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Abstract

We propose a daily index of time-varying stock market uncertainty. The index is constructed after first removing the common variations in the series, based on recent advances in the literature that emphasize the difference between risk (expected variation) and uncertainty (unexpected variation). To this end, we draw on data from 25 portfolios sorted by size and book-to-market value. This strategy considerably reduces information requirements and modeling design costs, compared to previous proposals. We also compare our index with indicators of macro-uncertainty and estimate the impact of an uncertainty shock on the dynamics of macroeconomic variables.

Key words: Uncertainty, Risk, Factor models, Stock market.**JEL Codes:** E00, E44, G10, G14.

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