DSS Statistics Seminar

Aprile 22, 2022, 12:00

https://uniroma1.zoom.us/j/86881977368?pwd=SWRFcVFjMDZTa0lXZk05TE1zNm5adz09

Passcode: 432940

Factor models with downside risk

Lorenzo Trapani

University of Nottingham

joint work with D. Massacci and L. Sarno

We propose a conditional model of asset returns in the presence of common factors and downside risk. Specifically, we generalize existing latent factor models in three ways: we show how to estimate the threshold which identifies the 'disappointment' event triggering the bad state of the world; we permit different factor structures for asset returns in good and bad states; we show how to recover the observable factors' risk premia from the estimated latent ones in different states. The usefulness of the model is illustrated through two applications to cross-sections of asset returns in equity markets and other major asset classes.

Paper link
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3937321

SAPIENZA
UNIVERSITÀ DI ROMA