

Systemic Risk and the Macroeconomy: An Empirical Evaluation*

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Abstract

This article evaluates a large collection of systemic risk measures based on their ability to predict macroeconomic downturns. We evaluate 19 measures of systemic risk in the US and Europe spanning several decades. We propose dimension reduction estimators for constructing systemic risk indexes from the cross section of measures and prove their consistency in a factor model setting. Empirically, systemic risk indexes provide significant predictive information out-of-sample for the lower tail of future macroeconomic shocks.

Keywords: systemic risk, quantile regression, dimension reduction

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