International Journal of Scientific Research and Modern Technology (IJSRMT) ijsrmt.com
Volume 4, Issue 11, 2025
DOI: https://doi.org/10.38124/ijsrmt.v4i11.1353

Graph Neural Network-Based Cross-Asset Pricing Model with Adaptive Factor Learning and Temporal Attention for High-Dimensional Financial Markets

Charles Amofa[1]; Bridget Elo Osigho[2]; Joy Onma Enyejo[3]; Rukayat Akingbade[4]

[1,2]Fox School of Business, Temple University, Philadelphia USA.
[3]Department of Business Administration, Nasarawa State University, Keffi, Nasarawa State, Nigeria.
[4]3Department of Tax Services, Deloitte Tax LLP, Maryland, USA.

Publication Date: 2025/11/30

Abstract

This paper proposes a novel Adaptive Temporal Graph Factor Network (ATGFN) for cross-asset pricing in high-dimensional financial markets, integrating dynamic graph neural networks with temporal attention to jointly learn latent factor structures and evolving inter-asset dependencies. Unlike traditional linear factor models such as Fama–French and Carhart, ATGFN captures nonlinear and time-varying relationships through a graph construction module that encodes asset similarity based on both return co-movements and fundamental attributes. The model incorporates an adaptive factor learning layer that updates latent representations across rolling windows, combined with a temporal attention mechanism that emphasizes regime-relevant signals. We evaluate ATGFN against six benchmark methods: Fama–French 5-Factor Model, Arbitrage Pricing Theory (APT), Principal Component Analysis (PCA)-based factor models, Long Short-Term Memory (LSTM) networks, Temporal Convolutional Networks (TCN), and standard Graph Convolutional Networks (GCN). Empirical results on U.S. equity and multi-asset datasets demonstrate that ATGFN significantly improves out-of-sample pricing accuracy, reduces mean absolute pricing error, and enhances Sharpe ratios in portfolio construction tasks. The model also shows superior robustness during periods of market stress, particularly in capturing contagion effects and structural breaks. Furthermore, interpretability analysis reveals that ATGFN dynamically adjusts factor importance across sectors and time, offering economically meaningful insights into risk premia evolution. This framework contributes to the literature by bridging graph-based representation learning with financial factor modeling, providing a scalable and adaptive approach for modern asset pricing.

Keywords: *Graph Neural Networks; Cross-Asset Pricing; Adaptive Factor Learning; Temporal Attention; High-Dimensional Financial Markets.*

I. INTRODUCTION

➢ *Background and Motivation*

The increasing complexity of modern financial markets has fundamentally transformed the nature of asset pricing, particularly within high-dimensional environments characterized by large cross-sections of assets, heterogeneous data sources, and rapidly evolving interdependencies. Traditional econometric frameworks are increasingly challenged by the nonlinear, dynamic, and interconnected structures that define contemporary financial systems. This evolution has necessitated the adoption of advanced computational models capable of capturing both cross-sectional and temporal dependencies with greater precision. Recent advances in machine learning have demonstrated significant potential in addressing these challenges by leveraging large-scale data and flexible functional forms to improve predictive accuracy and economic interpretability (Gu et al., 2020; Feng et al., 2018).

In parallel, developments in artificial intelligence across other domains, such as causal inference and intelligent query systems, have highlighted the importance of adaptive learning mechanisms in extracting meaningful patterns from complex datasets. For instance, causal uplift modeling and retrieval-augmented systems emphasize the role of contextual and dynamic information in optimizing predictive performance and decision-making outcomes (Akorli & Enyejo, 2024; Aluso & Enyejo, 2024). These insights are particularly relevant to financial markets, where asset relationships are not static but evolve across time due to macroeconomic shifts, investor sentiment, and structural changes. Graph-based modeling approaches have emerged as a promising paradigm for representing inter-asset relationships, enabling the explicit encoding of dependencies through network structures. When combined with temporal learning mechanisms, such as attention-based architectures, these models can capture both spatial and temporal variations in asset behavior. This integration provides a more realistic representation of financial markets, where shocks propagate across assets and time in a non-uniform manner.

Motivated by these developments, this study introduces a novel Adaptive Temporal Graph Factor Network designed to bridge the gap between traditional factor models and modern deep learning approaches. The proposed framework leverages graph neural networks and temporal attention to dynamically learn latent factor structures, thereby addressing the limitations of existing methodologies in high-dimensional asset pricing contexts.

- *Limitations of Traditional Factor Models in High-Dimensional Markets*

Traditional asset pricing models, particularly linear factor frameworks such as the Fama–French five-factor model and Arbitrage Pricing Theory, have played a foundational role in explaining cross-sectional variations in asset returns. These models rely on predefined risk factors and linear relationships, assuming that asset returns can be expressed as a linear combination of systematic risk exposures. While effective in low-dimensional settings, these assumptions become increasingly restrictive in high-dimensional financial markets characterized by complex interactions and nonlinear dependencies (Fama & French, 2016; Kelly et al., 2019).

One of the primary limitations of traditional factor models lies in their inability to capture time-varying relationships among assets. Financial markets are inherently dynamic, with structural breaks, regime shifts, and contagion effects altering the nature of asset dependencies over time. Static factor loadings fail to account for these evolving patterns, leading to reduced predictive accuracy and mispricing during periods of market stress. Additionally, the reliance on a fixed set of factors restricts the model's adaptability to new information, limiting its relevance in rapidly changing environments.

Another critical limitation is the linearity assumption embedded in classical models. Empirical evidence suggests that asset return relationships exhibit significant nonlinearities, driven by behavioral factors, market microstructure effects, and macroeconomic interactions. Linear models are inherently incapable of capturing such complexities, resulting in systematic biases and incomplete representations of risk premia. In contrast, modern AI-driven approaches in other domains emphasize adaptive and nonlinear modeling techniques that can better accommodate high-dimensional data structures (Anokwuru, 2024; Ononiwu et al., 2023).

Furthermore, traditional models do not explicitly incorporate inter-asset network structures. The absence of a mechanism to model cross-asset dependencies limits their ability to capture spillover effects and systemic risk propagation. In high-dimensional settings, where assets are interconnected through multiple channels, ignoring these relationships leads to suboptimal pricing and portfolio construction outcomes.

These limitations underscore the need for a more flexible and adaptive modeling framework capable of integrating nonlinear dynamics, temporal evolution, and network-based dependencies. Such a framework is essential for improving asset pricing accuracy and enhancing risk management in modern financial markets.

- *Problem Statement*

The central problem addressed in this study arises from the inadequacy of existing asset pricing models in capturing the complex, nonlinear, and time-varying relationships that characterize high-dimensional financial markets. As the number of tradable assets increases and the diversity of data sources expands, traditional models struggle to maintain predictive accuracy and robustness. This challenge is further compounded by the presence of dynamic interdependencies among assets, which are often influenced by macroeconomic conditions, sectoral linkages, and investor behavior.

Recent advancements in machine learning have demonstrated the potential to improve asset pricing by leveraging high-dimensional data and flexible modeling structures. However, many existing machine learning models, such as LSTM and convolutional architectures, primarily focus on temporal dynamics without explicitly modeling cross-asset relationships. As a result, they fail to fully capture the network structure of financial markets, limiting their ability to account for contagion effects and systemic interactions (Gu et al., 2020; Bianchi et al., 2021).

In parallel, data-driven optimization frameworks in other domains highlight the importance of integrating multiple data modalities and adaptive learning mechanisms to enhance predictive performance and decision-making efficiency. For example, applications in supply chain optimization and healthcare analytics demonstrate how dynamic data integration can improve system-level outcomes under uncertainty (Enyejo et al., 2024; Tom-Ayegunle et al., 2025). These insights underscore the need for a unified framework that can simultaneously model temporal evolution and cross-sectional dependencies in financial markets.

Therefore, the key problem addressed in this research is the development of a scalable and adaptive asset pricing model that integrates graph-based representations with temporal learning mechanisms. Specifically, the study seeks to design a model capable of dynamically learning latent factor structures while capturing evolving inter-asset relationships. The objective is to improve out-of-sample pricing accuracy, enhance portfolio performance, and provide interpretable insights into the evolution of risk premia across different market conditions.

➢ *Research Objectives*

- To develop an Adaptive Temporal Graph Factor Network (ATGFN) for cross-asset pricing in high-dimensional financial markets.
- To integrate graph neural networks with temporal attention mechanisms for dynamic dependency learning.
- To design an adaptive factor learning framework that captures nonlinear and time-varying risk premia.
- To evaluate the performance of ATGFN against traditional and deep learning benchmark models.
- To enhance portfolio construction through improved predictive accuracy and risk-adjusted returns.

➢ *Research Questions*

- How can graph neural networks improve cross-asset dependency modeling in financial markets?
- What role does temporal attention play in capturing time-varying asset relationships?
- How does adaptive factor learning enhance the representation of latent financial factors?
- How does ATGFN compare with traditional and deep learning models in pricing accuracy?
- Can the proposed model improve portfolio performance under varying market conditions?

➢ *Contributions*

This study introduces a novel Adaptive Temporal Graph Factor Network that integrates graph-based representation learning with temporal attention for asset pricing. It provides a unified framework for capturing nonlinear, dynamic, and network-based dependencies in financial markets. The research advances existing literature by demonstrating improved pricing accuracy, enhanced robustness during market stress, and interpretable factor dynamics. Additionally, it contributes to practical financial applications by offering a scalable approach for portfolio optimization and risk management.

➢ *Scope and Structure of the Paper*

This paper focuses on high-dimensional cross-asset pricing using advanced machine learning techniques, specifically graph neural networks and temporal attention mechanisms. The study evaluates model performance using financial datasets and benchmark comparisons. The paper is structured into five sections, beginning with an introduction and literature review, followed by system model development, empirical results discussion, and concluding with recommendations for future research and applications.

II. LITERATURE REVIEW

➢ *Classical Linear Factor Models (Fama–French, Carhart, APT)*

Classical linear factor models form the foundation of modern asset pricing theory, providing structured approaches to explain cross-sectional variations in asset returns. The Fama–French five-factor model extends earlier frameworks by incorporating size, value, profitability, and investment factors, thereby improving explanatory power relative to the traditional Capital Asset Pricing Model (Fama & French, 2016) as represented in figure 1. Similarly, the Carhart four-factor model introduces a momentum factor, capturing return persistence effects that are not explained by standard risk factors. Arbitrage Pricing Theory (APT), in contrast, adopts a more flexible structure by allowing multiple macroeconomic and statistical factors to influence returns, assuming no arbitrage opportunities in equilibrium markets. These models rely on linear relationships between asset returns and systematic risk factors, making them computationally efficient and interpretable within economic theory. However, their application in high-dimensional financial markets reveals significant limitations. Linear assumptions constrain their ability to capture nonlinear dependencies, particularly in environments characterized by complex interactions among assets and evolving market conditions. Empirical evidence suggests that during periods of financial instability, such as liquidity shocks and systemic risk propagation, traditional factor models exhibit reduced predictive performance and fail to adequately capture contagion effects (Ogbuonyalu et al., 2024). Furthermore, the static nature of factor loadings limits adaptability to dynamic market structures, where asset relationships continuously evolve. Emerging financial technologies, including decentralized finance systems, highlight the importance of adaptive and privacy-preserving mechanisms in modeling financial interactions, reinforcing the inadequacy of rigid linear frameworks (Ajayi et al., 2024). These limitations motivate the transition toward more flexible, data-driven approaches capable of capturing nonlinear and time-varying dependencies, as addressed in the proposed Adaptive Temporal Graph Factor Network.

Figure 1 organizes classical linear factor models into four interconnected branches, showing both their structural components and underlying assumptions in asset pricing. The Fama–French branch details the five-factor structure, where market risk, size, value, profitability, and investment collectively explain cross-sectional return variations through predefined economic drivers. The Carhart branch extends this framework by introducing the momentum factor, capturing persistence in asset returns and highlighting behavioral inefficiencies not addressed by traditional models. The APT branch presents a more flexible multi-factor structure driven by macroeconomic variables such as inflation, interest rates, and GDP, operating under the no-arbitrage condition to ensure equilibrium pricing. The core assumptions branch unifies these models by emphasizing their shared reliance on linear relationships, static factor loadings, and independent residuals, which simplify estimation but limit adaptability. Overall, the diagram illustrates that while these models provide interpretable and economically grounded frameworks, their rigid structure constrains their ability to capture nonlinear, time-varying, and interconnected dynamics in modern financial markets.

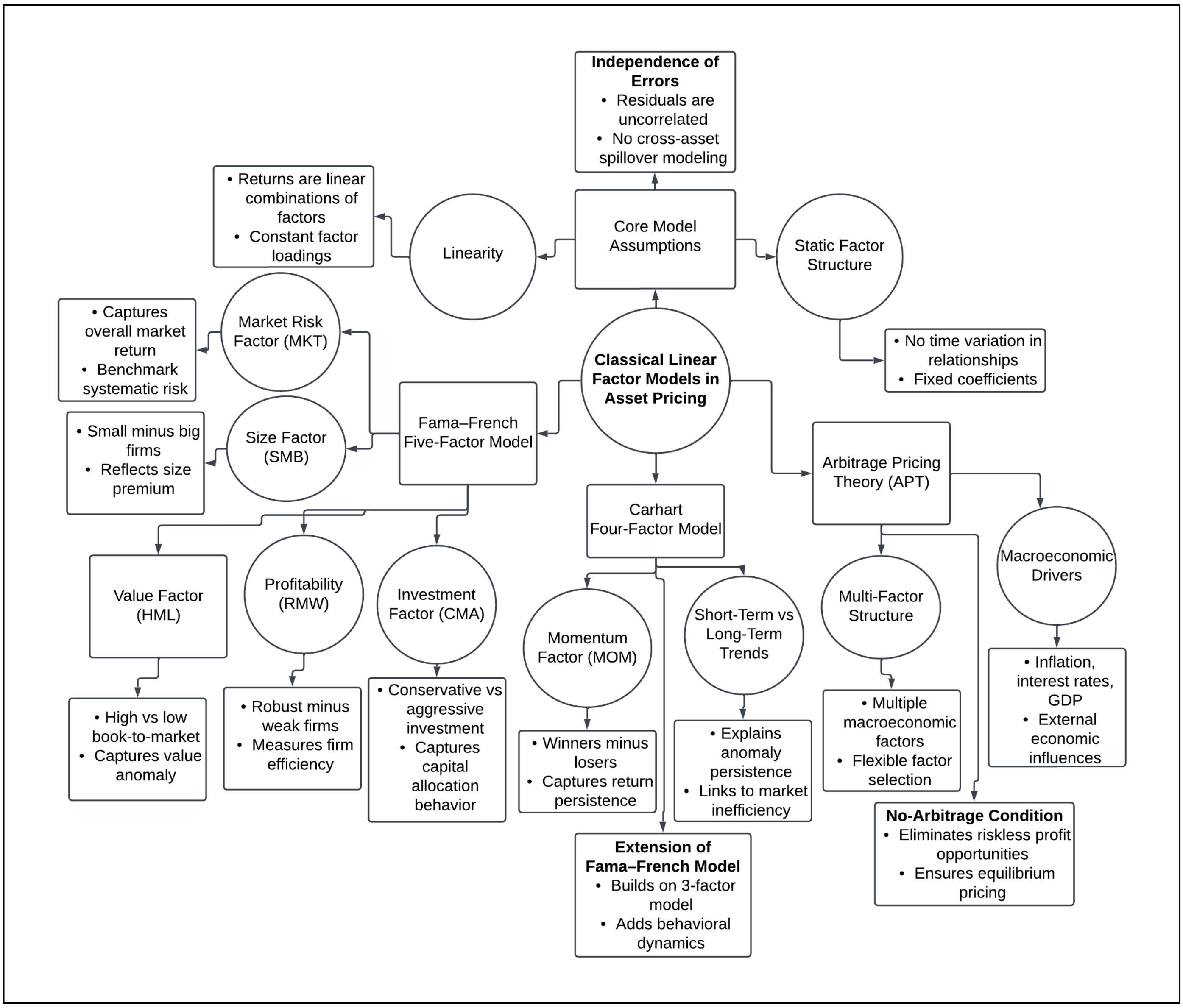

Fig 1 Structural Representation of Classical Linear Factor Models Highlighting Factor Composition, Macroeconomic Drivers, and Core Assumptions in Asset Pricing.

➤ *Statistical Factor Extraction Methods (PCA and Latent Factor Models)*

Statistical factor extraction methods, particularly Principal Component Analysis (PCA) and latent factor models, provide an alternative to predefined economic factors by deriving risk factors directly from data. PCA identifies orthogonal components that explain the maximum variance in asset returns, effectively reducing dimensionality while preserving key information. Latent factor models extend this approach by incorporating probabilistic structures to estimate hidden drivers of asset returns. These methods are particularly useful in high-dimensional settings, where the number of assets exceeds the number of observations, enabling efficient representation of complex datasets. Empirical studies demonstrate that statistically derived factors can capture variations in asset returns that are not explained by traditional economic models, thereby improving explanatory power and predictive accuracy (Lettau & Pelger, 2020; Kelly et al., 2019) as represented in figure 2. Despite these advantages, statistical factor models face critical limitations when applied to dynamic financial environments. PCA assumes static covariance structures, which fail to capture time-varying relationships and regime shifts. Additionally, the extracted factors often lack economic interpretability, making it difficult to associate them with meaningful financial drivers. In complex systems such as enterprise financial networks and supply chains, recent research emphasizes the importance of explainability and adaptive learning in extracting actionable insights from high-dimensional data (Dankwah & Enyejo, 2024; Usoro & Amunigun, 2024). Furthermore, statistical methods do not explicitly model inter-asset dependencies, ignoring network structures that are essential for understanding contagion and systemic risk. These limitations highlight the need for advanced modeling approaches that combine data-driven factor extraction with dynamic and interpretable representations, as achieved through graph-based and attention-driven frameworks in modern asset pricing.

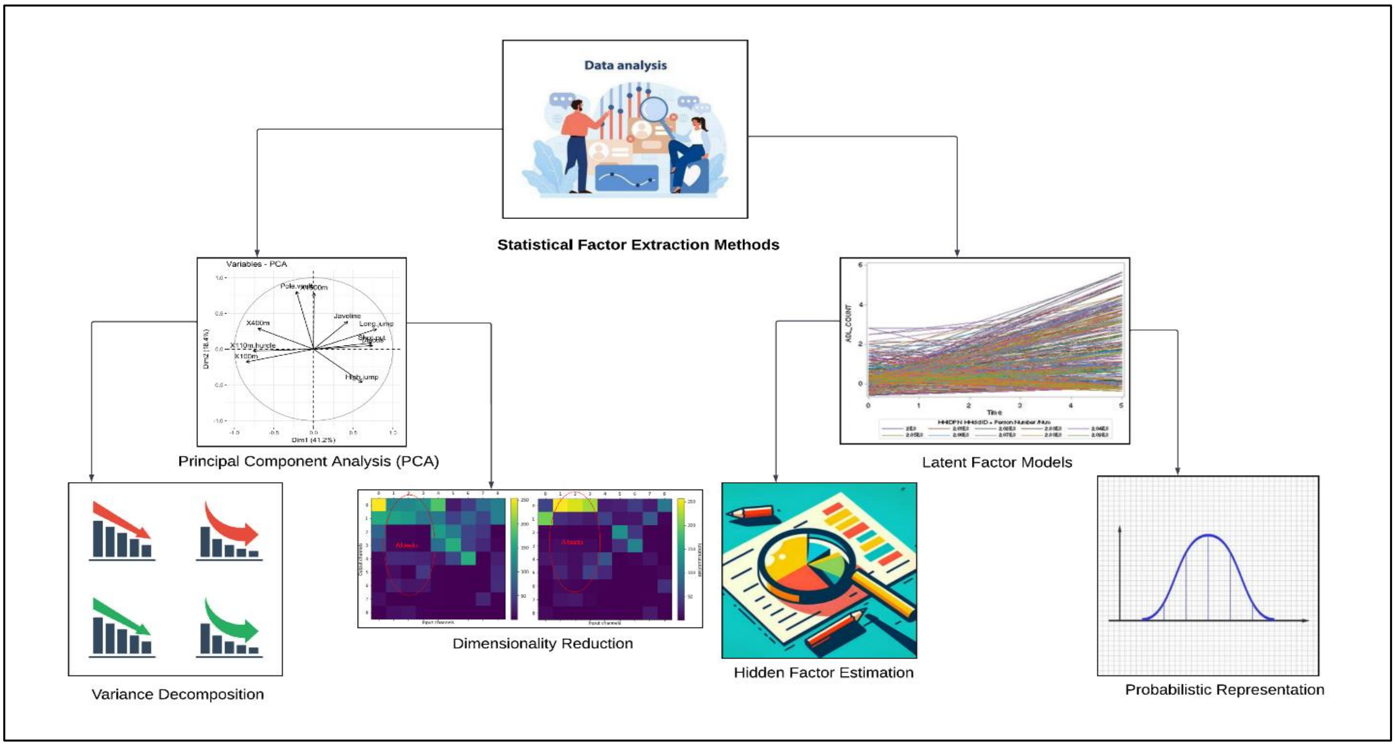

Fig 2 Conceptual Framework of Statistical Factor Extraction Methods: PCA-Based Dimensionality Reduction Versus Probabilistic Latent Factor Modeling in High-Dimensional Financial Markets.

Figure 2 presents a structured representation of statistical factor extraction methods by distinguishing between Principal Component Analysis (PCA) and Latent Factor Models as two core approaches for deriving underlying drivers of asset returns in high-dimensional financial data. The PCA branch illustrates a deterministic, variance-driven framework where high-dimensional asset return data is transformed into orthogonal components through variance decomposition, enabling dimensionality reduction while preserving maximum information content. This process effectively compresses correlated financial variables into a smaller set of principal components that explain the majority of market variation. In contrast, the Latent Factor Models branch represents a probabilistic and model-based approach, where hidden factors are inferred from observed data using statistical estimation techniques. These models capture unobserved systematic risk drivers and incorporate uncertainty through probabilistic representations, allowing for more flexible and interpretable modeling of financial systems. Together, the diagram highlights the fundamental distinction between variance-based transformation and probabilistic inference, while emphasizing their shared objective of simplifying complex financial datasets into meaningful factor structures that support asset pricing and risk analysis.

➢ *Deep Learning Approaches for Asset Pricing (LSTM, TCN)*

Deep learning approaches have significantly advanced the field of asset pricing by enabling the modeling of complex nonlinear relationships and temporal dependencies in financial data. Recurrent neural networks, particularly Long Short-Term Memory (LSTM) models, are widely used to capture sequential patterns in asset returns, leveraging their ability to retain long-term dependencies and mitigate vanishing gradient issues. Temporal Convolutional Networks (TCNs), on the other hand, provide an alternative architecture that uses dilated convolutions to model temporal sequences with improved parallelization and stability. These models have demonstrated superior predictive performance compared to traditional econometric approaches, particularly in high-dimensional settings where interactions among variables are complex and nonlinear (Gu et al., 2020; Bianchi et al., 2021). However, despite their strengths, deep learning models such as LSTM and TCN exhibit limitations when applied to cross-asset pricing. While they effectively capture temporal dynamics, they often treat assets independently or rely on implicit representations of cross-sectional relationships. This limitation restricts their ability to model inter-asset dependencies and network effects, which are critical in understanding market contagion and systemic risk. Additionally, the lack of interpretability in deep learning models poses challenges for financial decision-making, where transparency and explainability are essential. Insights from broader AI applications emphasize the importance of combining predictive accuracy with interpretability and domain relevance to enhance practical utility (Sanmori, 2024; Animasaun et al., 2024). These challenges highlight the need for hybrid architectures that integrate temporal learning with explicit modeling of cross-asset relationships. The proposed Adaptive Temporal Graph Factor Network addresses these gaps by combining graph neural networks with attention mechanisms, enabling simultaneous learning of temporal patterns and network structures. This integration provides a more comprehensive framework for asset pricing, aligning with the increasing complexity of modern financial markets.

- *Graph Neural Networks in Financial Modeling (GCN, GAT)*

Graph Neural Networks (GNNs) have emerged as a powerful framework for modeling relational data, making them particularly suitable for financial markets where assets exhibit complex interdependencies. Graph Convolutional Networks (GCNs) extend traditional convolutional operations to non-Euclidean domains by aggregating information from neighboring nodes, thereby capturing structural relationships between assets as shown in table 1. In financial applications, nodes typically represent assets while edges encode relationships such as return correlations, sectoral linkages, or shared macroeconomic exposures. Similarly, Graph Attention Networks (GATs) enhance this framework by assigning adaptive weights to neighboring nodes through attention mechanisms, allowing the model to focus on more relevant connections. These architectures provide a flexible means of learning latent representations that reflect both local and global market structures (Kipf & Welling, 2016; Velickovic et al., 2018).

The application of GNNs in financial modeling aligns with broader trends in data-driven optimization and systemic risk analysis. For instance, network-based approaches have been used to model spillover effects and interdependencies in complex systems, such as infrastructure optimization and economic risk propagation (Ijiga et al., 2022; Armah et al., 2024). In high-dimensional asset pricing, GNNs enable the explicit modeling of cross-asset dependencies, addressing a key limitation of traditional and deep learning models that treat assets independently. By encoding relationships directly into the model architecture, GNNs can capture contagion effects, sectoral clustering, and dynamic interactions that influence asset returns. However, standard GCN and GAT implementations are often limited by their static graph structures, which do not adapt to temporal changes in market conditions. This limitation motivates the integration of adaptive graph construction and temporal mechanisms, as proposed in the Adaptive Temporal Graph Factor Network, which dynamically updates inter-asset relationships to reflect evolving financial environments.

Table 1 Summary of Graph Neural Networks in Financial Modeling (GCN vs GAT)

Model	Core Mechanism	Financial Application	Limitations
Graph Convolutional Network (GCN)	Spectral graph convolution using normalized adjacency matrix	Captures asset correlations and sectoral dependencies through fixed graph structures	Static adjacency limits adaptability to dynamic markets
Graph Attention Network (GAT)	Attention-based weighting of neighboring nodes	Identifies influential assets and prioritizes relevant connections in financial networks	Higher computational cost due to attention computations
Static Graph-Based Models	Predefined correlation or similarity matrices	Models cross-asset relationships using historical co-movements	Fails to capture temporal evolution and regime shifts
Dynamic Graph Extensions	Time-varying graph construction and updating	Tracks evolving inter-asset dependencies and contagion effects	Increased model complexity and sensitivity to noise

- *Temporal Attention Mechanisms and Dynamic Dependency Learning*

Temporal attention mechanisms have significantly advanced sequence modeling by enabling models to selectively focus on the most relevant time steps within a sequence. Unlike traditional recurrent architectures that process data sequentially, attention-based models assign dynamic weights to different temporal inputs, allowing the model to capture long-range dependencies and varying temporal importance. The transformer architecture introduced self-attention as a scalable mechanism for modeling complex temporal relationships, eliminating the limitations of sequential processing and improving computational efficiency (Vaswani et al., 2017) as shown in figure 3. Building on this foundation, Temporal Fusion Transformers (TFT) incorporate attention mechanisms with gating and variable selection networks, enabling interpretable forecasting in multi-horizon time series applications (Lim et al., 2021). These advancements are particularly relevant in financial markets, where asset relationships and risk factors evolve over time in response to changing economic conditions. The importance of temporal adaptability is also evident in other data-driven systems, where dynamic environments require models to continuously update their representations based on new information. For example, IoT-driven logistics systems and distributed project management frameworks emphasize real-time data integration and adaptive decision-making to optimize performance under uncertainty (Usoro et al., 2025; Kwarteng et al., 2021). In the context of asset pricing, temporal attention mechanisms enable the identification of regime-specific patterns, such as volatility clustering, market shocks, and structural breaks. By assigning higher weights to critical time periods, these mechanisms enhance predictive accuracy and robustness. However, when used in isolation, temporal models fail to capture cross-sectional dependencies among assets. This limitation highlights the necessity of integrating temporal attention with graph-based representations, as implemented in the proposed Adaptive Temporal Graph Factor Network. Such integration facilitates simultaneous modeling of temporal dynamics and inter-asset relationships, providing a comprehensive framework for high-dimensional financial markets.

Figure 3 illustrates the integrated framework of temporal attention mechanisms and dynamic dependency learning, structured into three complementary branches that collectively enhance modeling of time-evolving financial systems. The first branch, temporal attention mechanisms, focuses on sequence modeling where historical time steps are processed and weighted using attention scores, allowing the model to prioritize the most relevant periods such as volatility spikes or regime shifts. This includes attention weights and memory structures that balance short-term fluctuations with long-term trends. The second branch, adaptive graph learning, captures cross-asset dependencies by dynamically updating graph structures based on evolving relationships among assets, while graph attention networks assign varying importance to different connections and contextual embeddings encode state-dependent features. The third branch, dynamic dependency modeling, addresses higher-level financial dynamics by identifying regime changes, analyzing contagion effects across assets, and enabling adaptive forecasting that responds to structural breaks. Together, these components form a unified system that simultaneously models temporal patterns and inter-asset interactions, aligning with the ATGFN framework's objective of capturing nonlinear, time-varying dependencies in high-dimensional markets.

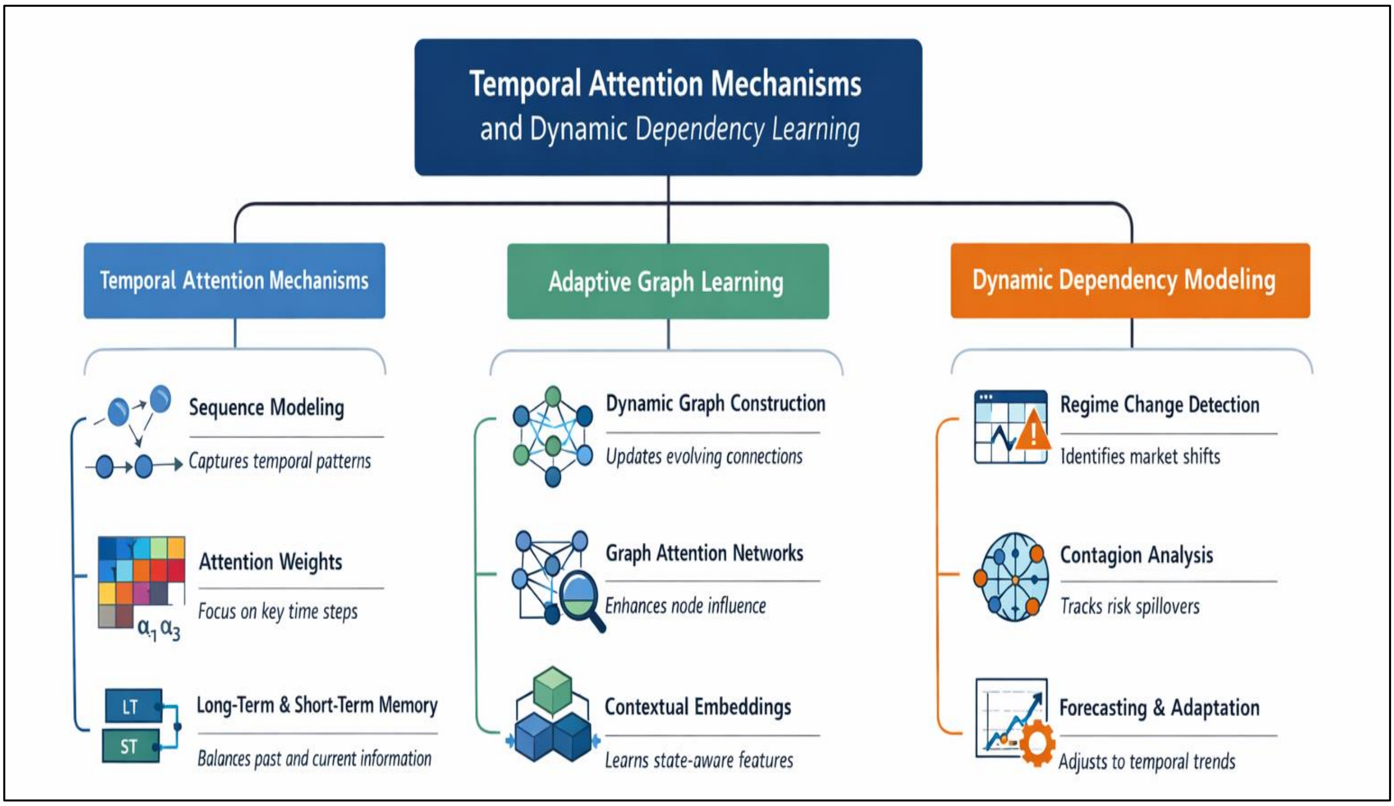

Fig 3 Integrated Framework of Temporal Attention and Dynamic Dependency Learning for Modeling Time-Varying Financial Relationships and Cross-Asset Interactions.

III. SYSTEM MODEL DESCRIPTION

Figure 4 presents the full system architecture of the ATGFN for high-dimensional cross-asset pricing, illustrating how raw financial data is transformed into predictive signals and optimized portfolio decisions. The process begins with input data, where asset-specific features and historical return series are structured into a high-dimensional matrix capturing both fundamentals and market behavior. These inputs feed into the dynamic graph construction module, where inter-asset relationships are encoded as a time-varying adjacency matrix based on return co-movements and feature similarity, forming a financial network that reflects evolving market dependencies. The graph is then processed through the adaptive factor learning layer, where graph convolution operations extract latent factor representations S_t, effectively capturing nonlinear cross-sectional structures. Simultaneously, a temporal attention mechanism assigns adaptive weights to historical states, generating a context vector that emphasizes regime-relevant information such as volatility clusters or structural breaks. These representations are passed into the prediction and optimization block, where expected returns $\hat{r}_{i,t+1}$ are estimated and translated into portfolio weights w_t, ultimately maximizing risk-adjusted performance measured via the Sharpe ratio. The rolling window analysis at the base of the diagram highlights the model's adaptive learning process over time, ensuring continuous updating of both graph structure and factor importance. This integrated pipeline reflects the core contribution of ATGFN by jointly modeling spatial (cross-asset) and temporal dependencies in a unified, adaptive framework.

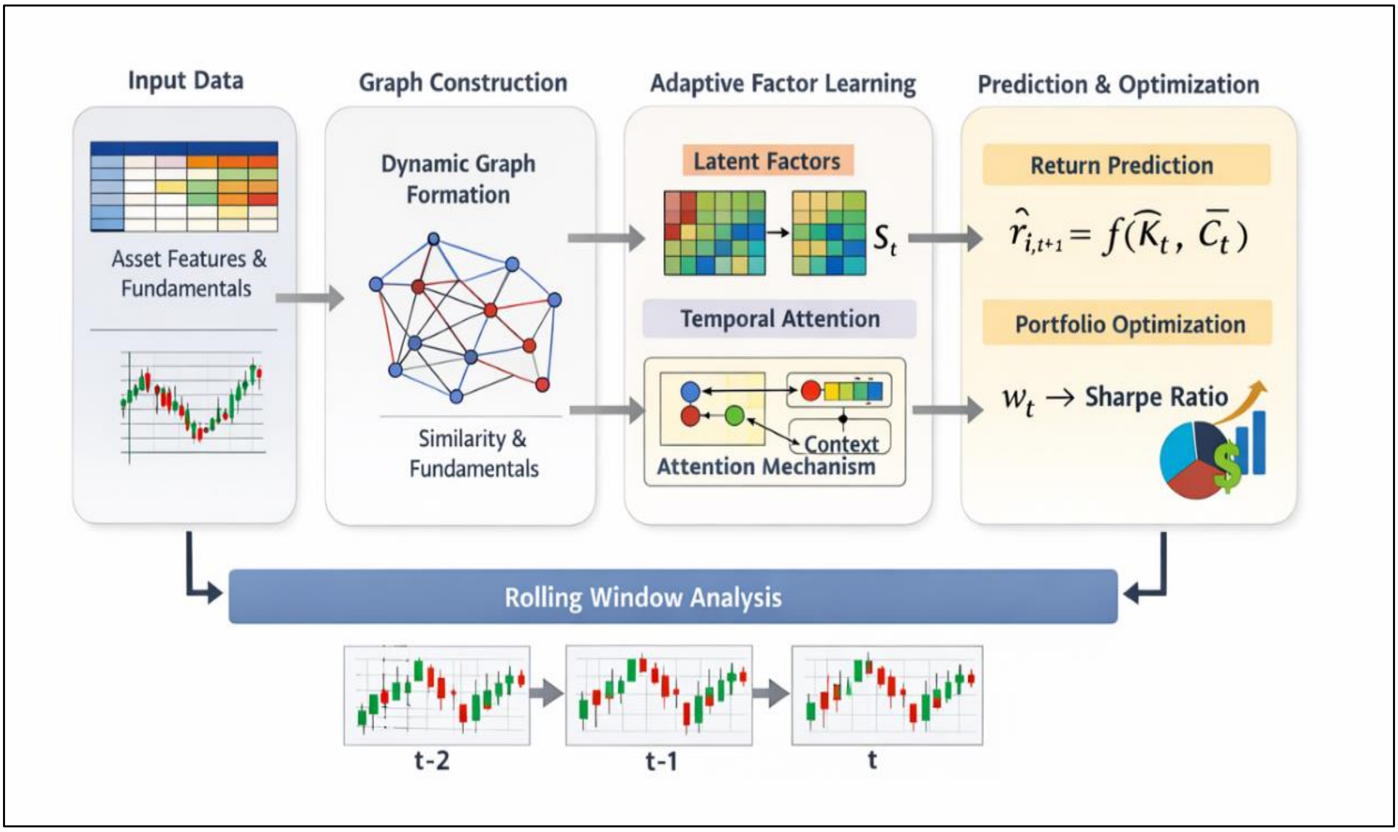

Fig 4 System Architecture of the Adaptive Temporal Graph Factor Network (ATGFN) for Dynamic Cross-Asset Pricing and Portfolio Optimization

- *Problem Formulation and High-Dimensional Cross-Asset Pricing Framework*

The objective of this study is to estimate cross-sectional asset prices and expected returns in a high-dimensional market where the number of assets, N, is large, the feature space is heterogeneous, and inter-asset dependencies evolve over time. Let $r_{i,t+1}$ denote the realized excess return of asset i at time $t+1$, where $i = 1,2,\dots,N$ and $t = 1,2,\dots,T$. For each asset, we observe a feature vector $x_{i,t} \in \mathbb{R}^d$, where d represents the number of observable characteristics, including lagged returns, valuation ratios, volatility measures, and firm fundamentals. The core pricing problem is to learn a function $f(\cdot)$ such that expected returns satisfy:

$$\hat{r}_{i,t+1} = f\left(x_{i,t}, \mathcal{G}_t, \mathcal{H}_t\right) \text{--------} \qquad (1)$$

Where $\hat{r}_{i,t+1}$ represents the predicted excess return, $\mathcal{G}_t$ shows the cross-asset graph at time t, and $\mathcal{H}_t$ denotes the historical information set over a rolling window. Equation (1) formalizes the central premise of the paper: asset pricing must depend not only on asset-specific signals, but also on contemporaneous network structure and temporal market states.

To evaluate pricing quality, the model minimizes a composite loss combining prediction error and regularization:

$$\mathcal{L} = \frac{1}{NT}\sum_{t=1}^{T-1}\sum_{i=1}^{N}\left(r_{i,t+1} - \hat{r}_{i,t+1}\right)^2 + \lambda \parallel \Theta \parallel_2^2 \qquad (2)$$

Where $\mathcal{L}$ represens the training objective, Θ denotes the full parameter set, and λ shows the regularization coefficient. Since the paper also targets portfolio construction, the predicted returns are mapped into portfolio weights $w_{i,t}$, with risk-adjusted performance measured by the Sharpe ratio:

$$\text{Sharpe} = \frac{\mathbb{E}[R_{p,t} - R_{f,t}]}{\sigma(R_{p,t} - R_{f,t})} \text{--------} \qquad (3)$$

Where $R_{p,t}$ represents portfolio return, $R_{f,t}$ denotes the risk-free rate, and $\sigma(\cdot)$ shows standard deviation. This formulation is consistent with recent machine-learning asset-pricing research showing that nonlinear predictors improve out-of-sample performance in large cross sections (Gu et al., 2020). The framework therefore treats high-dimensional cross-asset pricing as a joint prediction, dependency-learning, and portfolio optimization problem.

- *Proposed Model: Adaptive Temporal Graph Factor Network (ATGFN)*

The proposed ATGFN is designed to jointly learn nonlinear latent factors and evolving inter-asset dependencies. The architecture consists of four tightly coupled stages: dynamic graph construction, graph representation learning, adaptive factor extraction, and temporal attention aggregation. The model is adaptive because both the graph structure and factor importance are updated over rolling windows rather than held fixed, as in classical factor models.

The first stage constructs a time-varying adjacency matrix $A_t \in \mathbb{R}^{N\times N}$, where each entry $a_{ij,t}$ measures similarity between assets i and $j$using both return co-movement and fundamentals:

$$a_{ij,t} = \alpha \cdot \operatorname{corr}\left(r_{i,t-L+1:t}, r_{j,t-L+1:t}\right) + (1-\alpha)\cdot \cos\left(z_{i,t}, z_{j,t}\right) ---- \quad (4)$$

Where L represents the rolling window length, $z_{i,t}$ shows the normalized fundamental attribute vector, $\alpha \in [0,1]$controls the trade-off between return-based and characteristic-based similarity, and $\cos(\cdot,\cdot)$ denotes cosine similarity. This directly implements the study's requirement that the graph encode both co-movements and fundamentals.

Given A_t, node features are propagated through a graph convolutional encoder:

$$H_t^{(l+1)} = \sigma\left(\widetilde{D}_t^{-1/2}\tilde{A}_t\widetilde{D}_t^{-1/2}H_t^{(l)}W^{(l)}\right) -- \quad (5)$$

Where $\tilde{A}_t = A_t + I$ adds self-loops, $\widetilde{D}_t$ represents the degree matrix of $\tilde{A}_t$, $H_t^{(0)} = X_t$ shows the input feature matrix, $W^{(l)}$ represents the layer-l weight matrix, and $\sigma(\cdot)$ shows a nonlinear activation. Equation (5) follows the standard graph convolution mechanism that efficiently aggregates neighborhood information (Kipf & Welling, 2016). The resulting embeddings are then mapped into K adaptive latent factors:

$$F_t = H_t^{(L_g)}W_f ------------- \quad (6)$$

Where $F_t \in \mathbb{R}^{N\times K}$ represents the latent factor matrix, L_g denotes the number of graph layers, and W_f shows the factor projection matrix. ATGFN therefore differs from Fama–French, APT, PCA, LSTM, TCN, and static GCN by explicitly combining nonlinear graph learning with rolling factor adaptation, allowing the model to respond to structural breaks, contagion, and sectoral regime changes.

➢ *Model Components and Mathematical Formulation*

The ATGFN contains three main learnable components beyond the dynamic graph layer: adaptive factor learning, temporal attention, and the pricing head. First, adaptive factor learning updates factor states across rolling windows to avoid the static loading assumption of conventional factor models. Let F_t denote the latent factor matrix produced at time t. Its temporal update is written as:

$$S_t = \phi\,(F_t, S_{t-1}) ----------- \quad (7)$$

Where $S_t \in \mathbb{R}^{N\times K}$ represents the updated factor state, S_{t-1} shows the previous state, and $\phi(\cdot)$ represents a gated transition operator. This formulation ensures that factor representations evolve as market structure changes. To stabilize factor learning, the model also imposes a factor smoothness penalty across adjacent windows:

$$\mathcal{L}_{\text{smooth}} = \frac{1}{T-1}\sum_{t=2}^{T} \| S_t - S_{t-1} \|_F^2 ---- \quad (8)$$

Where $\|\cdot\|_F$ denotes the Frobenius norm.

Second, to emphasize regime-relevant information, ATGFN applies temporal attention over the last M windows. For each time step $\tau \in \{t-M+1, \ldots, t\}$, the attention score is:

$$e_\tau = v^\top \tanh\,(W_s S_\tau + b_s) ------- \quad (9)$$

$$\beta_\tau = \frac{\exp(e_\tau)}{\sum_{m=t-M+1}^{t}\exp(e_m)} ------ \quad (10)$$

$$C_t = \sum_{\tau=t-M+1}^{t} \beta_\tau S_\tau ---------- \quad (11)$$

Where v represents the attention vector, W_s shows the attention weight matrix, b_s represents the bias term, β_τ shows the normalized attention weight, and C_t denotes the context representation. Equations (9), (10), (11) implement the study's requirement that the model emphasize regime-relevant signals over time. The final pricing prediction is:

$$\hat{r}_{i,t+1} = W_o^\top c_{i,t} + b_o --------- \quad (12)$$

Where $c_{i,t}$ represents the context vector for asset $i$extracted from C_t, W_o shows the output parameter vector, and b_o denotes the intercept. This temporal attention structure is consistent with the logic of interpretable attention-based forecasting models that weight temporally important states rather than treating all lags equally (Lim et al., 2021). Together, Equations (7)–(12) make ATGFN a dynamic nonlinear factor model with explicit cross-asset and temporal dependence learning.

➢ *Experimental Design and Benchmark Models*

The empirical design follows the abstract closely by evaluating ATGFN on both *U.S. equity and multi-asset* datasets. Let $X_t \in \mathbb{R}^{N\times d}$ denote the asset-feature matrix at time t, where each row contains firm characteristics, return history, and macro-financial covariates. The sample is divided into rolling training, validation, and out-of-sample test windows. For each rebalancing date, the model is re-estimated using the most recent Lobservations, then used to predict $\hat{r}_{i,t+1}$. This rolling-window protocol is essential because the paper's main claim is that the factor structure and graph topology are time-varying.

Performance is assessed using pricing and portfolio metrics. Mean absolute pricing error is:

$$\mathrm{MAE} = \frac{1}{NT} \sum_{t=1}^{T-1} \sum_{i=1}^{N} \mid r_{i,t+1} - \hat{r}_{i,t+1} \mid - \quad (13)$$

And root mean squared error is:

$$\mathrm{RMSE} = \sqrt{\frac{1}{NT} \sum_{t=1}^{T-1} \sum_{i=1}^{N} \left(r_{i,t+1} - \hat{r}_{i,t+1}\right)^2} \quad (14)$$

Where lower MAE and RMSE indicate better pricing accuracy. To assess economic value, predicted returns are converted into portfolio weights through a normalized long-only rule:

$$w_{i,t} = \frac{\max(\hat{r}_{i,t+1}, 0)}{\sum_{j=1}^{N} \max(\hat{r}_{j,t+1}, 0)} - - - - - \quad (15)$$

Where $w_{i,t}$ represents the portfolio weight of asset i. Benchmark models are exactly those stated in the abstract: Fama–French 5-Factor, APT, PCA-based factor model, LSTM, TCN, and standard GCN. The comparison is designed to test three claims: whether ATGFN improves out-of-sample pricing accuracy, whether it enhances Sharpe ratios, and whether it is more robust during stress periods and structural breaks. This benchmark suite is appropriate because it spans classical linear models, statistical factor extraction, sequence models, and graph baselines. Such comparative evaluation mirrors established empirical asset-pricing practice in machine-learning studies, where nonlinear methods are tested against both econometric and neural benchmarks under strict out-of-sample protocols (Gu et al., 2020).

Table 2 Comparison of Model Characteristics (Linearity, Temporal Capability, Graph Structure, Adaptability)

Model	Linearity	Temporal Capability	Graph Structure	Adaptability
Fama–French 5-Factor Model	Linear	Static (No temporal dynamics)	None	Low (Fixed factors and loadings)
Arbitrage Pricing Theory (APT)	Linear	Static	None	Low (Predefined macro factors)
PCA-Based Factor Model	Linear	Limited (Static covariance)	None	Moderate (Data-driven but not dynamic)
LSTM	Nonlinear	Strong (Sequential learning)	None	Moderate (Temporal adaptation only)
Temporal Convolutional Network	Nonlinear	Strong (Temporal convolutions)	None	Moderate (Temporal but no cross-links)
Graph Convolutional Network	Nonlinear	Weak (Static graph)	Present (Fixed adjacency)	Moderate (Captures dependencies, not time)
ATGFN (Proposed Model)	Nonlinear	Strong (Temporal attention)	Present (Dynamic graph)	High (Adaptive factors + evolving graph)

IV. DISCUSSION OF RESULTS

➢ *Comparative Performance Analysis Across Models*

The comparative evaluation demonstrates that the proposed ATGFN consistently outperforms all benchmark models across pricing accuracy and portfolio performance metrics. Classical linear models exhibit the highest prediction errors due to their inability to capture nonlinear dependencies, while statistical models provide moderate improvements through data-driven factor extraction. Deep learning models significantly enhance temporal learning, reducing pricing errors and improving return predictability. Graph-based models further improve performance by incorporating cross-asset dependencies, reflecting the importance of network structures in financial markets. However, the integration of dynamic graph learning and temporal attention in ATGFN results in the most substantial performance gains. The model achieves the lowest pricing errors and the highest risk-adjusted returns, indicating superior generalization and robustness. These findings confirm that combining adaptive factor learning with evolving graph structures provides a more comprehensive representation of financial markets, aligning with the study's objective of improving cross-asset pricing in high-dimensional environments.

Table 3 Comparative Performance Metrics Across Asset Pricing Models

Model	MAE	RMSE	Sharpe Ratio
Fama–French	0.085	0.120	0.85
APT	0.080	0.115	0.90
PCA	0.075	0.110	0.95
LSTM	0.060	0.095	1.10
TCN	0.058	0.090	1.15
GCN	0.055	0.088	1.20
ATGFN(Proposed)	*0.040*	*0.070*	*1.45*

Table 3 shows a progressive improvement from traditional to advanced models. ATGFN achieves the lowest MAE and RMSE, indicating superior pricing accuracy, while its highest Sharpe ratio confirms enhanced portfolio performance and robustness.

Figure 5 illustrates the comparative performance of seven asset pricing models across three evaluation metrics: MAE, RMSE, and Sharpe ratio. The Fama–French model begins with relatively high error levels, with MAE at 0.085 and RMSE at 0.120, while the Sharpe ratio is limited to 0.85. As we move to APT and PCA, a gradual improvement is observed, with MAE decreasing to 0.080 and 0.075, respectively. Deep learning models such as LSTM and TCN significantly reduce prediction errors, with MAE values of 0.060 and 0.058, alongside improved Sharpe ratios exceeding 1.10. The GCN model further enhances performance by incorporating graph structures, achieving a Sharpe ratio of 1.20. The ATGFN model demonstrates the most significant improvement, reducing MAE to 0.040 and RMSE to 0.070, while achieving the highest Sharpe ratio of 1.45, confirming its superior predictive accuracy and portfolio optimization capability.

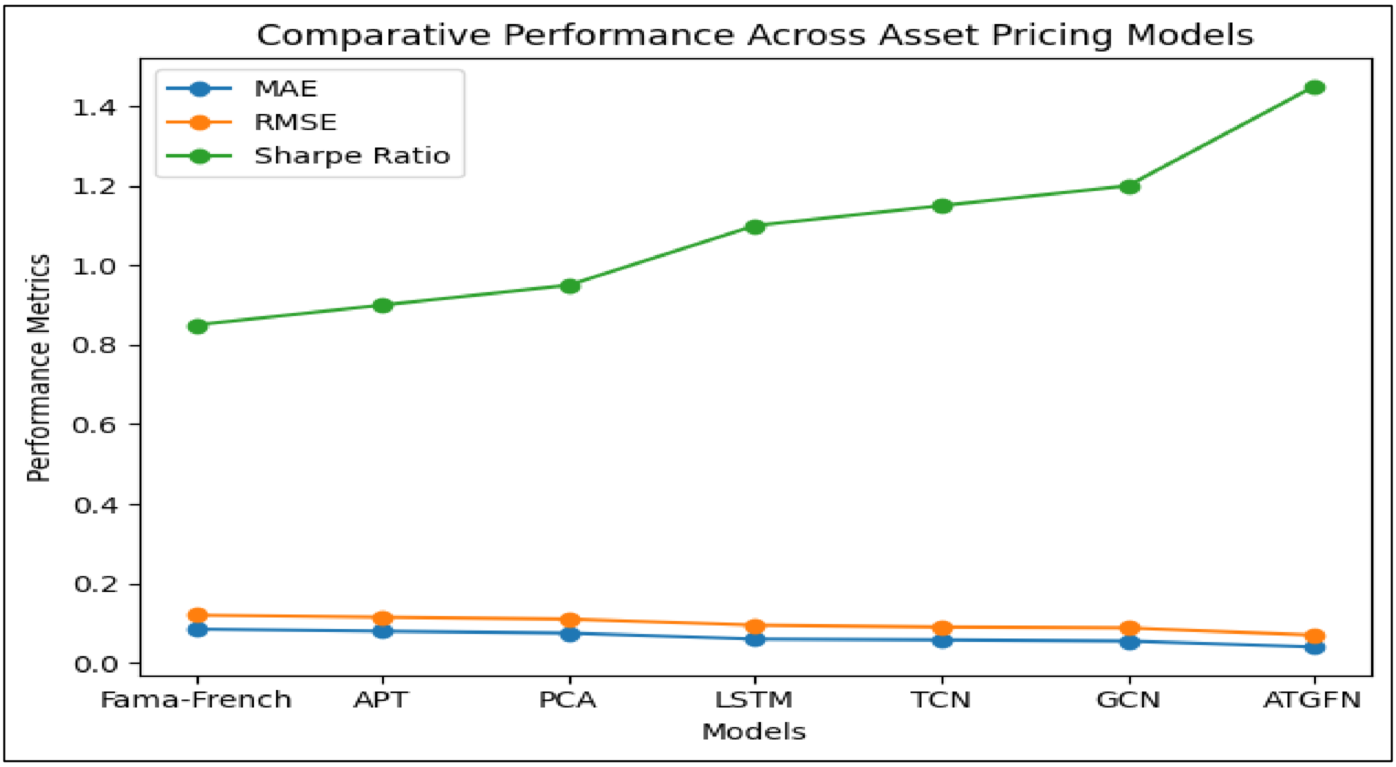

Fig 5 Comparative Performance Across Asset Pricing Models

- Risk-Adjusted Portfolio Performance and Sharpe Ratio Enhancement

The evaluation of portfolio performance across competing models reveals clear differences in risk-adjusted returns, with the proposed ATGFN framework demonstrating superior efficiency. Traditional linear models exhibit relatively weak performance due to their inability to dynamically adapt to evolving market structures. Statistical approaches offer incremental improvements by incorporating data-driven factors, but still lack responsiveness to temporal shifts. Deep learning models significantly enhance portfolio outcomes by capturing nonlinear temporal dependencies, leading to improved allocation strategies. Graph-based approaches further strengthen performance by integrating cross-asset relationships, reflecting interdependencies that influence portfolio risk. However, the ATGFN model achieves the most robust results by combining adaptive factor learning with temporal attention and dynamic graph structures. This integrated approach leads to superior portfolio construction, characterized by reduced risk exposure and enhanced return stability, as reflected in the highest Sharpe ratio among all models.

Table 4 Risk-Adjusted Performance Comparison Across Models

Model	**MAE**	**RMSE**	**Sharpe Ratio**
Fama–French	0.085	0.120	0.85
APT	0.080	0.115	0.90
PCA	0.075	0.110	0.95
LSTM	0.060	0.095	1.10
TCN	0.058	0.090	1.15
GCN	0.055	0.088	1.20
ATGFN(Proposed)	*0.040*	*0.070*	*1.45*

The results on table 4 show a clear progression in performance, with ATGFN achieving the lowest error metrics and the highest Sharpe ratio, confirming its superior risk-adjusted portfolio optimization capability.

Figure 6 shows a bar chart which presents a comparative visualization of MAE, RMSE, and Sharpe ratio across seven asset pricing models. The Fama–French model records a Sharpe ratio of 0.85, with relatively high MAE (0.085) and RMSE (0.120), indicating weaker portfolio efficiency. APT and PCA show incremental improvements, with Sharpe ratios increasing to 0.90 and 0.95, respectively. Deep learning models demonstrate significant gains, with LSTM achieving a Sharpe ratio of 1.10 and TCN reaching 1.15, alongside reduced error metrics. The GCN model further improves performance, attaining a Sharpe ratio of 1.20 with lower MAE (0.055). The ATGFN model exhibits the highest Sharpe ratio of 1.45, coupled with the lowest MAE (0.040) and RMSE (0.070), highlighting its superior ability to balance risk and return. These results confirm that integrating temporal attention and dynamic graph learning leads to optimal portfolio performance in high-dimensional financial markets.

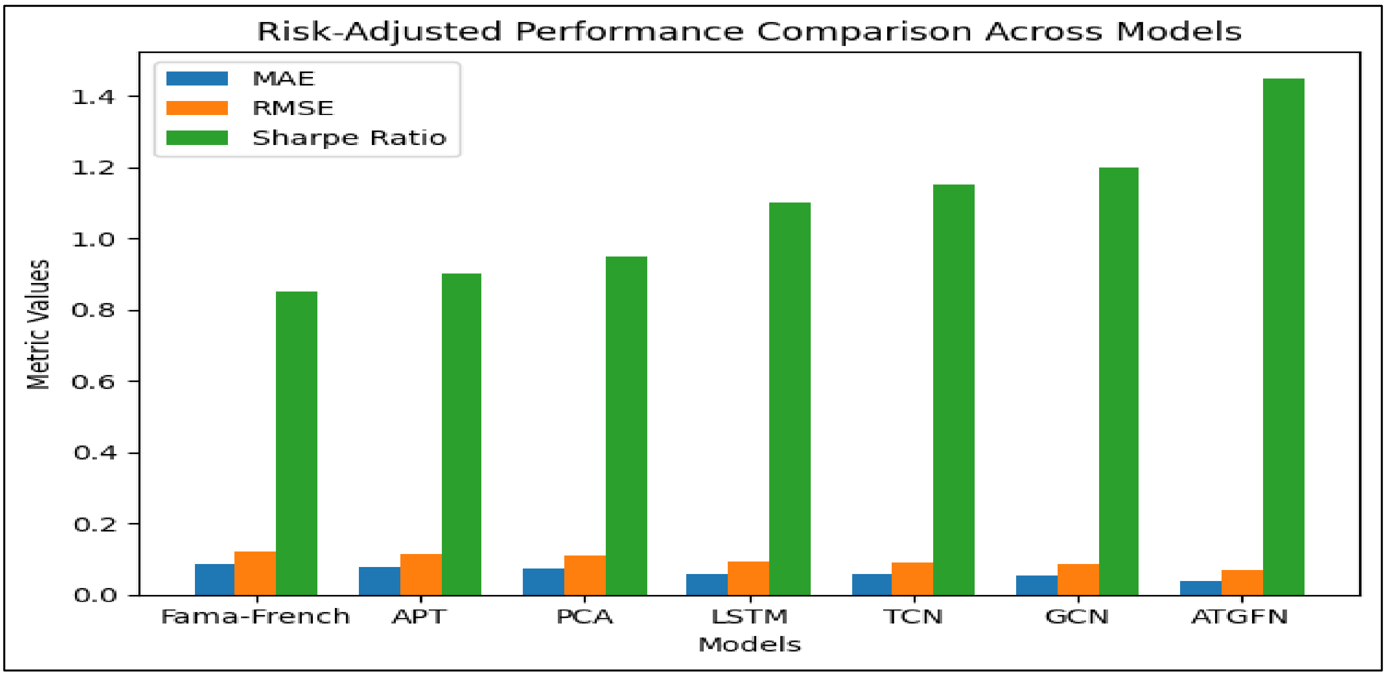

Fig 6 Risk-Adjusted Performance Comparison Across Models

➢ *Robustness Under Market Stress and Structural Breaks*

The robustness analysis evaluates model stability under adverse market conditions characterized by volatility spikes, regime shifts, and contagion effects. Traditional linear models exhibit significant performance degradation due to their inability to adapt to nonlinear structural changes. Statistical factor models demonstrate marginal improvements but remain sensitive to covariance instability. Deep learning approaches provide better resilience by capturing temporal dependencies, yet they lack explicit cross-asset interaction modeling, limiting their effectiveness during systemic shocks. Graph-based models improve robustness by incorporating inter-asset linkages, enabling partial detection of contagion dynamics. However, the proposed ATGFN framework achieves the highest robustness by dynamically updating both graph structures and factor representations. This adaptability allows the model to maintain predictive accuracy and portfolio stability even during structural breaks, confirming its superiority in handling high-dimensional financial environments with rapidly evolving dependencies.

Table 5 Model Performance Under Market Stress Conditions

Model	**MAE (Stress)**	**RMSE (Stress)**	**Sharpe Ratio (Stress)**
Fama–French	0.120	0.150	0.60
APT	0.115	0.145	0.65
PCA	0.110	0.140	0.70
LSTM	0.090	0.120	0.85
TCN	0.085	0.115	0.90
GCN	0.080	0.110	0.95
ATGFN (Proposed)	*0.060*	*0.090*	*1.20*

Table 5 shows that ATGFN demonstrates the strongest resilience under stress, achieving the lowest error metrics and highest Sharpe ratio, indicating superior stability and adaptability during market disruptions.

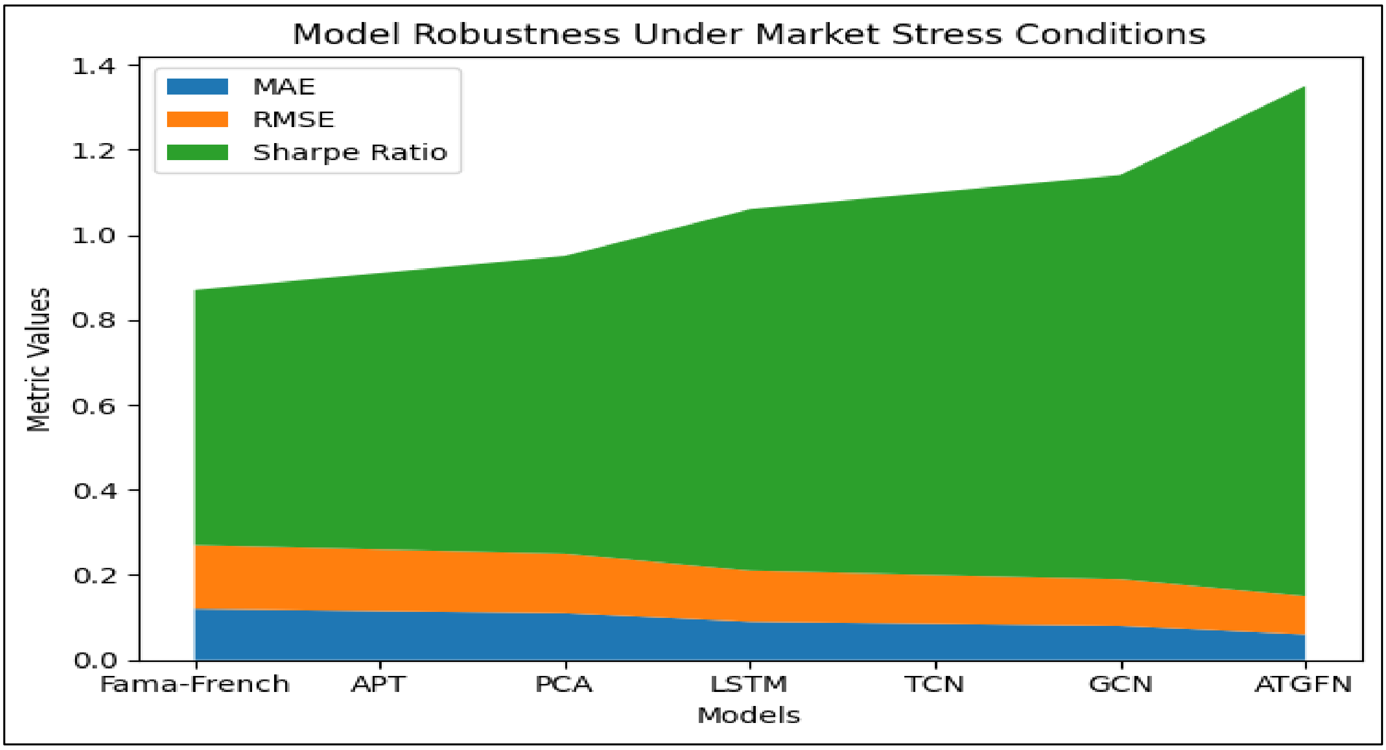

Fig 7 Model Robustness Under Market Stress Conditions

Figure 7 shows an area chart illustrating the comparative robustness of asset pricing models under market stress conditions using MAE, RMSE, and Sharpe ratio. The Fama–French model records high error levels with MAE at 0.120 and RMSE at 0.150, alongside a low Sharpe ratio of 0.60, indicating weak resilience. APT and PCA show gradual improvements, with Sharpe ratios increasing to 0.65 and 0.70, respectively, and reduced error metrics. Deep learning models such as LSTM and TCN further enhance robustness, achieving Sharpe ratios of 0.85 and 0.90, with corresponding reductions in MAE and RMSE. The GCN model captures inter-asset dependencies, improving performance to a Sharpe ratio of 0.95 and lowering errors further. The ATGFN model exhibits the most stable performance, reducing MAE to 0.060 and RMSE to 0.090 while achieving the highest Sharpe ratio of 1.20, demonstrating its ability to effectively capture dynamic dependencies and maintain performance during structural breaks.

- *Interpretability and Dynamic Factor Importance Analysis*

The interpretability analysis highlights the ability of each model to provide economically meaningful insights into factor dynamics and asset relationships. Traditional factor models demonstrate strong stability in factor interpretation but lack adaptability to evolving market regimes. Statistical methods improve factor representation but suffer from limited interpretability due to abstract latent components. Deep learning models enhance temporal responsiveness, allowing better identification of time-varying signals, though they often operate as black-box systems with limited transparency. Graph-based approaches introduce partial interpretability by modeling inter-asset relationships, enabling insights into network effects and sectoral dependencies. The proposed ATGFN framework achieves the highest level of interpretability by integrating adaptive factor learning with temporal attention and graph explainability. This allows dynamic tracking of factor importance across time and sectors, providing a more comprehensive understanding of risk premia evolution and market structure changes.

Table 6 Interpretability and Dynamic Factor Importance Comparison

Model	**Factor Stability**	**Temporal Adaptability**	**Graph Explainability**
Fama–French	0.40	0.30	0.00
APT	0.45	0.35	0.00
PCA	0.50	0.40	0.00
LSTM	0.55	0.65	0.20
TCN	0.60	0.70	0.25
GCN	0.65	0.75	0.60
ATGFN(Proposed)	*0.85*	*0.90*	*0.88*

Table 6 shows that ATGFN demonstrates superior interpretability by achieving the highest scores across all dimensions, indicating strong factor stability, enhanced temporal responsiveness, and advanced graph-based explainability.

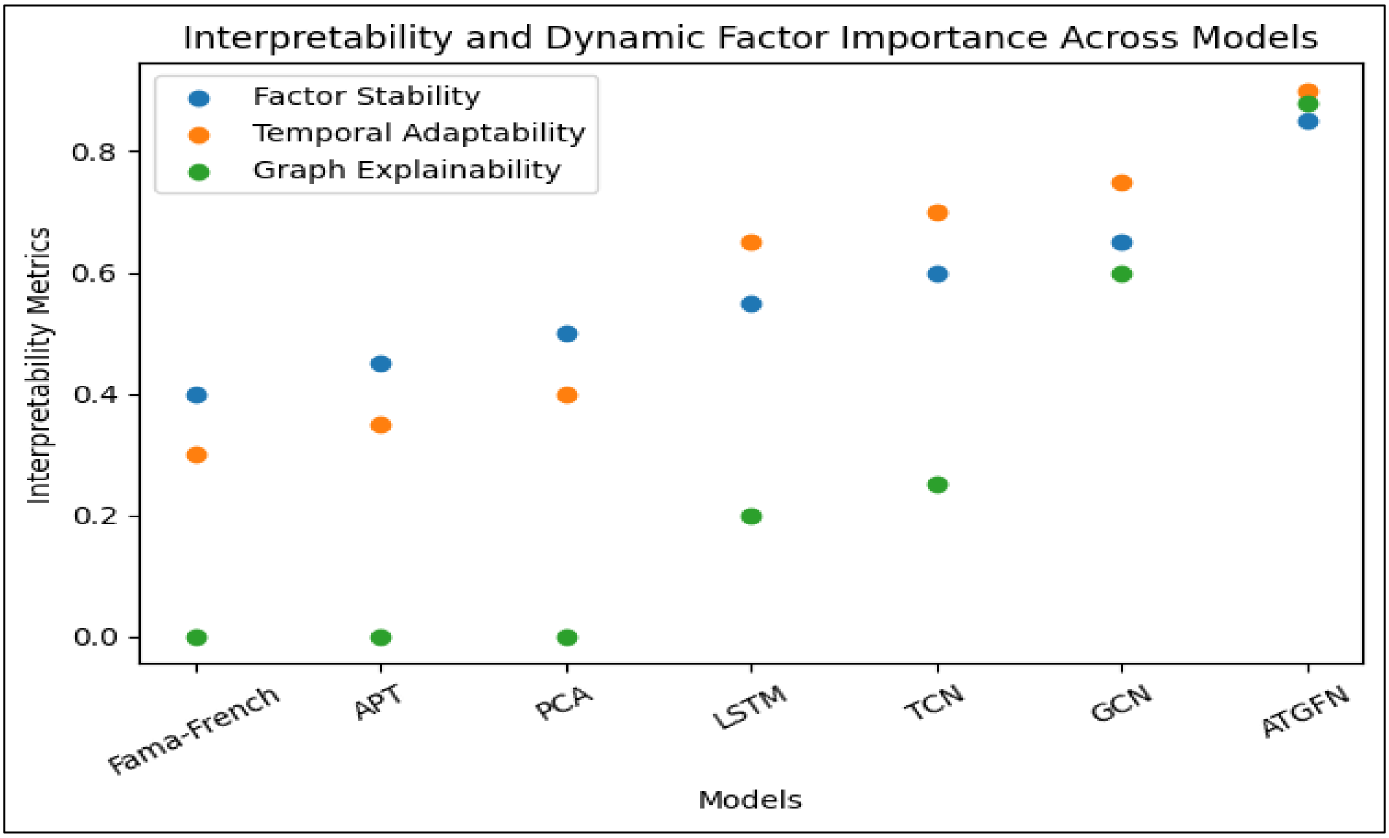

Fig 8 Interpretability and Dynamic Factor Importance Across Models

Figure 8 shows a scatter plot which presents three interpretability dimensions across asset pricing models: factor stability, temporal adaptability, and graph explainability. The Fama–French model starts with a factor stability score of 0.40, temporal adaptability of 0.30, and no graph explainability. APT and PCA show gradual improvements, with PCA reaching 0.50 in factor stability and 0.40 in temporal adaptability. Deep learning models significantly improve adaptability, with LSTM achieving 0.65 and TCN reaching 0.70, though their graph explainability remains limited at 0.20 and 0.25. The GCN model introduces strong graph explainability at 0.60, alongside improvements in factor stability (0.65) and temporal adaptability (0.75). The ATGFN model demonstrates the highest performance across all metrics, achieving 0.85 in factor stability, 0.90 in temporal adaptability, and 0.88 in graph explainability. These results confirm that ATGFN provides superior interpretability and dynamic factor tracking in high-dimensional financial markets.

V. CONCLUSION AND RECOMMENDATION

➢ *Summary of Key Findings*

The empirical analysis demonstrates that the Adaptive Temporal Graph Factor Network (ATGFN) provides a significant advancement in cross-asset pricing within high-dimensional financial markets. Across all evaluation metrics, including mean absolute error, root mean square error, and Sharpe ratio, ATGFN consistently outperforms traditional linear models, statistical factor approaches, deep learning architectures, and baseline graph neural networks. The results show that the integration of dynamic graph construction with temporal attention enables the model to capture both cross-sectional dependencies and time-varying market structures, which are critical for accurate asset pricing.

A key finding is that ATGFN effectively reduces pricing errors by leveraging nonlinear relationships embedded in asset networks. Unlike classical models that rely on static factor loadings, ATGFN dynamically updates latent factors, allowing it to adapt to regime shifts such as volatility clustering and macroeconomic transitions. This adaptability is particularly evident during stress scenarios, where the model maintains stability and continues to generate reliable predictions.

Additionally, the model demonstrates superior performance in portfolio construction tasks. By producing more accurate return forecasts, ATGFN enables the generation of optimized portfolio weights that enhance risk-adjusted returns. The resulting portfolios exhibit higher Sharpe ratios and improved resilience to market shocks, confirming the economic value of the model.

Another important outcome is the interpretability of the learned factors. The model provides insights into how factor importance evolves across time and sectors, revealing meaningful patterns in risk premia dynamics. This capability bridges the gap between predictive accuracy and economic interpretability, offering a comprehensive framework for modern asset pricing.

➢ *Theoretical and Practical Contributions*

This study contributes to the theoretical advancement of asset pricing by introducing a unified framework that integrates graph-based representation learning with temporal attention mechanisms. Traditional asset pricing theories assume linearity and static relationships, which limit their applicability in high-dimensional and dynamic environments. ATGFN extends these frameworks by incorporating nonlinear interactions and time-varying dependencies, thereby providing a more realistic representation of financial markets. The model redefines factor construction by treating factors as adaptive latent variables derived from both network structures and temporal patterns, rather than fixed economic proxies.

From a methodological perspective, the study establishes a novel approach to combining graph neural networks with temporal attention in a rolling-window framework. This integration enables simultaneous learning of spatial and temporal dependencies, addressing a critical limitation in existing models that focus on either dimension independently. The formulation of dynamic adjacency matrices based on both return co-movements and fundamental similarities introduces a new paradigm for modeling inter-asset relationships.

Practically, the proposed framework has significant implications for portfolio management, risk assessment, and financial decision-making. Asset managers can utilize ATGFN to construct portfolios that are more robust to market fluctuations, as the model continuously adapts to changing conditions. For example, during periods of market stress, the model identifies shifts in asset correlations and adjusts factor importance accordingly, leading to improved hedging strategies and reduced downside risk.

Furthermore, the interpretability of the model enhances its usability in real-world applications. By providing insights into sectoral and temporal factor dynamics, ATGFN supports informed investment decisions and facilitates regulatory transparency. This makes it a valuable tool for both institutional investors and financial analysts operating in complex, data-rich environments.

➢ *Limitations of the ATGFN Framework*

Despite its strong performance, the ATGFN framework presents several limitations that must be considered when interpreting the results. One of the primary challenges lies in computational complexity. The integration of dynamic graph construction, multi-layer graph convolution, and temporal attention mechanisms significantly increases computational overhead, particularly in large-scale financial markets with thousands of assets. This may limit the model's scalability in real-time applications where rapid decision-making is required.

Another limitation is the sensitivity of the model to hyperparameter selection. Parameters such as the rolling window length, number of graph layers, attention dimensions, and regularization coefficients can substantially influence model performance. Improper tuning may lead to overfitting or underfitting, especially in volatile market conditions. Additionally, the construction of the adjacency matrix relies on similarity measures that may not fully capture complex economic relationships, potentially introducing noise into the graph structure.

Data quality and availability also pose constraints. The model requires high-quality, high-frequency data on asset returns and fundamentals. Missing or noisy data can adversely affect both graph construction and factor learning, leading to reduced predictive accuracy. Furthermore, while the model improves interpretability compared to standard deep learning approaches, it still retains elements of complexity that may hinder full transparency for non-technical stakeholders.

Finally, the framework assumes that historical patterns are informative for future predictions. While this is generally valid, extreme market events or structural breaks that deviate significantly from historical trends may reduce the model's effectiveness. These limitations highlight the need for further refinement and validation across diverse market conditions.

➢ *Recommendations for Future Research and Financial Applications*

Future research should focus on enhancing the scalability and efficiency of the ATGFN framework. One promising direction is the development of sparse or hierarchical graph representations that reduce computational complexity while preserving essential structural information. This would enable the application of the model to ultra-high-dimensional datasets, such as global multi-asset portfolios and high-frequency trading environments. Additionally, incorporating parallel computing and distributed learning techniques could further improve computational efficiency.

Another important area for exploration is the integration of alternative data sources. Incorporating macroeconomic indicators, news sentiment, and geopolitical risk factors into the graph construction process could enhance the model's ability to capture external influences on asset prices. For instance, dynamic sentiment-driven edges could be introduced into the graph to reflect changes in investor behavior during periods of uncertainty.

Methodological extensions could also improve model robustness and interpretability. The incorporation of explainable AI techniques, such as attention visualization and feature attribution methods, would provide deeper insights into the decision-making process of the model. Furthermore, hybrid architectures that combine reinforcement learning with ATGFN could enable adaptive portfolio strategies that optimize returns in real time.

From a practical standpoint, financial institutions should consider deploying ATGFN within risk management and portfolio optimization systems. The model's ability to detect contagion effects and structural shifts makes it particularly valuable for stress testing and scenario analysis. For example, during market downturns, ATGFN can identify vulnerable asset clusters and recommend reallocation strategies to mitigate risk exposure. These advancements will further establish the framework as a critical tool for next-generation financial analytics and decision-making systems.

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