

Executive Summary

Do Real-Time Macro Regimes Improve Industry Return Forecasts? Evidence from a Conditional Six-Factor Model

Janis Fischer August 2026

Research Question and Empirical Design

This study distinguishes between two questions: whether factor relationships vary across macroeconomic states, and whether those relationships can improve real-time next-month excess-return forecasts. The second question is more demanding because the state and all model parameters must be estimated using information available at the forecast date.

The analysis uses 49 value-weighted U.S. industry portfolios as test assets and an FF6 specification combining the Fama-French five factors with momentum. NORMAL and STRESS states are defined using the real-time Sahm labor-market stress measure, with STRESS corresponding to a $t - 2$ reading of at least 0.50. Under this study's information-timing convention, return month t is assigned the Sahm observation from $t - 2$. An expanding-window OOS exercise from January 1990 through June 2026 produces 21,413 industry-month forecasts.

State Dependence in the Factor Structure

The in-sample evidence shows statistically detectable state dependence. The null of state-invariant FF6 exposures is rejected for 22 of 49 industries at the raw 5 percent level, and 11 remain significant after Benjamini-Hochberg false discovery rate control at 5 percent. SMB provides the strongest statistical evidence of a state-dependent factor premium, with a 0.94 percentage point difference between STRESS and NORMAL ($t = 3.41$, $p = 0.001$). State-specific exposures and premia also produce lower in-sample pricing errors than unconditional FF6.

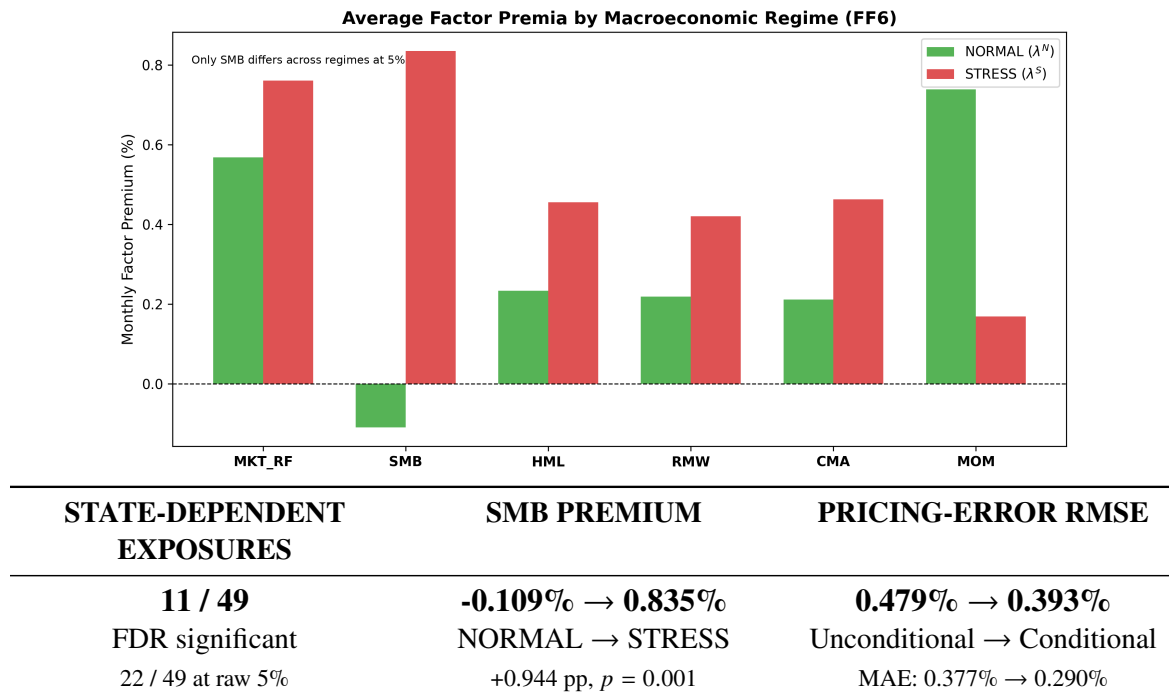


Figure 1. In-Sample Evidence of State Dependence

Real-Time Forecast Performance

The central forecasting result is clear: conditional FF6 does not improve real-time next-month industry excess-return forecasts. Its RMSE is slightly higher than for unconditional FF6 and the historical-mean benchmark, and OOS $R^2 = -0.312\%$ relative to unconditional FF6. Mean monthly Rank IC is 0.0043 ($p = 0.682$), while the one-sided Clark-West test yields $p = 0.398$. The state dependence detected in sample therefore does not translate into statistically or economically meaningful improvement in real-time predictive accuracy.

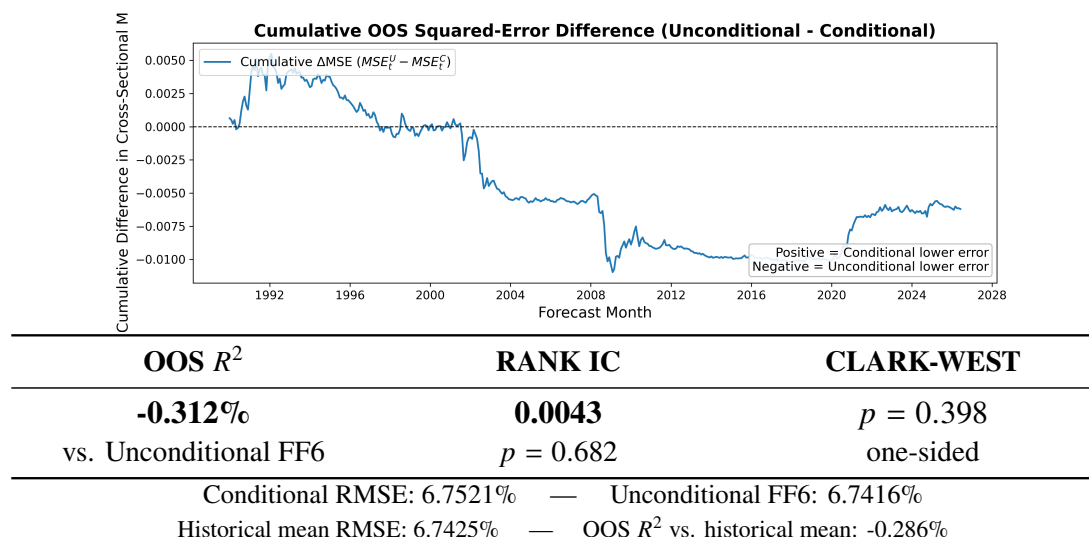


Figure 2. Real-Time Out-of-Sample Forecast Performance

Portfolio Implications

The portfolio exercise is secondary to the forecast-accuracy test. With 10 basis points charged on the fraction traded each month, the conditional Top-10 portfolio earns a CAGR of 12.14 percent, compared with 10.90 percent for the unconditional strategy and 11.05 percent for the market. The higher raw return does not establish abnormal performance. The conditional strategy has a Sharpe ratio of 0.580 versus 0.591 for the market, an annualized active return of 1.46 percent, tracking error of 10.56 percent, an information ratio of 0.138, and annualized FF6 alpha of -1.55 percent ($p = 0.247$).

Robustness and Interpretation

The primary OOS conclusion is unchanged under FF5, a 20-year rolling window, and a 30-industry universe. Continuous Sahm provides the strongest alternative result, with a one-sided Clark-West $p = 0.072$. Conditional RMSE nevertheless remains higher and OOS $R^2 = -0.196\%$. This evidence is suggestive and does not overturn the primary conclusion.

One plausible interpretation is estimation uncertainty. The conditional model requires additional state-dependent parameters and state-specific factor-premium estimates, while STRESS accounts for only 159 of 683 full-sample observations and even fewer observations in earlier expanding windows. A second plausible interpretation concerns timing and horizon. The Sahm measure relies on publicly released labor-market information and the forecast horizon is only one month, so prices may already reflect much of that information by the time it enters the predetermined state classification. The analysis does not establish either mechanism as the cause of the OOS result.

Bottom Line

Macroeconomic state dependence can be present in factor exposures and premia without producing a reliable one-month-ahead forecasting advantage when the state and all model parameters must be estimated using information available in real time.