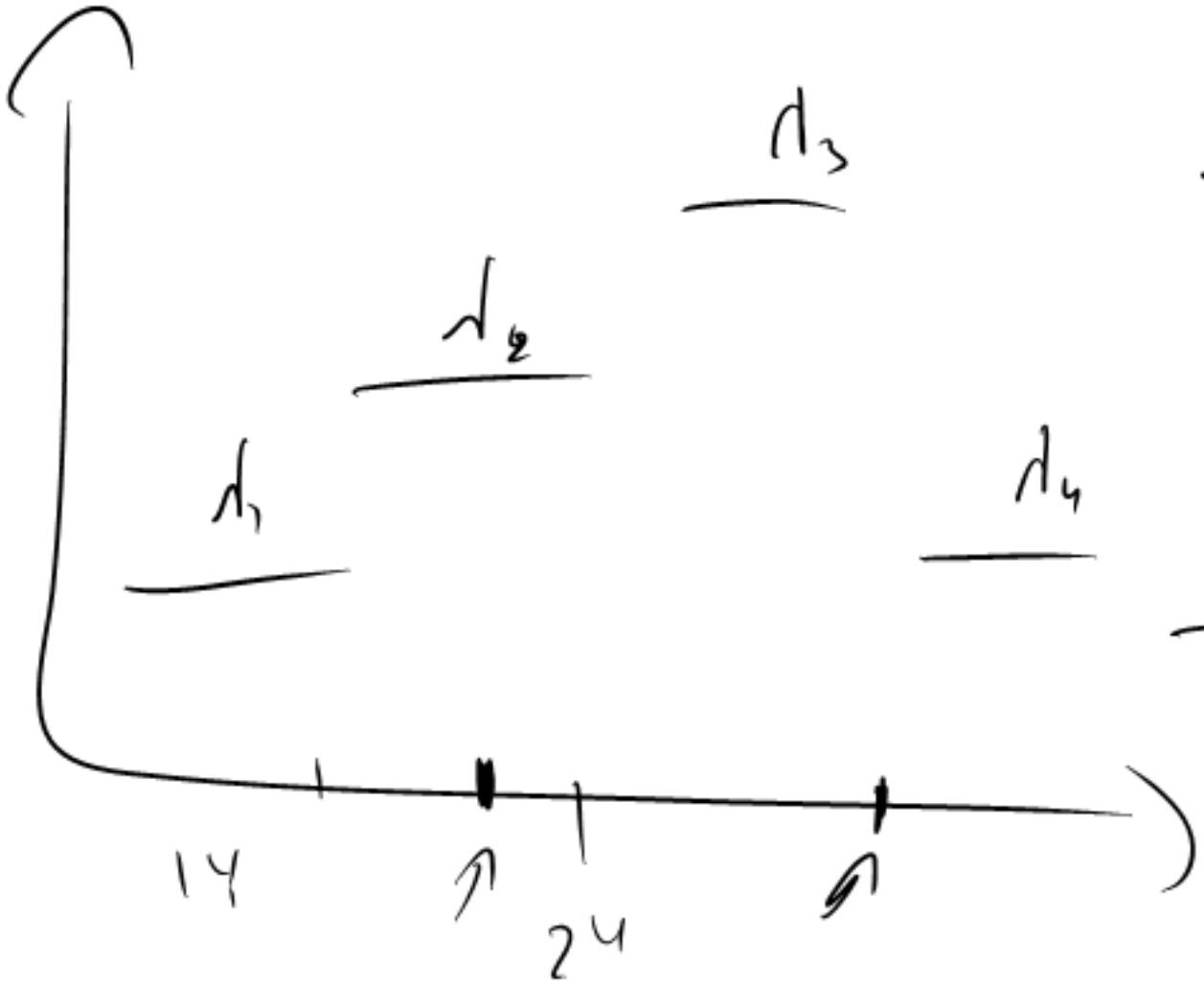
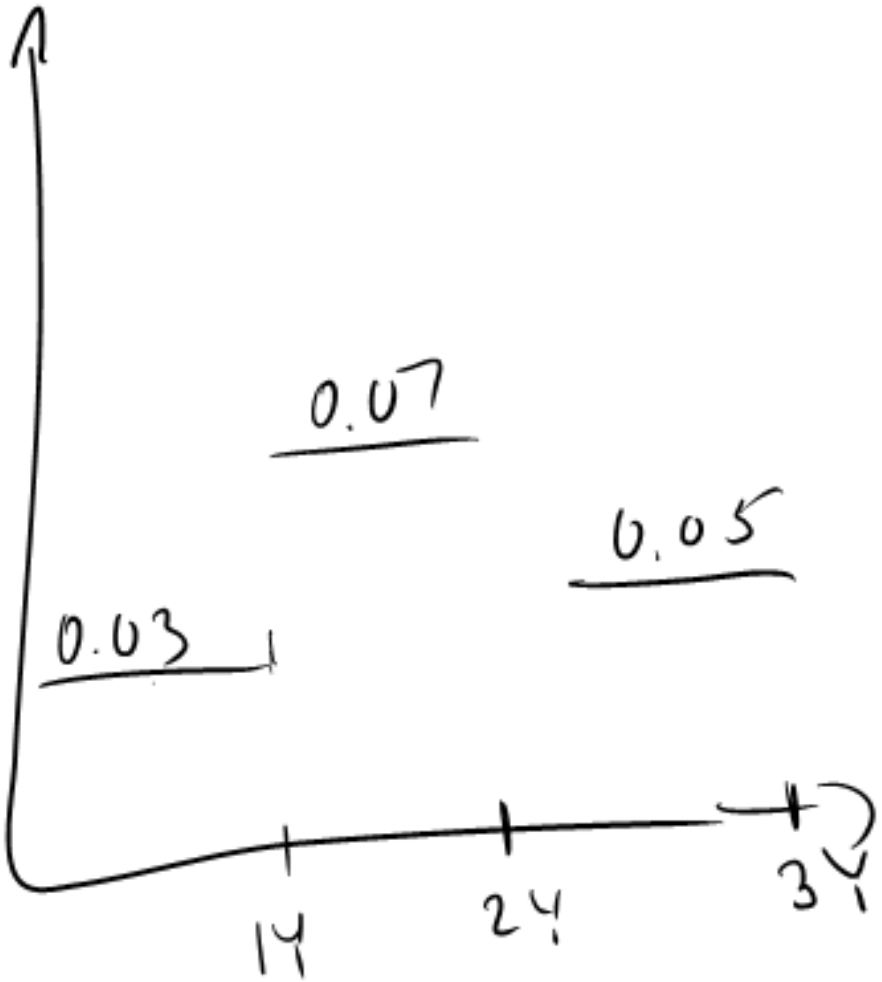
- PW constant hazard rates.
- IHP
- term structure






$$\sum^{5Y} \lambda = 0.20$$

$U = 0.11 \quad \tau = ?$

$$|\log(1-U)| \approx 0.12$$

$$0.12 \not< \underset{0.03}{\lambda_{1Y}}$$

$$0.12 \not< \underset{0.10}{\lambda_{1Y} + \lambda_{2Y}}$$

$$0.12 < \underset{0.15}{\lambda_{1Y} + \lambda_{2Y} + \lambda_{3Y}}$$

$$2 \le \tau \le 3$$

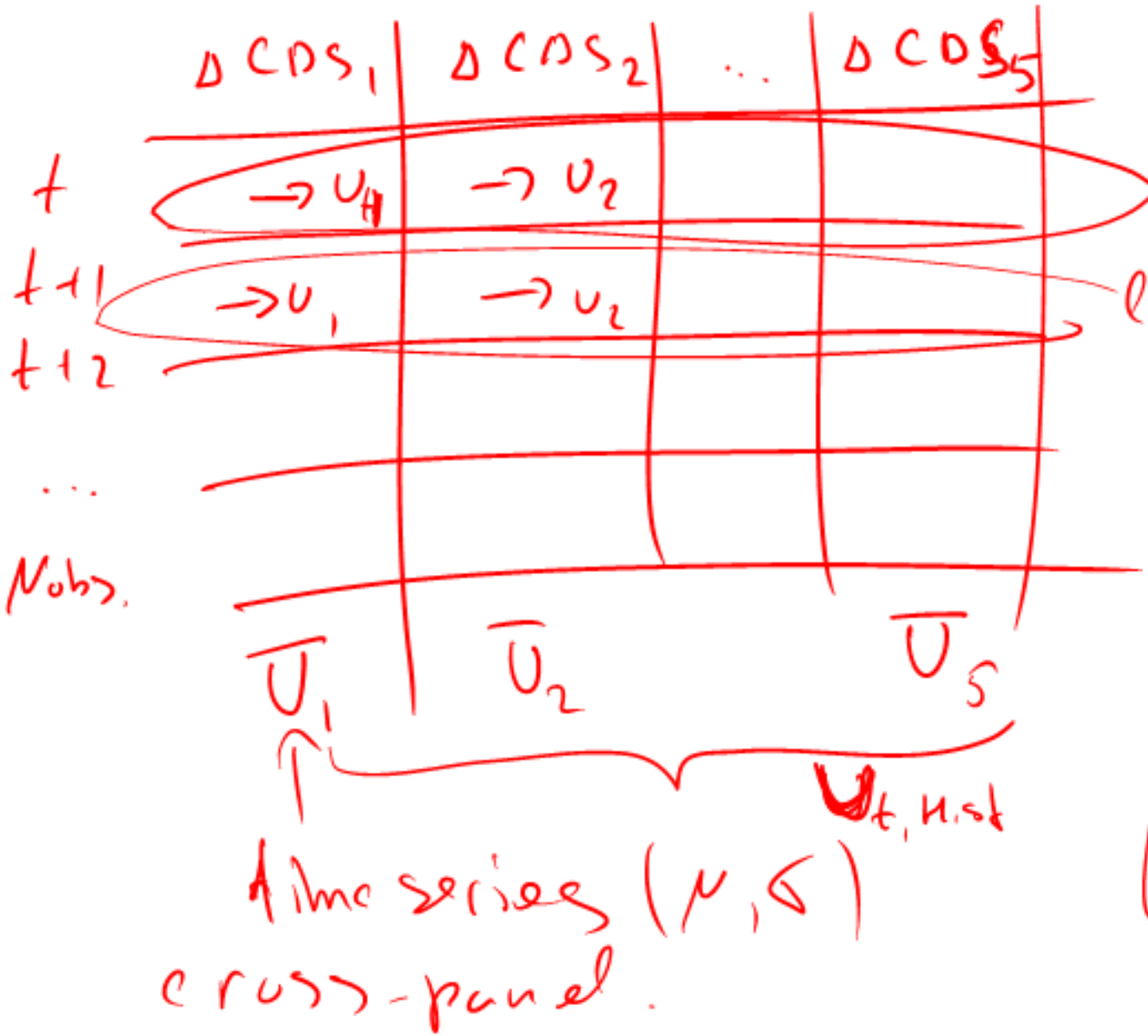
$$t_{m-1} \le \tau \le t_m$$

$$\delta t = 0.5$$

$$\tau = 2.5$$

$X \rightarrow U$

Data — Pseudo-samples

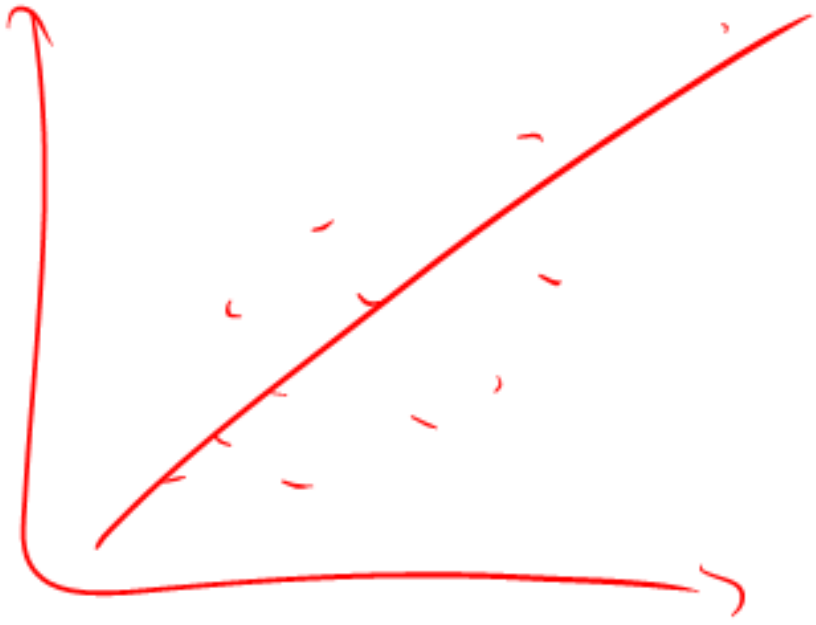



$\Delta CDS \rightarrow Z$

$Z = \frac{x - \mu}{\sigma}$

$U = \Phi(Z)$

CDF



Linear Correlation

$\rho(X) \approx 0$

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Rank Correlation $\begin{cases} \rho_s(X) \gg 0 \\ \rho_2(X) \gg 0 \end{cases}$

$\underset{w}{\arg\max}\ w\bar{\pi} - \lambda w^T \Sigma w$

Min Var

$\bar{\pi} - 2\lambda w^T \Sigma$

$\frac{\partial}{\partial w} = 0$

$\bar{\pi} = 2\lambda \tilde{w} \Sigma$ ← mkt index

$w^* = \frac{\bar{\pi}}{2\lambda} \Sigma^{-1}$

reverse - optimization

optimization