

Response to Referee # 1

Dear Referee,

Thank you sincerely for taking the time to review our paper. We greatly appreciate your thoughtful feedback, which will help us significantly improve our work. In this letter, we have carefully addressed each of your comments and provided our responses to your suggestions. All revisions made in response to referee feedback are highlighted in green in the updated submission.

Must be addressed

Comment: Even if you have already mention the abbreviation for SDF in the abstract, please use the whole expression in the main text for the first time that you are using it.

Response: Agree, we added the whole expression on page 2 now.

Could be addressed

Comment: It would be interesting to use the Model Confidence Set method (Hansen et al., 2021) to determine the valid models and use those for the model averaging to see whether the performance improves or not. The Model Confidence Set method is quite efficient and not very time-consuming. Souto (2023) provided easy-to-implement Python code for this test.

Response: The Model Confidence Set method is indeed a very interesting and relevant approach that can support and improve our model selection efforts. We added the original reference for Hansen et al. (2011) on page 6 of the paper. For the empirical experiments in our R code, we used the MCS package since it is written in R instead of Python. We updated the code in our online repository accordingly.