

Financial Market Switching-Points and Economic Anomalies: Evidence from S&P100

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Abstract

In this paper, our aim is to clarify the statistical relationship between the switching points of financial market and various economic indicators by using machine learning. Using an extensive set of macroeconomic variables, we apply LASSO regression to select the important variables which have important impact on switching-points and predict the switching-points over the period of 2002-2016 of S&P100 by using the selected variables. We find selected variables have good out-of-sample predictive power. Moreover, we also apply ridge regression and predict the switching-points. Our study contributes to both anomaly detection of financial market and applying high dimension data and machine learning to financial market.