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Moderating Effect of Financial Stress on the Housing Market Risk–Return Relationship: Evidence from EGARCH-M-X Model

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Abstract: This study investigates the moderating role of financial stress in the risk–return relationship of U.S. housing market returns, employing an EGARCH-M-X model over the period from January 2000 to March 2024. The results provide evidence that financial stress has negatively moderating effect on the risk-return relationship in both the short- and long-run in the United States' housing market. The study in particular finds that the U.S. housing market behaves similarly to the stock market, where higher risk is typically compensated with higher returns. For investors, housing should therefore be treated as a return-seeking asset in which taking greater risk is desirable and rewarded.

Keywords: Housing Returns, Financial Stress, EGARCH-M-X model, Risk–Return Relationship, Asymmetric Effects

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