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Systemic co-jumps

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Abstract

The simultaneous occurrence of jumps in several stocks can be associated with major financial news, triggers short-term predictability in stock returns, is correlated with sudden spikes of the variance risk premium, and determines a persistent increase (decrease) of stock variances and correlations when they come along with bad (good) news. These systemic events and their implications can be easily overlooked by traditional univariate jump statistics applied to stock indices. They are instead revealed in a clearly cut way by using a novel test procedure applied to individual assets, which is particularly effective on high-volume stocks.

Keywords: Jumps, Return predictability, Systemic events, Variance Risk Premium

JEL: C58, G11, C14

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