



**Universität
Zürich^{UZH}**

Master Thesis

Time-Varying Inflation Risk and the Cross-Section of Stock Returns An Analysis for Switzerland

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Abstract

This master thesis deals with the question of how inflation risk is priced in the cross-section of stocks for the Swiss equity market. It was possible to show, that inflation risk varies in the cross-section of stocks. Thus, some stocks show a higher sensitivity to inflation shocks than other. The existence of different inflation risk sensitivity leads to the question of how it is priced into the market price of stocks. According to Burkhardt (2015) the market price of inflation should be time-varying, depending on the economic regime. The estimation of the time-varying market price does not yield statistically significant results for the data of Switzerland. Nevertheless a signal-based strategy was developed which is depending on an out-of-sample signal and the sorted inflation risk portfolios. It was possible to show, that this signal-based strategy yields a higher mean return than a strategy which does not depend on the signal. Through this it could be indirectly proven that the market price of inflation is also time-varying in the cross-section of Swiss stocks.