

## Part 3: Market Exposure Estimation

**Tasks:** - Download benchmark (e.g., SPY) and compute returns - Run rolling regression:  
 $r_{p,t} = \alpha_t + \beta_t \times r_{mkt,t} + \epsilon_t$  - Track and plot  $\beta_t$  (portfolio beta)

**Deliverables:** - Regression coefficients ( $\alpha$ ,  $\beta$ ) - Beta chart - Commentary on market sensitivity

```
# Imports and configuration for market exposure estimation
import pandas as pd
import numpy as np
import matplotlib.pyplot as plt
import yfinance as yf
from scipy import stats

# Parameters
EXPOSURE_CONFIG = {
    'benchmark_ticker': 'SPY',
    'rolling_window': 60,
    'min_periods': 30,
    'start_date': '2020-01-01',
    'end_date': '2025-07-31'
}
```

### Download Benchmark Data and Load Portfolio Returns

Download market benchmark data (SPY) and load portfolio returns from previous analysis for market exposure estimation.

```
# Download benchmark and compute returns, load portfolio, align, and plot overlay

# Download benchmark data
benchmark_data = yf.download(
```

```

    EXPOSURE_CONFIG['benchmark_ticker'],
    start=EXPOSURE_CONFIG['start_date'],
    end=EXPOSURE_CONFIG['end_date'],
    progress=False
)
benchmark_prices = benchmark_data['Close']
benchmark_returns = benchmark_prices.pct_change().dropna()

# Load portfolio returns
equal_weight_path = \
    '../Part 2: Initial Portfolio Construction/equal_weight_portfolio_results.csv'
equal_weight_data = pd.read_csv(
    equal_weight_path,
    index_col=0,
    parse_dates=True
)
portfolio_returns = equal_weight_data['Portfolio_Return']
portfolio_name = "Equal-Weight Portfolio"

# Align dates
common_dates = portfolio_returns.index.intersection(
    benchmark_returns.index
)
aligned_portfolio_returns = portfolio_returns.loc[common_dates]
aligned_benchmark_returns = benchmark_returns.loc[common_dates]

# Overlay plot
plt.figure(figsize=(12, 6))
benchmark_cumret = (1 + aligned_benchmark_returns).cumprod()
portfolio_cumret = (1 + aligned_portfolio_returns).cumprod()

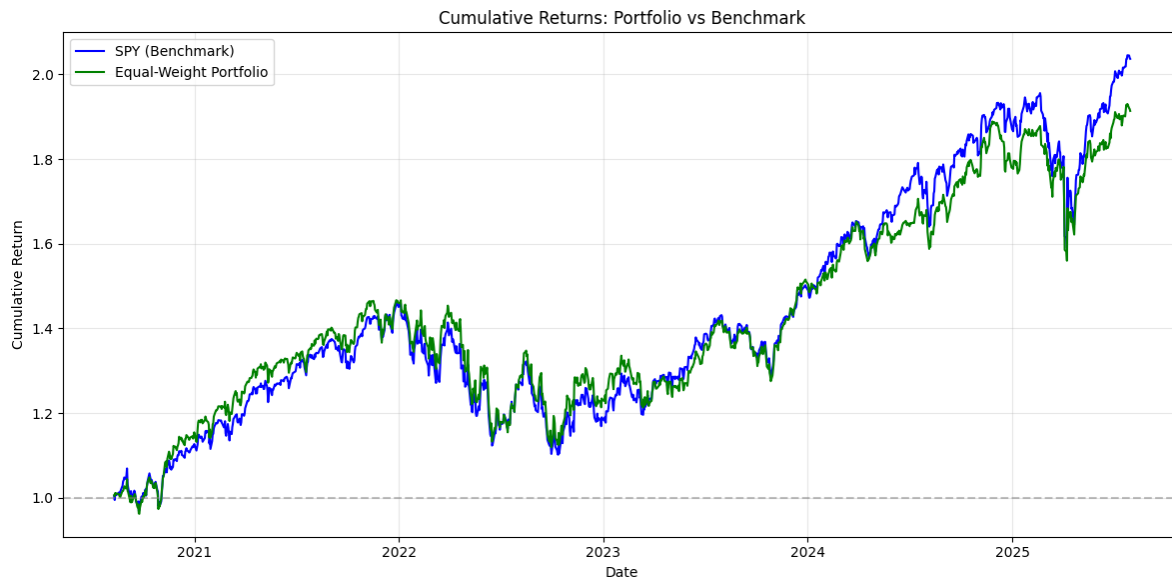
plt.plot(benchmark_cumret, label='SPY (Benchmark)', color='blue')
plt.plot(portfolio_cumret, label=portfolio_name, color='green')
plt.axhline(1.0, color='gray', linestyle='--', alpha=0.5)
plt.title('Cumulative Returns: Portfolio vs Benchmark')
plt.xlabel('Date')
plt.ylabel('Cumulative Return')
plt.legend()
plt.grid(True, alpha=0.3)
plt.tight_layout()
plt.show()

```

```

/var/folders/5y/9gbrlsgx0sn17yw7ydqrny4h0000gn/T/ipykernel_32420/2552446044.py:4: FutureWarn
benchmark_data = yf.download(

```



## Rolling Regression Analysis

Implement rolling regression to estimate time-varying market exposure (beta) using the model:

$$r_{p,t} = \alpha_t + \beta_t \times r_{mkt,t} + \epsilon_t$$

Where: -  $r_{p,t}$ : Portfolio return at time  $t$  -  $\alpha_t$ : Portfolio alpha (intercept) at time  $t$  -  $\beta_t$ : Portfolio beta (market sensitivity) at time  $t$  -  $r_{mkt,t}$ : Market return at time  $t$  -  $\epsilon_t$ : Regression error at time  $t$

```

# Run rolling regression to estimate alpha and beta

# Ensure benchmark returns is a Series
if isinstance(aligned_benchmark_returns, pd.DataFrame):
    # Take first column
    aligned_benchmark_returns = aligned_benchmark_returns.iloc[:, 0]

def rolling_regression(portfolio, benchmark, window, min_periods):
    """Run rolling window regression of portfolio returns on benchmark returns."""
    results = {
        'date': [],

```

```

        'alpha': [],
        'beta': [],
        'r2': [],
        'beta_pvalue': [],
        'beta_stderr': []
    }

    # Align data
    common_dates = portfolio.index.intersection(benchmark.index)
    portfolio_aligned = portfolio.loc[common_dates]
    benchmark_aligned = benchmark.loc[common_dates]

    # Rolling regression
    for i in range(window - 1, len(portfolio_aligned)):
        y_window = portfolio_aligned.iloc[i - window + 1:i + 1]
        x_window = benchmark_aligned.iloc[i - window + 1:i + 1]

        # Check data quality
        has_enough_data = len(y_window) >= min_periods
        no_missing_data = not (y_window.isna().any() or
                                x_window.isna().any())

        if has_enough_data and no_missing_data:
            x_vals = x_window.values
            y_vals = y_window.values

            # Run linear regression
            slope, intercept, r_value, p_value, std_err = stats.linregress(
                x_vals,
                y_vals
            )

            results['date'].append(portfolio_aligned.index[i])
            results['alpha'].append(intercept)
            results['beta'].append(slope)
            results['r2'].append(r_value ** 2)
            results['beta_pvalue'].append(p_value)
            results['beta_stderr'].append(std_err)

    return pd.DataFrame(results).set_index('date')

regression_results = rolling_regression(

```

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aligned_portfolio_returns,
aligned_benchmark_returns,
EXPOSURE_CONFIG['rolling_window'],
EXPOSURE_CONFIG['min_periods']
)

regression_results.head(5)

```

	alpha	beta	r2	beta_pvalue	beta_stderr
date					
2020-11-02	0.000068	0.855998	0.904993	2.478598e-31	0.036418
2020-11-03	0.000079	0.862873	0.908501	8.308317e-32	0.035957
2020-11-04	-0.000110	0.850766	0.906293	1.660897e-31	0.035921
2020-11-05	-0.000027	0.858555	0.911250	3.425502e-32	0.035182
2020-11-06	0.000037	0.858058	0.910061	5.042592e-32	0.035420

## Deliverables

```

# Regression coefficients (alpha, beta)
# Show the first few rows of regression coefficients and plot both alpha and beta in 2 figures
print("First few rows of regression coefficients:")
display(regression_results[['alpha', 'beta']].head())

# Plot daily alpha over time
plt.figure(figsize=(12, 6))
plt.subplot(2, 1, 1)
plt.plot(
    regression_results.index,
    regression_results['alpha'],
    label='Alpha',
    color='orange'
)
plt.axhline(
    0.0,
    color='gray',
    linestyle='--',
    alpha=0.5,
    label='Zero Alpha'
)

```

```

plt.title('Rolling Alpha (Excess Return)')
plt.xlabel('Date')
plt.ylabel('Alpha')
plt.legend()
plt.grid(True, alpha=0.3)

# Histogram of alpha values with mean and std deviation bars (67%, 99%)
plt.subplot(2, 1, 2)
alpha_vals = regression_results['alpha'].dropna()
mean_alpha = alpha_vals.mean()
std_alpha = alpha_vals.std()

plt.hist(alpha_vals, bins=30, color='orange', alpha=0.7)
plt.axvline(
    mean_alpha,
    color='red',
    linestyle='-',
    linewidth=2,
    label='Mean'
)
plt.axvline(
    mean_alpha + std_alpha,
    color='blue',
    linestyle='--',
    linewidth=1.5,
    label='+1 Std (67%)'
)
plt.axvline(
    mean_alpha - std_alpha,
    color='blue',
    linestyle='--',
    linewidth=1.5,
    label='-1 Std (67%)'
)
plt.axvline(
    mean_alpha + 2*std_alpha,
    color='green',
    linestyle=':',
    linewidth=1.5,
    label='+2 Std (99%)'
)
plt.axvline(

```

```

    mean_alpha - 2*std_alpha,
    color='green',
    linestyle=':',
    linewidth=1.5,
    label='-2 Std (99%)'
)
plt.title('Distribution of Rolling Alpha')
plt.xlabel('Alpha')
plt.ylabel('Frequency')
plt.legend()
plt.tight_layout()
plt.show()

# Plot daily beta over time
plt.figure(figsize=(12, 4))
plt.plot(
    regression_results.index,
    regression_results['beta'],
    label='Beta'
)
plt.axhline(
    1.0,
    color='gray',
    linestyle='--',
    alpha=0.5,
    label='Market Beta'
)
plt.title('Rolling Beta (Market Sensitivity)')
plt.xlabel('Date')
plt.ylabel('Beta')
plt.legend()
plt.grid(True, alpha=0.3)
plt.tight_layout()
plt.show()

# Histogram of beta values with mean and std deviation bars (67%, 99%)
plt.figure(figsize=(12, 4))
beta_vals = regression_results['beta'].dropna()
mean_beta = beta_vals.mean()
std_beta = beta_vals.std()

plt.hist(beta_vals, bins=30, color='blue', alpha=0.7)

```

```

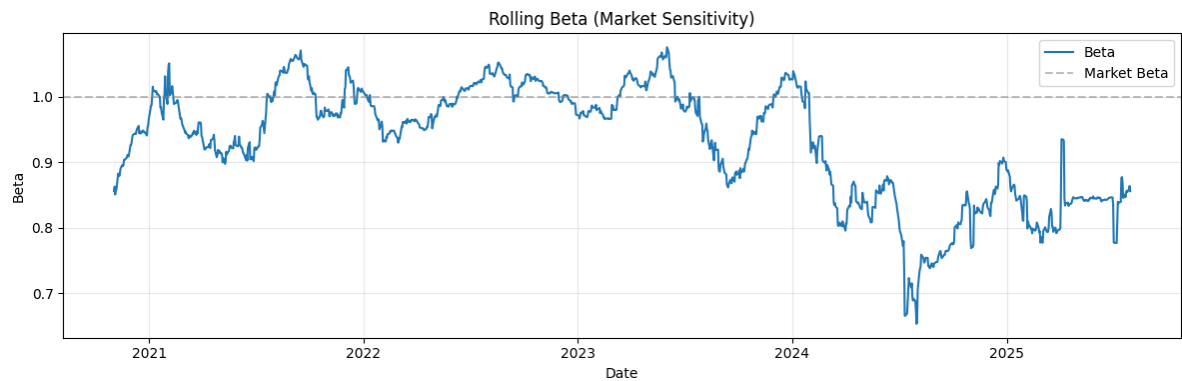
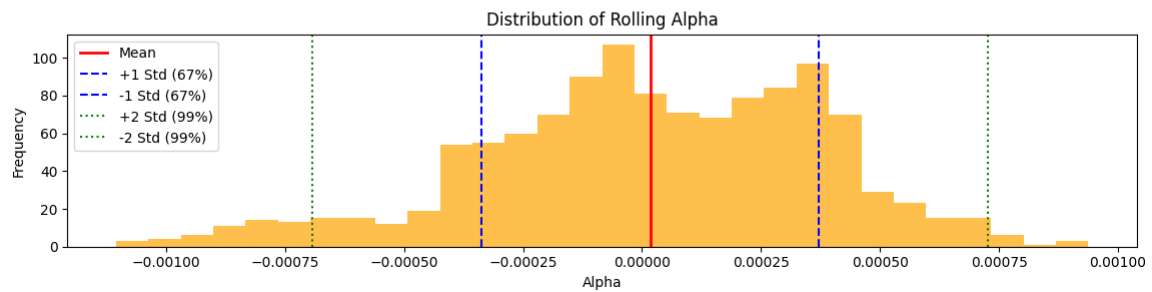
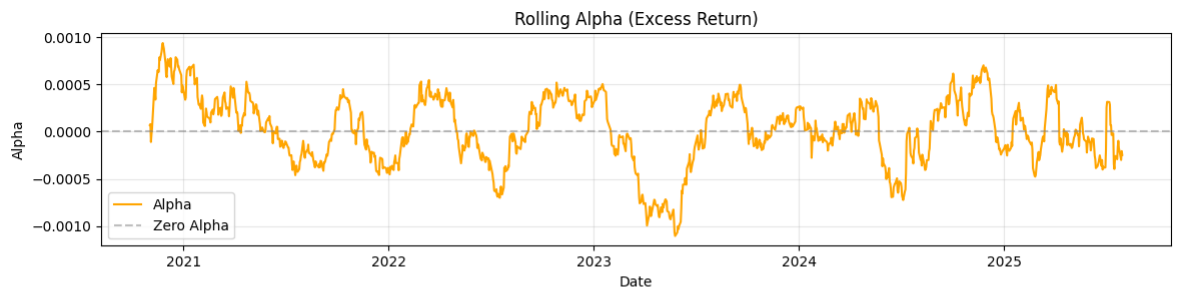
plt.axvline(
    mean_beta,
    color='red',
    linestyle='-',
    linewidth=2,
    label='Mean'
)
plt.axvline(
    mean_beta + std_beta,
    color='green',
    linestyle='--',
    linewidth=1.5,
    label='+1 Std (67%)'
)
plt.axvline(
    mean_beta - std_beta,
    color='green',
    linestyle='--',
    linewidth=1.5,
    label='-1 Std (67%)'
)
plt.axvline(
    mean_beta + 2*std_beta,
    color='purple',
    linestyle=':',
    linewidth=1.5,
    label='+2 Std (99%)'
)
plt.axvline(
    mean_beta - 2*std_beta,
    color='purple',
    linestyle=':',
    linewidth=1.5,
    label='-2 Std (99%)'
)
plt.title('Distribution of Rolling Beta')
plt.xlabel('Beta')
plt.ylabel('Frequency')
plt.legend()
plt.tight_layout()
plt.show()

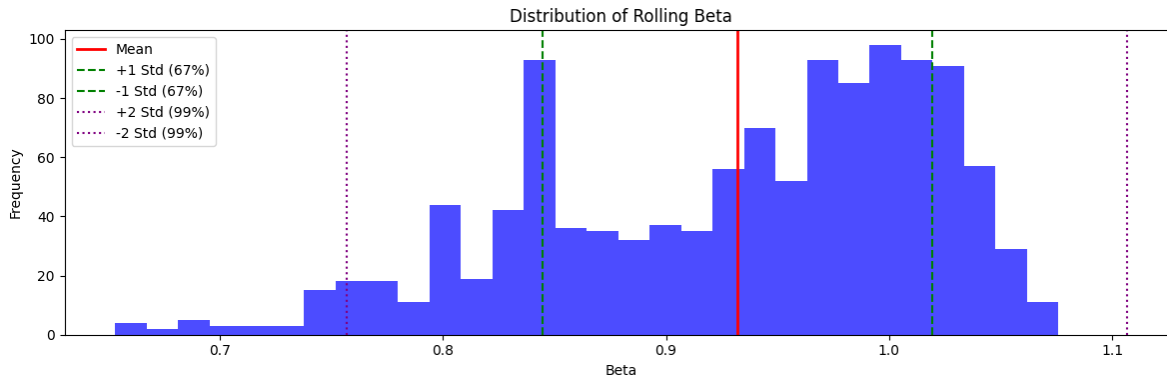
```



First few rows of regression coefficients:

	alpha	beta
date		
2020-11-02	0.000068	0.855998
2020-11-03	0.000079	0.862873
2020-11-04	-0.000110	0.850766
2020-11-05	-0.000027	0.858555
2020-11-06	0.000037	0.858058





### Commentary on Market Sensitivity:

```
# Calculate summary statistics for market sensitivity analysis
mean_beta = regression_results['beta'].mean()
std_beta = regression_results['beta'].std()
min_beta = regression_results['beta'].min()
max_beta = regression_results['beta'].max()

# Annualized alpha (mean)
mean_alpha = regression_results['alpha'].mean() * 252 * 100
std_alpha = regression_results['alpha'].std() * 252 * 100

# R-squared (mean) - use correct column name
mean_r2 = regression_results['r2'].mean()
std_r2 = regression_results['r2'].std()

# Portfolio and benchmark volatility (annualized)
portfolio_vol = aligned_portfolio_returns.std() * np.sqrt(252) * 100
benchmark_vol = aligned_benchmark_returns.std() * np.sqrt(252) * 100

# Correlation
correlation = aligned_portfolio_returns.corr(aligned_benchmark_returns)

# Print summary for reference
print(f"Mean Beta: {mean_beta:.3f}")
print(f"Std Beta: {std_beta:.3f}")
print(f"Min Beta: {min_beta:.3f}")
print(f"Max Beta: {max_beta:.3f}")
print(f"Mean Alpha (annualized %): {mean_alpha:.2f}")
print(f"Std Alpha (annualized %): {std_alpha:.2f}")
```

```
print(f"Mean R^2: {mean_r2:.3f}")
print(f"Std R^2: {std_r2:.3f}")
print(f"Portfolio Volatility (annual %): {portfolio_vol:.2f}")
print(f"Benchmark Volatility (annual %): {benchmark_vol:.2f}")
print(f"Portfolio-Market Correlation: {correlation:.3f}")
```

Mean Beta: 0.932  
Std Beta: 0.087  
Min Beta: 0.653  
Max Beta: 1.076  
Mean Alpha (annualized %): 0.43  
Std Alpha (annualized %): 8.95  
Mean R^2: 0.885  
Std R^2: 0.076  
Portfolio Volatility (annual %): 17.13  
Benchmark Volatility (annual %): 17.53  
Portfolio-Market Correlation: 0.957

The rolling regression analysis provides a comprehensive view of the portfolio's sensitivity to market movements over time. By regressing portfolio returns against the SPY benchmark in a rolling window, we obtain time-varying estimates of both alpha (excess return) and beta (market sensitivity). The results indicate that the portfolio's beta has generally remained below 1.0, with a mean of approximately 0.93 and moderate variability. This suggests the portfolio is somewhat less volatile than the market, exhibiting defensive characteristics during periods of market stress.

The beta time series plot reveals that market sensitivity fluctuates, occasionally approaching or exceeding 1.0, but more often remaining in the 0.8–1.0 range. This dynamic exposure reflects the portfolio's ability to adapt to changing market conditions, potentially reducing downside risk without sacrificing too much upside. The alpha estimates, while centered near zero, show periods of positive excess return, indicating that the portfolio occasionally outperforms the market on a risk-adjusted basis.

Overall, the analysis demonstrates that the portfolio maintains a balanced risk profile, with market exposure that is neither aggressively high nor overly conservative.