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Expected shortfall assessment in commodity (L)ETF portfolios with semi-nonparametric specifications

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ABSTRACT

This paper studies the risk assessment of semi-nonparametric (SNP) distributions for leveraged exchange trade funds, (L)ETFs. We applied the SNP model with dynamic conditional correlations (DCC) and EGARCH innovations, and implement recent techniques to backtest Expected Shortfall (ES) to portfolios formed by bivariate

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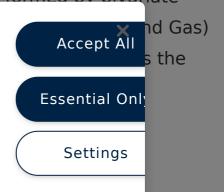
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Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

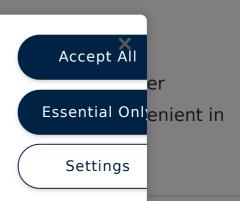
- 1 Another variant is to employ $G2(x)=\exp(x)/(1+\exp(x))$, thus $g2(x)=\log(\exp(x)+1)$, as suggested by Fissler, Ziegel, and Gneiting (2016). We also implement this function as a check on the robustness of the test.
- 2 The reason to choose these three leveraged ETFs is because they are the largest commodity LETFs by total assets for 2018 according to the ETF Database (ETFdb.com). More details are found in <u>Appendix A</u>.
- 3 Important events related to (L)ETFs that affected financial markets have occurred in the three analyzed periods. In 2017, A LETF was blamed for highly fluctuations in gold stock prices from Toronto to Sidney. In September 2016 the Bank of Japan hit a record in ETF (tracking the Nikkei 225) purchase (before May 2018) and then diminished its stock purchases. The stock market crash in 24 August 2015 was, in part, caused by ETFs trading. Source: Financial Times and Bloomberg news.

4 Source

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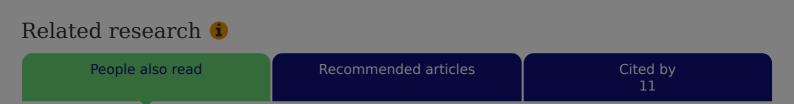
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