

# Common factors in credit defaults swaps markets

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## Abstract

We examine what are common factors that determine systematic credit risk and estimate and interpret the common risk factors. We also compare the contributions of common factors in explaining the changes of credit default swap (CDS) spreads during the pre-crisis, crisis and post-crisis period. This study finds that the eigenstructures across the three subperiods are distinct. Furthermore, we examine whether the observable economic variables are in fact the underlying latent factors, and analyze the predictive ability of dynamics in CDS indices changes by dynamic factor models.

Keyword : credit default swaps; common factors; credit risk