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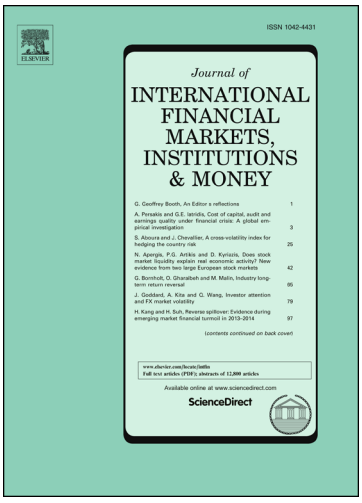

On the determinants of industry-CDS index spreads: Evidence from a nonlinear setting

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On the determinants of industry-CDS index spreads: Evidence from a nonlinear setting

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Abstract

This study uses a comprehensive data set of 11 sector indices of the S&P500 and some financial variables to study their dynamic interactionwithindustry credit default swaps (CDSs) from mid-December 2007 to the end of December 2016. More specifically, we attempt to measurethe asymmetric long-run and short-run specification of the CDS spreads and their financial determinants. More extensive in some industry sectors compared to others, and the dependence between the CDS market and equity market may therefore beindustry dependent. Our results indicate that positive and negative changes in industry stock price, business condition volatility, spot interest rates, and the SMB and HML Fama and French factors have asymmetric impacts on industry CDS index spreads. Nevertheless, while CDS spreads are sensitive to positive and negative shocks in the respective industry stock price as well as to the business condition, the sensitivity of CDS spreads to positive and negative unit changes in the rest of the financial determinants are sector dependent.

Keywords: CDS spreads, financial determinants, NARDL. JEL Classification: C13; G12 ; G21.