choice	Option	OLS	ENet	Comb	C-ENet	Avg	PC	PLS
Weighting scheme	Equal-weighted	-1874.60	-1.35	0.11	-0.74	0.08	0.43	-3.62
Weighting scheme	Capped value-weighted	-167.22	-1.28	0.20	-0.50	0.25	0.60	-2.57
Weighting scheme	Value-weighted	-195.93	-0.76	0.13	-0.77	0.22	0.31	-2.90
Anomalies	All	-17558.23	-1.14	0.16	-0.86	0.65	0.53	-3.16
Anomalies	Insignificant	-62.66	-1.08	0.13	-0.59	-0.04	0.26	-3.21
Anomalies	Significant	-162.24	-1.04	0.15	-0.62	0.05	0.52	-2.71
Minimum share price	None	-509.43	-0.92	0.15	-0.72	0.16	0.40	-3.11
Minimum share price	1\$	-504.95	-1.10	0.14	-0.62	0.11	0.43	-3.14
Minimum share price	5\$	-455.14	-1.26	0.16	-0.72	0.23	0.49	-2.86
Financial companies	Included	-491.79	-1.24	0.14	-0.71	0.19	0.40	-3.53
Financial companies	Excluded	-457.90	-0.93	0.16	-0.66	0.17	0.50	-2.17
Utility companies	Included	-514.62	-1.28	0.13	-0.65	0.19	0.42	-3.25
Utility companies	Excluded	-428.55	-0.93	0.17	-0.73	0.16	0.47	-2.76
Micro-cap stocks	Included	-430.37	-0.98	0.11	-0.58	0.10	0.33	-3.29
Micro-cap stocks	Excluded	-546.57	-1.26	0.18	-0.78	0.22	0.51	-2.67
Share codes included	All	-509.43	-1.05	0.14	-0.67	0.12	0.42	-3.18
Share codes included	10 and 11	-445.14	-1.12	0.16	-0.71	0.21	0.47	-2.85
Winsorization	None	-471.28	-1.06	0.15	-0.71	0.17	0.45	-3.12
Winsorization	At 99.9%	-479.81	-1.11	0.15	-0.70	0.18	0.45	-3.08
Winsorization	At 99%	-476.33	-1.10	0.15	-0.66	0.17	0.45	-2.91
Factor breakpoints	Based on CSRP	-450.82	-1.07	0.13	-0.75	0.19	0.45	-3.41
Factor breakpoints	Based on NYSE	-519.73	-1.13	0.17	-0.62	0.17	0.45	-2.62

Table 10. Prediction Performance of Individual Factor Returns

The table illustrates the out-of-sample R^2 coefficients (R^2_{OS}) by Campbell and Thompson (2008) for the U.S. market excess returns forecast based on returns on individual asset pricing factors. We consider five different sets of long-short anomaly portfolios: the original set used in Dong et al. (2022) (DLRZ), 153 tercile and decile portfolios based on Jensen et al. (2023) (JPK3, JPK10); 207 portfolios from Chen and Zimmermann (2022) (CZ); and 188 portfolios from Hou et al. (2020) (HXZ). All the anomalies are derived from the U.S. market, and the prediction models rely on recursive training windows. The underlying sample comprises U.S. stocks. The total study period is from January 1970 to December 2017; the testing period starts in January 1985. The R^2_{OS} are expressed in percentage terms. The numbers in parentheses are Clark and West's (2007) t -statistics. Panel A reports the 15 variables with the highest R^2_{OS} in each anomaly set. Panel B displays the summary statistics: averages for all and top-15 variables (*Average all*, *Average top 15*), the total number of factors (*# factors*), the number and percentage of R^2 coefficients significant at the 5% level at a standalone basis (*# signif. (raw)*, *% signif. (raw)*), and after adjustment for multiple testing framework using the Bonferroni (*# signif. (Bonf)*, *% signif. (Bonf)*) and Romano and Wolf (2016) (*# signif. (RW)*, *% signif. (RW)*) methods. The symbols of anomalies are explained in Tables A1, A7, A8, and A9 of the Internet Appendix.

<u>DLRZ</u>			<u>JPK10</u>			<u>JPK3</u>			<u>CZ</u>			<u>HXZ</u>		
Anomaly	R^2_{OS}	CW	Anomaly	R^2_{OS}	CW	Anomaly	R^2_{OS}	CW	Anomaly	R^2_{OS}	CW	Anomaly	R^2_{OS}	CW
<i>Panel A: Top 15 anomalies</i>														
NSIMO	4.29	3.19	ncoa_gr1a	2.05	2.64	dbnetis_at	1.79	2.47	CashProd	0.82	1.54	NSI	1.67	1.87
FERR	3.14	2.61	chcsho_12m	1.92	2.30	coa_gr1a	1.47	2.32	PS	0.65	1.13	EM	1.42	2.46
CEIANN	2.60	2.70	mispricing_mgmt	1.52	2.16	cop_at	1.25	2.01	EarningsSurprise	0.62	1.38	NOP	1.16	1.86
NSIANN	2.55	2.78	nncoa_gr1a	1.11	1.92	mispricing_mgmt	1.06	1.90	CompEquIss	0.49	1.08	CEI	1.10	1.82
CEIMO	2.40	2.53	netis_at	1.08	1.86	ocf_at	1.01	1.76	DebtIssuance	0.44	1.48	TBIq_12	0.98	2.03
CSUE	1.82	2.50	rskew_21d	0.98	1.64	ni_ar1	0.92	1.71	hire	0.39	1.28	IVG	0.91	1.85
SUE	1.77	2.42	dbnetis_at	0.78	1.47	dsale_dinv	0.86	2.07	IdioVolAHT	0.37	1.04	OA	0.90	1.73
CHATOIA	1.61	2.06	eqnpo_12m	0.72	1.55	ncoa_gr1a	0.81	1.89	ChNNCOA	0.33	1.26	CP	0.55	1.42
ROEQ	1.53	1.78	ivol_capm_252d	0.70	1.37	ppeinv_gr1a	0.81	1.66	PriceDelayRsq	0.30	1.22	TBIq_6	0.54	1.38
SHR5MO	1.38	2.29	col_gr1a	0.64	1.38	fnl_gr1a	0.74	1.38	VolMkt	0.30	1.01	EG_1	0.53	1.37
CFPJUN	1.33	2.20	qmj_prof	0.62	1.36	noa_gr1a	0.71	1.68	DolVol	0.25	1.02	POA	0.53	1.78
NSIFY	1.32	2.13	turnover_126d	0.60	1.33	mispricing_perf	0.70	1.66	NumEarnIncrease	0.24	0.91	dBE	0.44	1.26
CURRAT	1.14	1.91	zero_trades_21d	0.54	1.24	rd5_at	0.61	1.47	OptionVolume1	0.22	0.94	dWC	0.43	1.20
ROM	1.09	2.04	o_score	0.49	1.35	nncoa_gr1a	0.54	1.46	CBOperProf	0.21	0.98	Rev_6	0.39	1.05
SHR5ANN	1.07	2.04	mispricing_perf	0.48	1.24	qmj_prof	0.52	1.34	DelCOA	0.21	1.04	EG_6	0.37	1.24
<i>Panel B: Summary statistics</i>														
Average all	0.27	0.56	Average all	-0.30	-0.04	Average all	-0.20	0.07	Average all	-0.43	-0.20	Average all	-0.25	0.02
Average top 15	1.94	2.35	Average top 15	0.95	1.65	Average top 15	0.92	1.79	Average top 15	0.39	1.15	Average top 15	0.79	1.62
# factors	100		# factors	153		# factors	153		# factors	207		# factors	188	
# signif. (raw)	18		# signif. (raw)	5		# signif. (raw)	11		# signif. (raw)	0		# signif. (raw)	8	
% signif. (raw)	18%		% signif. (raw)	3%		% signif. (raw)	7%		% signif. (raw)	0%		% signif. (raw)	4%	
# signif. (Bonf)	0		# signif. (Bonf)	0		# signif. (Bonf)	0		# signif. (Bonf)	0		# signif. (Bonf)	0	
% signif. (Bonf)	0%		% signif. (Bonf)	0%		% signif. (Bonf)	0%		% signif. (Bonf)	0%		% signif. (Bonf)	0%	
# signif. (RW)	0		# signif. (RW)	0		# signif. (RW)	0		# signif. (RW)	0		# signif. (RW)	0	
% signif. (RW)	0%		% signif. (RW)	0%		% signif. (RW)	0%		% signif. (RW)	0%		% signif. (RW)	0%	

Table 11. Variable Importance for Market Return Predictions

The table presents the variable importance for the U.S. market excess returns forecast based on various sets of long-short anomaly portfolio return. The variable importance (ΔR_{OS}^2) is calculated as the reduction in the out-of-sample R^2 coefficients by Campbell and Thompson (2008) due to exclusion of the given variable from the sample. The anomaly sample is the original set of 100 anomalies from Dong et al. (2022), and the underlying stock universe comprises U.S. stocks. ΔR_{OS}^2 is reported in percentage. The study period runs from January 1970 to December 2017; the testing period starts in January 1985.

<i>ENet</i>			<i>Comb</i>		<i>C-Enet</i>		<i>Avg</i>		<i>PC</i>		<i>PLS</i>	
Rank	Anomaly	ΔR_{OS}^2	Anomaly	ΔR_{OS}^2	Anomaly	ΔR_{OS}^2	Anomaly	ΔR_{OS}^2	Anomaly	ΔR_{OS}^2	Anomaly	ΔR_{OS}^2
1	NSIANN	0.67	NSIMO	0.08	NSIMO	0.99	FERR	0.12	FERR	0.08	FERR	0.39
2	NSIMO	0.56	FERR	0.07	FERR	0.95	DEPR	0.08	CHFEPS	0.07	NSIMO	0.19
3	FERR	0.32	NSIANN	0.06	ABSACC	0	CFPIA	0.06	NSIMO	0.06	CHATOIA	0.17
4	RSUP	0.21	CEIANN	0.04	AGE	0	CHATOIA	0.06	CEIANN	0.04	CHFEPS	0.16
5	NOA	0.01	CEIMO	0.04	AGR	0	TANG	0.06	CEIMO	0.04	NSIANN	0.08
6	ABSACC	0	CHFEPS	0.03	BETA1	0	CINVEST	0.05	NSIANN	0.04	PCHGMSALE	0.08
7	ACC	0	CHATOIA	0.02	BETA1LAG	0	CSUE	0.05	ROM	0.03	CSUE	0.07
8	AGE	0	CSUE	0.02	BETA3	0	EAR	0.05	ACC	0.02	SUE	0.07
9	AGR	0	NSIFY	0.02	BETA3LAG	0	INDMOM12M	0.05	AGR	0.02	EAR	0.05
10	BETA1	0	SHR1	0.02	BM	0	MOM36M	0.05	CFPJUN	0.02	HERF	0.05

Table 12. Net Share Issuance vs. 100 Anomalies: A Forecast Encompassing Tests

The table reports Harvey et al. (1998) forecast encompassing tests for comparing the predictions from the models of Dong et al. (2022) and the predictions from a univariate prediction model based on the returns on the monthly rebalanced net share issuance (NSIMO) anomaly. The considered prediction models include: the elastic net (ENet), simple combination (Comb), combination elastic net (C-ENet), predictor average (Avg), principal components (PC), and partial least squares (PLS). The models aggregate the returns on the 100 anomalies from the original dataset from Dong et al. (2022), and the NSIMO returns are obtained from the same source. Panel A verifies the null hypothesis that a given model of Dong et al. (2022) contains all of the information in the NSIMO anomaly forecasts (i.e., encompasses it) against the alternative hypothesis that the NSIMO model contains additional valuable information for forecasting. Panel B verifies the null hypothesis that the NSIMO anomaly forecasts encompass the forecasts from a given model of Dong et al. (2022) against the alternative hypothesis that this model contains additional information. λ indicates the forecast weight in the joint model, and the numbers in parentheses are the test statistics of Harvey et al. (1988). We follow the implementation by Neely et al. (2014). The study period is from January 1970 to December 2017, and the testing period starts in January 1985. The asterisks * and ** indicate values significant at the 5% and 1% levels, respectively.

	OLS	ENet	Comb	C-ENet	Avg	PC	PLS
<i>Panel A: Do the models of Dong et al. (2022) encompass the NSIMO anomaly?</i>							
λ	1.00	1.13**	0.87**	0.92*	0.89**	0.96**	0.91**
	(1.03)	(2.50)	(2.93)	(2.24)	(2.80)	(2.95)	(2.81)
<i>Panel B: Does the NSIMO anomaly encompasses the models of Dong et al. (2022)?</i>							
λ	0.00	-0.13	0.13	0.08	0.11	0.04	0.09
	(0.40)	(-0.29)	(0.48)	(0.19)	(0.34)	(0.12)	(0.31)

Table 13. Prediction Performance of the Subsets of Dong et al.'s (2022) Sample

The table presents the measures of prediction performance for the U.S. market excess returns forecast based on various sets of long-short anomaly portfolio returns: the out-of-sample R^2 coefficients (R_{OS}^2) by Campbell and Thompson (2008) (Panel A), the annualized average utility gains (Panel B), and the annualized Sharpe ratios for an investor who allocates between the U.S. market portfolio and risk-free Treasury bills (Panel C). We consider five different sets of long-short anomaly portfolios: 1) the full original set of 100 Dong et al.'s (2022) anomalies (DLRZ); 2) nine issuance anomalies from the DLRZ set only (CEIANN, CEIFY, CEIMO, NSIANN, NSIFY, NSIMO, SHR1, SHR5ANN, SHR5MO); 3) nine issuance and six surprise anomalies only (FERR, CHFEPS, CSUE, SUE, EAR, RSUP); 4) the full sample excluding the nine issuance anomalies; and 5) the full sample excluding the nine issuance and six surprise anomalies. The underlying stock universe comprises U.S. stocks. The R_{OS}^2 and utility gains are expressed in percentage terms. The numbers in parentheses are: in Panel A, Clark and West's (2007); and in Panel B, t -statistics from the test of Ledoit and Wolf (2008), which compares a given Sharpe ratio with the Sharpe ratio of the portfolio formed using the prevailing mean benchmark forecast ($=0.42$). The values in bold are significant at the 5% level in standalone tests (t -stat > 1.645 in Panel and $|t$ -stat| > 1.96 in Panel C); furthermore, the underline font indicates the 5%-significance after the Bonferroni adjustment for multiple testing framework (t -stat > 2.45 in Panel A and $|t$ -stat| > 2.69 in Panel C). The study period is from November 1971 to December 2017, and the testing period starts in November 1986.

	Full sample	Issuance anomalies only	Issuance and surprise anomalies only	Issuance anomalies excl.	Issuance and surprise anomalies excl.
<i>Panel A: Predictive R^2 coefficients</i>					
OLS	-2513.86 (0.53)	0.73 (2.54)	-1.55 (3.02)	-116.54 (1.45)	-51.41 (1.07)
Enet	2.03 (2.26)	2.74 (2.67)	3.26 (2.79)	-1.27 (-0.55)	-0.42 (-1.48)
Comb	0.89 (2.50)	2.52 (2.60)	3.25 (3.23)	0.48 (1.69)	0.31 (1.20)
C-ENet	2.81 (2.49)	3.11 (2.76)	2.48 (2.13)	-1.49 (-0.12)	-0.96 (-0.97)
Avg	1.89 (2.13)	2.02 (2.62)	4.52 (3.02)	1.51 (1.82)	1.15 (1.62)
PC	1.25 (1.84)	2.05 (2.63)	3.08 (2.93)	0.63 (1.24)	0.52 (1.14)
PLS	2.06 (2.65)	2.14 (2.69)	4.24 (3.17)	-0.32 (1.82)	-1.56 (1.26)
<i>Panel B: Utility gains</i>					
OLS	-4.97	5.60	9.12	-0.58	-1.83
Enet	6.26	5.87	9.59	-0.49	-1.28
Comb	2.59	6.23	7.31	1.61	1.22
C-ENet	6.06	7.39	5.78	-1.78	-1.41
Avg	3.74	7.12	9.54	3.71	2.77
PC	3.28	7.23	7.84	2.60	2.45
PLS	6.38	7.18	9.17	3.74	1.77
<i>Panel C: Sharpe ratios</i>					
OLS	0.23 (-0.82)	0.71 (1.24)	0.89 (1.97)	0.43 (0.06)	0.36 (-0.18)
Enet	0.81 (1.99)	0.74 (1.35)	0.95 (2.35)	0.39 (-0.54)	0.34 (-1.71)
Comb	0.59 (1.96)	0.79 (1.85)	0.88 (2.73)	0.51 (1.43)	0.48 (1.10)
C-ENet	0.79 (1.79)	0.83 (1.73)	0.76 (1.87)	0.33 (-1.23)	0.33 (-1.22)
Avg	0.65 (1.18)	0.82 (1.74)	0.96 (2.31)	0.63 (1.18)	0.57 (0.88)
PC	0.62 (1.13)	0.83 (1.76)	0.86 (1.85)	0.57 (0.95)	0.56 (0.93)
PLS	0.80 (1.55)	0.82 (1.69)	0.93 (2.06)	0.63 (0.84)	0.52 (0.42)