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To cite this version:
Julien Chevallier, Stéphane Goutte. Detecting jumps and regime-switches in international stock markets returns. 2014. <hal-01090833>
Detecting jumps and regime-switches in international stock markets returns

Julien Chevallier∗ and Stéphane Goutte†‡

November 4, 2014

Abstract
This paper explores seven international stock markets (DJIA, Euro STOXX 600, Russell 2000, Nikkei, NASDAQ, FTSE, Global Dow) in the quest for jumps and regime-switches. The methodological framework borrows from the Markov-switching approach and the stochastic modelling literature based on Lévy processes. The econometric procedure is detailed in a two-step fashion. The dataset covers the period from June 2004 to July 2014. The main results uncover changing market dynamics according to economic and/or financial phenomena (e.g., economic crises/growth, news events) with the occurrence of several episodes characterized by a high jump intensity. We advocate the use of such a jump-robust model modulated by a Markov chain to further study the dependence structure of financial time series.

JEL Codes: C32; G15; E44

Keywords: Lévy Jumps; Markov-switching; Equity markets; Nasdaq; Euro STOXX; FTSE.

1 Introduction
Vivid research activity on stock markets has documented the occurrence of jumps due to several factors (Andersen et al. (2002), Chernov et al. (2003), Eraker (2004), Eraker et al. (2003)). Among them, we may cite micro-crashes due to liquidity events, dividend payments, or the arrival of macroeconomic and/or financial news (GDP, quarterly earning reports). Against this background, it appears crucial to advance a methodological framework that is able to capture both jumps and regime-switches in international stock market returns.

This paper proposes a new statistical method to estimate regime-switching Lévy models that are both efficient and practicable. Our goal lies in estimating a Markov-switching model augmented by jumps, under the form of a Lévy process. This particular class of stochastic processes is entirely determined by a drift, a scaled Brownian motion and an independent pure-jump process (Barndorff-Nielsen and Shephard, 2013).

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The estimation strategy relies on a two-step procedure: by estimating first the diffusion parameters in presence of switching, and second the Lévy jump component by means of separate Normal Inverse Gaussian distributions fitted to each regime. Computationally, the Expectation-Maximization (EM) algorithm is extended to this new class of jump-diffusion regime-switching model.

An empirical application is proposed for seven equity markets with an international scope: the USA, Europe (UK) and Japan. We demonstrate the goodness-of-fit of the regime-switching Lévy model, and thereby illustrate the interest to resort to that kind of model in financial economics.

The remainder of the paper is structured as follows. Section 2 develops the stochastic model. Section 3 details the estimation method. Sections 4 provides an empirical application. Section 5 concludes.

2 The stochastic model

Let \((\omega, \mathcal{F}, P)\) be a filtered probability space and \(T\) be a fixed terminal time horizon. We propose in this paper to model the dynamic of a sequence of historical values of price using a regime-switching stochastic jump-diffusion. This model is defined using the class of Lévy processes.

2.1 Lévy Process

**Definition 1** A Lévy process \(L_t\) is a stochastic process such that

1. \(L_0 = 0\).

2. For all \(s > 0\) and \(t > 0\), we have that the property of stationary increments is satisfied. i.e. \(L_{t+s} - L_t\) as the same distribution as \(L_s\).

3. The property of independent increments is satisfied. i.e. for all \(0 \leq t_0 < t_1 < \cdots < t_n\), we have that \(L_{t_i} - L_{t_{i-1}}\) are independent for all \(i = 1, \ldots, n\).

4. \(L\) has a Cadlag paths. This means that the sample paths of a Lévy process are right continuous and admit a left limits.

**Remark 1** In a Lévy process, the discontinuities occur at random times.

2.2 Markov-switching

**Definition 2** Let \((Z_t)_{t \in [0,T]}\) be a continuous time Markov chain on finite space \(S := \{1, 2, \ldots, K\}\). Denote \(\mathcal{F}^Z_t := \{\sigma(Z_s); 0 \leq s \leq t\}\), the natural filtration generated by the continuous time Markov chain \(Z\). The generator matrix of \(Z\), denoted by \(\Pi^Z\), is given by

\[
\Pi^Z_{ij} \geq 0 \quad \text{if} \quad i \neq j \quad \text{for all} \quad i, j \in S \quad \text{and} \quad \Pi^Z_{ii} = -\sum_{j \neq i} \Pi^Z_{ij} \quad \text{otherwise.} \tag{1}
\]

**Remark 2** The quantity \(\Pi^Z_{ij}\) represents the switch from state \(i\) to state \(j\).
2.3 Regime-switching Lévy

Let us define the regime-switching Lévy Model:

**Definition 3** For all $t \in [0, T]$, let $Z_t$ be a continuous time Markov chain on finite space $\mathcal{S} := \{1, \ldots, K\}$ defined as in Definition 2. A regime-switching model is a stochastic process $(X_t)$ which is solution of the stochastic differential equation given by

$$dX_t = \kappa(Z_t)(\theta(Z_t) - X_t)\,dt + \sigma(Z_t)dY_t$$

(2)

where $\kappa(Z_t)$, $\theta(Z_t)$ and $\sigma(Z_t)$ are functions of the Markov chain $Z$. Hence, they are constants which take values in $\kappa(\mathcal{S})$, $\theta(\mathcal{S})$ and $\sigma(\mathcal{S})$. Thus, $\kappa(\mathcal{S}) := \{\kappa(1), \ldots, \kappa(K)\} \in \mathbb{R}^K$, $\theta(\mathcal{S}) := \{\theta(1), \ldots, \theta(K)\}$ and $\sigma(\mathcal{S}) := \{\sigma(1), \ldots, \sigma(K)\} \in \mathbb{R}^K$. And finally, $Y$ is a stochastic process which could be a Brownian motion or a Lévy process.

**Remark 3** The following classic notations apply:

- $\kappa$ denotes the mean-reverting rate;
- $\theta$ denotes the long-run mean;
- $\sigma$ denotes the volatility of $X$.

**Remark 4**

- In this model, there are two sources of randomness: the stochastic process $Y$ appearing in the dynamics of $X$, and the Markov chain $Z$. There exists one randomness due to the market information which is the initial continuous filtration $\mathcal{F}$ generated by the stochastic process $Y$; and another randomness due to the Markov chain $Z$, $\mathcal{F}^Z$.

- In our model, the Markov chain $Z$ infers the unobservable state of the economy, i.e. expansion or recession. The processes $Y^i$ estimated in each state, where $i \in \mathcal{S}$, capture: a different level of volatility in the case of Brownian motion (i.e. $Y^i \equiv W^i$), or a different jump intensity level of the distribution (and a possible skewness) in the case of Lévy process (i.e. $Y^i \equiv L^i$).

Barndorff-Nielsen (1998) recalls the main properties of the Normal Inverse Gaussian (NIG) distribution, which is used as the Lévy distribution in this paper. The NIG density belongs to the family of normal variance-mean mixtures, i.e. one of the most commonly used parametric densities in financial economics. The NIG is a good alternative to the normal distribution since:

(i) its distribution can model the heavy tails, kurtosis, and jumps, and
(ii) the parameters of NIG distribution can be solved in a closed form.

3 Estimation

This section covers the methodology pertaining to the estimation task. The Expectation-Maximization algorithm used to estimate the regime-switching Lévy model in this paper is a generalization and extension of the EM-algorithm developed in Hamilton (1989a,b).
Our aim is to fit a regime-switching Lévy model such as (2) where the stochastic process \( Y \) is a Lévy process that follows a Normal Inverse Gaussian (NIG) distribution. Thus the optimal set of parameters to estimate is \( \hat{\Theta} := \left( \hat{\kappa}_i, \hat{\theta}_i, \hat{\sigma}_i, \hat{\alpha}_i, \hat{\beta}_i, \hat{\delta}_i, \hat{\mu}_i, \hat{\Pi} \right) \), for \( i \in S \).

We have the three parameters of the dynamics of \( X \), the four parameters of the density of the Lévy process \( L \), and the transition matrix of the Markov chain \( Z \). Because the number of parameters grows rapidly in this class of jump-diffusion regime-switching models, direct maximization of the total log-likelihood is not practicable. To bypass this problem, we propose a method in two successive steps to estimate the global set of parameters.

- **Discretization**

  We first take for the stochastic process \( Y \) a Brownian motion \( W \). Moreover, suppose that the size of historical data is \( M + 1 \). Let \( \Gamma \) denote the corresponding increasing sequence of time from which the data values are taken:

  \[
  \Gamma = \{ t_j; 0 = t_0 \leq t_1 \leq \ldots t_{M-1} \leq t_M = T \}, \quad \text{with} \quad \Delta_t = t_j - t_{j-1} = 1.
  \]

  The discretized version of model (2) writes

  \[
  X_{t+1} = \kappa_i(Z_t)\theta_i + (1 - \kappa_i(Z_t))X_t + \sigma_i(Z_t)\epsilon_{t+1}.
  \]

  where \( \epsilon_{t+1} \sim \mathcal{N}(0, 1) \) (since the process \( Y \) is a Brownian motion). We denote by \( F_{t_k}^X \) the vector of historical values of the process \( X \) until time \( t_k \in \Gamma \). Thus, \( F_{t_k}^X \) is the vector of \( k + 1 \) last values of the discretized model and therefore, \( F_{t_k}^X = (X_{t_0}, X_{t_1}, \ldots, X_{t_k}) \).

  **Remark 5** The filtration generated by the Markov chain \( Z \) (i.e. \( \mathcal{F}^Z \)) is the one generated by the history values of \( Z \) in the time sequence \( \Gamma \).

  For simplicity of notation, we will write in the sequel the model (3) as

  \[
  X_{t+1} = \kappa_i\theta_i + (1 - \kappa_i)X_t + \sigma_i\epsilon_{t+1}.
  \]

  This means that at time \( t \in [0, T] \), the Markov chain \( Z \) is in state \( i \in S \) (i.e. \( Z_t = i \)) and \( Z \) jumps at time \( t_j \in \Gamma, j \in \{0, 1, \ldots, M - 1\} \).

- **Step 1: Estimation of the regime-switching model (2) in the Brownian case**

  In the first step based on the EM-algorithm, the complete parameter space estimate \( \hat{\Theta} \) is split into: \( \hat{\Theta}_1 := \left( \hat{\kappa}_i, \hat{\theta}_i, \hat{\sigma}_i, \hat{\Pi} \right) \), for \( i \in S \), which corresponds to the first subset of diffusion parameters. Recall that, we estimate the parameters of the discretized model (3).

- **Step 2: Estimation of the parameters of the Lévy process fitted to each regime**

  Using the regime classification obtained in the previous step, we estimate the second subset of parameters \( \hat{\Theta}_2 := \left( \hat{\alpha}_i, \hat{\beta}_i, \hat{\delta}_i, \hat{\mu}_i \right) \), for \( i \in S \), which corresponds to the NIG distribution parameters of the Lévy jump process fitted for each regime.
4 Application to international stock markets

We apply these statistical methods to detect both regime-switches and jumps in the context of international stock markets.

The data is retrieved in daily frequency from Thomson Financial Datastream over the period going from June, 2004 to July 11, 2014. The characteristics for each time series are given in Table 1.

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DJIA</td>
<td>Dow Jones Industrial Average</td>
</tr>
<tr>
<td>STOXX</td>
<td>EURO STOXX European 600 Index</td>
</tr>
<tr>
<td>Russell</td>
<td>Russell 2000 Index</td>
</tr>
<tr>
<td>NIKKEI</td>
<td>Nikkei 225 Index</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>NASDAQ Composite Index</td>
</tr>
<tr>
<td>FTSE</td>
<td>FTSE 100 Index</td>
</tr>
<tr>
<td>Global Dow</td>
<td>US Global Dow Jones</td>
</tr>
</tbody>
</table>

The geographical coverage of our dataset pertains to various segments of international equity markets, going from the USA (Global Dow, industry with the DJIA, tech values with the NASDAQ, small-caps with the Russel 2000 Index) to Europe (top 600 companies, UK focus with the FTSE) and Japan (Nikkei). We have recovered equity data in order to study the regime-switching and jump properties of financial markets under changing market conditions.

For each time series, we report the results of:

1. the regime-switching classification with all estimated parameters of the mean-reverting diffusion, and
2. the NIG density parameters of the Lévy jump process fitted to each regime (when we find an evidence of jumps).

The remaining problem in this work is to specify the number of regimes in the Markov chain. For simplicity, we proceed with two regimes that relate to the ‘boom’ and ‘bust’ phases of the business cycle.

We also report a plot where each regime is reported with a different color (e.g. blue (red) corresponds to regime 1 (regime 2)). To provide the reader with a clearer picture, we have chosen to plug the regimes identified back into the raw (non-stationary) data. Of course, all the estimates were performed on log-returns $r_t := \log(X_t) - \log(X_{t-1})$, e.g. stationary data. Below this first plot, the smoothed probabilities are displayed.

4.1 Presence of regime-switches

Tables 2 and 3 contain the parameter estimates for the regime-switching model.

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1It is well-known that testing for the number of regimes in a Markov chain is a hard problem to tackle, which we leave for further research.
Table 2: Estimated parameters

<table>
<thead>
<tr>
<th>Parameters</th>
<th>State 1</th>
<th>State 2</th>
<th>State 1</th>
<th>State 2</th>
<th>State 1</th>
<th>State 2</th>
<th>State 1</th>
<th>State 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\kappa$</td>
<td>0.0059</td>
<td>0.0004</td>
<td>0.0012</td>
<td>0.0023</td>
<td>0.0022</td>
<td>0.0038</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\theta$</td>
<td>9196.09</td>
<td>9714.10</td>
<td>740.21</td>
<td>180.86</td>
<td>1147.75</td>
<td>518.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\sigma$</td>
<td>38972.37</td>
<td>6316.77</td>
<td>25.09</td>
<td>4.49</td>
<td>227.03</td>
<td>0.98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$P_{ii}^Z$</td>
<td>0.98</td>
<td>0.99</td>
<td>0.97</td>
<td>0.99</td>
<td>54.65</td>
<td>0.99</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Estimated parameters

<table>
<thead>
<tr>
<th>Parameters</th>
<th>State 1</th>
<th>State 2</th>
<th>State 1</th>
<th>State 2</th>
<th>State 1</th>
<th>State 2</th>
<th>State 1</th>
<th>State 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\kappa$</td>
<td>0.0037</td>
<td>0.0042</td>
<td>0.0022</td>
<td>0.0041</td>
<td>0.0044</td>
<td>0.0015</td>
<td>0.0017</td>
<td>0.0022</td>
</tr>
<tr>
<td>$\theta$</td>
<td>9073.64</td>
<td>15354.61</td>
<td>3821.63</td>
<td>1737.96</td>
<td>7099.61</td>
<td>2751.95</td>
<td>3462.40</td>
<td>777.43</td>
</tr>
<tr>
<td>$\sigma$</td>
<td>12546.40</td>
<td>60114.46</td>
<td>1838.27</td>
<td>398.53</td>
<td>9266.06</td>
<td>1668.53</td>
<td>918.57</td>
<td>125.58</td>
</tr>
<tr>
<td>$P_{ii}^Z$</td>
<td>0.99</td>
<td>0.99</td>
<td>0.98</td>
<td>0.99</td>
<td>0.98</td>
<td>0.97</td>
<td>0.97</td>
<td>0.98</td>
</tr>
</tbody>
</table>

Across the seven international equity markets, we notice that the highest volatility parameter $\sigma$ is recorded for the Nikkei (state 2, $\sigma = 60114$) followed by the DJIA (state 1, $\sigma = 38972$). Moving to the long-run mean parameter $\theta$, we notice varying states of the business cycle from one regime to another. For instance, the EURO STOXX 600 Index features a long-run mean that is four times higher during state 1 than during state 2. This means that the regime-switching parameter has clearly captured different dynamics along the two classic boom/bust phases of the economy. Hence, the usefulness of resorting to regime-switching models that are able to capture such inobservable characteristics. The mean-reversion parameter $\kappa$ is close to zero for all markets.

Figure 1 pictures the regime-switches in the two-state setting. For instance in the case of the DJIA, visually, the regime switching approach captures adequately the dynamics from the two states. Indeed, we identify clearly (i) a bullish market trend depicted in red, and (ii) a bearish market trend depicted in blue. Similar comments apply for the remaining panels in Figure 1.

4.2 Regime Classification Measures

An ideal model is one that classifies regimes sharply and has smoothed probabilities which are either close to zero or one. In order to measure the quality of regime classification, we propose two measures:

(1) The regime classification measure (RCM) introduced by Ang and Bekaert (2002). Let $K(> 0)$ be the number of regimes, the RCM statistic is then given by

$$RCM(K) = 100 \left( 1 - \frac{K}{K - 1} \sum_{k=1}^{K} \sum_{Z_{tk}} \left( P \left( Z_{tk} | Y_T; \Theta^{(n)} \right) - \frac{1}{K} \right) \right)^2,$$

where the quantity $P \left( Z_{tk} | Y_T; \Theta^{(n)} \right)$ is the well-known smoothed probability and $\Theta^{(n)}$ is the vector parameter estimation result (see Goutte (2014) for more details). The constant
serves to normalize the statistic to be between 0 and 100. Proper regime classification is associated with low RCM statistic value: a value of 0 means perfect regime classification, whereas a value of 100 implies that no information about the regimes is revealed.

(2) The **smoothed probability indicator** introduced by Goutte and Zou (2013). A satisfactory classification for the data can be also seen when the smoothed probability is less than 0.1 or greater than 0.9. This then means that the data at time $t \in [0, T]$ is, with a probability exceeding 90%, in one of the regimes at the 10% error level.

Thus, it is important that the RCM statistic be close to zero, and the smoothed probability indicator close to 100%, to insure that we have detected significantly different regimes.

### Table 4: RCM and Smoothed probability indicator

<table>
<thead>
<tr>
<th>Markets</th>
<th>RCM</th>
<th>P%</th>
</tr>
</thead>
<tbody>
<tr>
<td>DJIA</td>
<td>12.51</td>
<td>86.88</td>
</tr>
<tr>
<td>STOXX</td>
<td>13.92</td>
<td>85.71</td>
</tr>
<tr>
<td>Russell</td>
<td>18.33</td>
<td>80.43</td>
</tr>
<tr>
<td>NIKKEI</td>
<td>9.07</td>
<td>90.35</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>18.38</td>
<td>81.13</td>
</tr>
<tr>
<td>FTSE</td>
<td>13.12</td>
<td>86.33</td>
</tr>
<tr>
<td>Global Dow</td>
<td>19.22</td>
<td>78.92</td>
</tr>
</tbody>
</table>

Table 4 displays these corresponding statistics. We notice that the regime-switching model behaves very well in discriminating the regimes, as the RCM statistics are low (in the range of 9 to 19), whereas we obtain a high percentage through the smoothed probability indicators. Another clue that the regime-switches are well detected can be inferred from Tables 2 and 3 where, on the last row, we observe a high persistence of staying in the current regime with the matrix $P^Z_{ii}$. The interested reader may look at Figure 2 for additional insights on the timing of regime-switches at stake for each of the seven stock markets selected in this study.

### 4.3 Evidence of jumps/spikes in stock markets

Next, we estimate the NIG distribution parameters for each regime of the seven stock markets to identify the evidence of jumps/spikes. The results are summarized in Table 5.

### Table 5: Estimated parameters

<table>
<thead>
<tr>
<th>Parameters</th>
<th>DJIA</th>
<th>STOXX</th>
<th>Russell</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\alpha$</td>
<td>0.002</td>
<td>0.009</td>
<td>0.990</td>
</tr>
<tr>
<td>$\beta$</td>
<td>0.001</td>
<td>-0.008</td>
<td>-0.216</td>
</tr>
<tr>
<td>$\delta$</td>
<td>108,204</td>
<td>7,577</td>
<td>0.712</td>
</tr>
<tr>
<td>$\mu$</td>
<td>-62,116</td>
<td>19,348</td>
<td>0.159</td>
</tr>
</tbody>
</table>

Let us start with the DJIA. Its high volatility level is identified by our approach, since the two states are modeled with an evidence of jumps. The lower the value of the $\alpha$ parameter,
Table 6: Estimated parameters

<table>
<thead>
<tr>
<th>Parameters</th>
<th>NIKKEI State 1</th>
<th>NIKKEI State 2</th>
<th>NASDAQ State 1</th>
<th>NASDAQ State 2</th>
<th>FTSE State 1</th>
<th>FTSE State 2</th>
<th>Global Dow State 1</th>
<th>Global Dow State 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\alpha$</td>
<td>0.001</td>
<td>0.002</td>
<td>0.011</td>
<td>0.013</td>
<td>0.005</td>
<td>0.006</td>
<td>0.014</td>
<td>0.010</td>
</tr>
<tr>
<td>$\beta$</td>
<td>-0.001</td>
<td>-0.000</td>
<td>-0.006</td>
<td>0.009</td>
<td>-0.002</td>
<td>0.004</td>
<td>-0.007</td>
<td>-0.007</td>
</tr>
<tr>
<td>$\delta$</td>
<td>76.137</td>
<td>130.265</td>
<td>22.316</td>
<td>4.701</td>
<td>40.348</td>
<td>7.076</td>
<td>15.398</td>
<td>13.311</td>
</tr>
</tbody>
</table>

the higher the occurrence of jumps. In Table 5, the jump-intensity parameter $\alpha$ of the DJIA is less than 0.01 in each state. The $\beta$ parameters are close to zero, which confirms the symmetric distribution of this stock index.

In Figure I for the EURO STOXX 600 index, the regime 1 (depicted in blue) corresponds to a huge increase in market value of the index (roughly from 160 to 390). In Table 5, this increase is well captured by the jump-intensity parameter, since $\alpha_1=0.990$ and $\alpha_2=1.423$ in state 2. Besides, this increase is also reflected in the asymmetric value of the $\beta$ parameter equal to -0.216 in state 1.

Moving to the Russell 2000 index, there is an evidence of one economic state with jumps/spikes, and another one without jumps. In Tables 5, the parameter $\alpha_1$ is equal to 0.028 which indicates a high jump-intensity during state 1. On the contrary, $\alpha_2=1.391$ during the second state, which argues in favor of a continuous diffusion (e.g., Brownian without jumps). For the regime 2, we also observe $\beta=-0.408$ which indicates a negative asymmetric trend.

In Table 6, the investigation of jumps in the Nikkei stock market reveals two distinct jump dynamics. In Figure I, we observe that this stock index is highly volatile, as confirmed by the estimated parameters reproduced in Table 6. The same comments apply for the NASDAQ and the FTSE.

For the GDOW, we notice that there are more jumps in the second regime ($\alpha_2=0.010$). There is an absence of asymmetry in both regimes. The plot reported in Figure I shows that the regime-switching cuts well the two trends appearing after the bullish/bearish market trends between April 2010 and May 2012.

5 Conclusion

Jumps are intrinsic to the functioning of financial markets, reflecting how the transmission of new information (from various sources) impacts the asset price (Cont and Tankov, 2004, Chevallier and Ielpo, 2014). At the same time, the normal behavior of economies is occasionally disrupted by periods of crash or recession, which can be accurately tracked by Markov-switching models (Hamilton and Raj, 2002). Therefore, gaining a deeper methodological command on how to measure simultaneously jumps and regime-switches appears of interest to academics and practitioners alike.

In this paper, we propose to contribute to the literature by advancing the regime-switching Lévy model that combines jump-diffusion under the form of a Lévy process, and Markov regime-switching. Following a two-step estimation procedure, we demonstrate that the empirical fit of
this technique is remarkable for a selection of seven international stock markets across the USA, Europe (UK) and Japan. Broadly speaking, we able to capture the presence of two contrasted regimes in each time series (reflecting the ‘boom-bust’ economic cycle or bullish/bearish market trends), with the evidence of a high-jump intensity in at least one (if not two) regime. Therefore, it seems appropriate to model stock markets series with jumps and regimes identified simultaneously with the Lévy regime-switching model.

References


Figure 1: Regime-switching classification for the seven international stock markets (from top to bottom and left to right: DJIA, Euro StoXX, Russell, Nikkei, Nasdaq, FTSE and Global Dow). Note: blue (red) corresponds to regime 1 (regime 2).
Figure 2: Smoothed probabilities obtained for the seven international stock markets (from top to bottom and left to right: DJIA, Euro StoXX, Russell, Nikkei, Nasdaq, FTSE and Global Dow). Note: blue (red) corresponds to regime 1 (regime 2).