

Framework for developing Capital Market Expectations

Suggested approach:

- less emphasis on:

- more emphasis on ensuring:

- cross-sectional consistency

if lacking

- intertemporal consistency

if lacking

Framework for developing CMEs:

1. Specify the set of expectations required, incl. time horizons
2. Research the historical record
3. Specify the methods/models to be used and their information requirements
4. Determine the best sources for information needs
5. Interpret the current investment environment using the selected data and methods
6. Provide the set of expectations needed, documenting conclusions
7. Monitor actual outcomes and compare them with expectations

Properties of good forecasts: