ABSTRACT

Nowadays, the spreads between the stock market earnings yield and interest rates are wildly used to predict/explain the overall stock market outlook in U.S.. In the Thai stock market, an internationalized stock market, whether the spread has the ability to predict/explain the future stock market movement is still not clear.

The present paper investigated the relationship between the spread between the SET earnings yield and the three-month government bond interest rate and the future SET return to examine whether the spread coul: be used as a predictor of the future stock market movement in Thailand or not.

In this paper, monthly time series r ata of the spread and the SET return in the period from 1998 to 2002 were used to inv stigate the relationship in a linear regression model. And the T-test and Residual-test w re employed to test the significance of the relationship also.

This paper found that there was a ignificant positive relationship between the one-month lag of the spread and the return •n the SET index over the sample period. It means that the spread could be a predictor o the future SET return. And a higher spread leads to a higher SET return in the following month.

The investors and financial analysts could take advantage of the finding of this paper to know the direction of the futur stock prices using the rolling regression technique and the market model. Moreover, time points with the extreme values of the spread may be better time points to buy or se 1 stocks.