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Leverage and Volatility Feedback Effects in High-Frequency Data

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Abstract

We examine the relationship between volatility and past and future returns using high-frequency aggregate equity index data. Consistent with a prolonged “leverage” effect, we find the correlations between absolute high-frequency returns and current and past high-frequency returns to be significantly negative for several days, whereas the reverse cross-correlations are generally negligible. We also find that high-frequency data may be used in more accurately assessing volatility asymmetries over longer daily return horizons. Furthermore, our analysis of several popular continuous-time stochastic volatility models clearly points to the importance of allowing for multiple latent volatility factors for satisfactorily describing the observed volatility asymmetries.

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