

Package ‘MSGARCH’

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Type Package

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Description Fit (by Maximum Likelihood or MCMC/Bayesian), simulate, and forecast various Markov-Switching GARCH models as described in Ardia et al. (2017) <<https://ssrn.com/abstract=2845809>>.

License GPL (>= 2)

BugReports <https://github.com/keblu/MSGARCH/issues>

URL <https://github.com/keblu/MSGARCH>

Imports Rcpp, coda, methods,
zoo, expm, fanplot, MASS, numDeriv

LinkingTo Rcpp, RcppArmadillo

Suggests mcmc, testthat

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R topics documented:

MSGARCH-package	2
CreateSpec	3
dem2gbp	7
DIC	8
ExtractStateFit	9
FitMCMC	9
FitML	12
PIT	14

predict.MSGARCH_SPEC	16
PredPdf	17
Risk	18
simulate.MSGARCH_SPEC	20
SMI	22
State	22
TransMat	24
UncVol	25
Volatility	26
Index	28

MSGARCH-package	<i>The R package MSGARCH</i>
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Description

The R package **MSGARCH** implements a comprehensive set of functionalities for Markov-switching GARCH (Haas et al. 2004a) and Mixture of GARCH (Haas et al. 2004b) models. This includes fitting, filtering, forecasting, and simulating. Other functions related to Value-at-Risk and Expected-Shortfall are also available.

The main functions of the package are coded in C++ using **Rcpp** (Eddelbuettel and Francois, 2011) and **RcppArmadillo** (Eddelbuettel and Sanderson, 2014).

MSGARCH focuses on the conditional variance (and higher moments) process. Hence, there is no equation for the mean. Therefore, you must pre-filter via AR(1) before applying the model.

The **MSGARCH** package implements a variety of GARCH specifications together with several conditional distributions. This allows for a rich modeling environment for Markov-switching GARCH models. Each single-regime process is a one-lag process (e.g., GARCH(1,1)). When optimization is performed, we ensure that the variance in each regime is covariance-stationary and strictly positive (refer to the vignette for more information).

We refer to Ardia et al. (2017) <https://ssrn.com/abstract=2845809> for a detailed introduction of the package and its usage.

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References

- Ardia, D. Bluteau, K. Boudt, K. Catania, L. & Trottier, D.-A. (2017). Markov-switching GARCH models in R: The **MSGARCH** package. <https://ssrn.com/abstract=2845809>
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- Haas, M. Mittnik, S. & Paoletta, M. S. (2004b). Mixed normal conditional heteroskedasticity. *Journal of Financial Econometrics*, 2, 211-250. <http://doi.org/10.1093/jjfinec/nbh009>

See Also

Useful links:

- <https://github.com/keblu/MSGARCH>
- Report bugs at <https://github.com/keblu/MSGARCH/issues>

CreateSpec

Model specification.

Description

Creates a model specification before fitting and using the **MSGARCH** functionalities.

Usage

```
CreateSpec(variance.spec = list(model = c("sGARCH", "sGARCH")),
  distribution.spec = list(distribution = c("norm", "norm")),
  switch.spec = list(do.mix = FALSE, K = NULL), constraint.spec = list(fixed
    = list(), regime.const = NULL), prior = list(mean = list(), sd = list()))
```

Arguments

- variance.spec** list with element **model**. **model** is a character vector (of size **K**, number of regimes) with the variance model specifications. Valid models are "sARCH", "sGARCH", "eGARCH", "gjrGARCH", and "tGARCH" (see *Details*). Default: **model** = c("sGARCH", "sGARCH").
- distribution.spec** list with element **distribution**. **distribution** is a character vector (of size **K**) of conditional distributions. Valid distributions are "norm", "snorm", "std", "sstd", "ged", and "sged" (see *Details*). The vector must be of the same length as the models' vector in **variance.spec**. Default: **distribution** = c("norm", "norm").

- `switch.spec` list with element `do.mix` and `K`.
`do.mix` is a logical indicating if the specification is a mixture type. If `do.mix = TRUE`, a Mixture of GARCH is created, while if `do.mix = FALSE`, a Markov-Switching GARCH is created (see *Details*). (Default: `do.mix = FALSE`)
`K` is a optional numeric scalar indicating the number of regime. In the case where a single regime is specified in `variance.spec` and `distribution.spec`, this parameter allows to automatically expand this single regime to `K` similar regime without the need to explicitly define them in `variance.spec` and `distribution.spec` (see *Examples*).
- `constraint.spec` list with element `fixed` and `regime.const`. Only one of `fixed` and `regime.const` can be set by the user as it is not allowed to set both at the same time.
`fixed` is a list with numeric entries and named elements. This argument controls for fixed parameters defined by the user. The names of the entries in the list have to coincide with the names of the model parameters.
For instance, if `constraint.spec = list(fixed = list(beta_1 = 0))`, `beta_1` will be fixed to 0 during optimization.
`regime.const` is a character vector. This argument controls for the parameters which are set equal across regimes. The names of the entries in the list have to coincide with the names of the model parameters minus the regime indicator.
For instance, if `constraint.spec = list(regime.const = c("beta"))`, all the parameters named `beta` will be the same in all regimes during optimization.
- `prior` list with element `mean` and `sd`. The element `mean` and `sd` are list with numeric and named elements that allow to adjust the prior mean and standard deviation of the truncated Normal prior. The names of the entries in the lists have to coincide with the names of the model parameters.
For instance, if `prior = list(mean = list(beta_1 = 0.7), sd = list(beta_1 = 0.1))`, the prior mean of `beta_1` will be set to 0.7 while the prior standard deviation will set to 0.1.

Details

The Markov-Switching specification is based on the Haas et al. (2004a) MSGARCH specification. It is a MSGARCH model that is separated in `K` single-regimes specifications which are updated in parallel. Under the Haas et al. (2004a) specification, the conditional variance is a function of past data and the current state. The Mixture of GARCH option (`do.mix = TRUE`) is based on Haas et al. (2004b). A Mixture of GARCH is a mixture of distributions where the variance process of each distribution is a single-regime process.

For the models, "sARCH" is the ARCH(1) model (Engle, 1982), "sGARCH" the GARCH(1,1) model (Bollerslev, 1986), "eGARCH" the EGARCH(1,1) model (Nelson, 1991), "gjrgARCH" the GJR(1,1) model (Glosten et al., 1993), and "tGARCH" the TGARCH(1,1) model (Zakoian, 1994).

For the distributions, "norm" is the Normal distribution, "std" the Student-t distribution, and "ged" the GED distribution. Their skewed version, implemented via the Fernandez and Steel (1998) transformation, are "snorm", "sstd" and "sged". Please see Ardia et al. (2017) for more details on the models and distributions.

The user must choose between `fixed` or `regime.const` in `constraint.spec` as both cannot be set at the same time. The list `fixed.pars` will ensure that the chosen fixed parameters will be fixed during optimization according to the values set by the user. Thus only the non-fixed parameters are optimized. The vector `regime.const` will ensure that the chosen parameters will be the same across regime during optimization.

The list `mean` and `sd` in `prior` will adjust the prior mean and prior standard deviation of the truncated Normal prior for MCMC estimation via [FitMCMC](#) according to the inputted prior mean and standard deviation. Those prior means and standard deviations that are not set will take on preset default values.

Value

A list of class `MSGARCH_SPEC` with the following elements:

- `par0`: Vector (of size `d`) of default parameters.
- `is.mix`: Logical indicating if the specification is a mixture.
- `K`: Number of regimes.
- `lower`: Vector (of size `d`) of lower parameters' bounds.
- `upper`: Vector (of size `d`) of upper parameters' bounds.
- `n.params`: Vector (of size `K`) of the total number of parameters by regime including distributions' parameters.
- `n.params.vol`: Vector (of size `K`) of the total number of parameters by regime excluding distributions' parameters.
- `label`: Vector (of size `d`) of parameters' labels.
- `name`: Vector (of size `K`) of model specifications' names.
- `func`: List of internally used `R` functions.
- `rcpp.func`: List of internally used `Rcpp` functions.
- `fixed.pars`: List of user inputted fixed parameters.
- `regime.const.pars`: Vector of user inputted parameter set equal across regimes.
- `regime.fixed.pars`: Logical indicating if there is any fixed parameter set by the user.
- `regime.const.pars.bool`: Logical indicating if there is any parameters equal across regime set by the user.

The `MSGARCH_SPEC` class has the following methods:

- `simulate`: Simulation method.
- [Volatility](#): In-sample conditional volatility filtering of the overall process.
- `predict`: Forecast of the conditional volatility of the overall process.
- [UncVol](#): Unconditional volatility in each regime and the overall process.
- [PredPdf](#): Predictive method.
- [PIT](#): Probability Integral Transform.
- [Risk](#): Value-at-Risk and Expected-Shortfall methods.
- [State](#): State probabilities method (Smoothed, Filtered, Predictive, Viterbi).
- [FitML](#): Maximum Likelihood estimation.
- [FitMCMC](#): Bayesian estimation.
- `print` and `summary`: Summary of the created specification.

References

- Ardia, D. Bluteau, K. Boudt, K. Catania, L. & Trottier, D.-A. (2017). Markov-switching GARCH models in R: The MSGARCH package. <https://ssrn.com/abstract=2845809>
- Engle, R. (1982). Autoregressive conditional heteroscedasticity with estimates of the variance of United Kingdom inflation *Econometrica*, 50, 987-1008.
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- Fernandez, C. & Steel, M. F. (1998). On Bayesian modeling of fat tails and skewness. *Journal of the American Statistical Association*, 93, 359-371.
- Glosten, L. R. Jagannathan, R. & Runkle, D. E. (1993). On the relation between the expected value and the volatility of the nominal excess return on stocks. *Journal of Finance*, 48, 1779-1801.
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- Zakoian, J.-M. (1994). Threshold heteroskedastic models. *Journal of Economic Dynamics and Control*, 18, 931-955.

Examples

```
# create a Markov-switching specification
# MS-GARCH(1,1)-GJR(1,1)-Student
spec <- CreateSpec(variance.spec = list(model = c("sGARCH", "gjrGARCH")),
                  distribution.spec = list(distribution = c("std", "std")),
                  switch.spec = list(do.mix = FALSE))

print(spec)

# create a 3-regime Markov-switching specification with the help of variable K
# MS(3)-GARCH(1,1)- Student
spec <- CreateSpec(variance.spec = list(model = c("sGARCH")),
                  distribution.spec = list(distribution = c("std")),
                  switch.spec = list(do.mix = FALSE, K = 3))

print(spec)

# create a mixture specification
# MIX-GARCH(1,1)-GJR(1,1)-Student
spec <- CreateSpec(variance.spec = list(model = c("sGARCH", "gjrGARCH")),
                  distribution.spec = list(distribution = c("std", "std")),
                  switch.spec = list(do.mix = TRUE))

print(spec)

# setting fixed parameter for the sGARCH beta parameter
# MS-GARCH(1,1)-GJR(1,1)-Student with beta_1 fixed to 0
spec <- CreateSpec(variance.spec = list(model = c("sGARCH", "gjrGARCH")),
                  distribution.spec = list(distribution = c("std", "std")),
                  switch.spec = list(do.mix = FALSE),
                  constraint.spec = list(fixed = list(beta_1 = 0)))

print(spec)

# setting restriction for the shape parameter of the Student-t across regimes
```

```
# MS-GARCH(1,1)-GJR(1,1)-Student with shape parameter constraint across regime
spec <- CreateSpec(variance.spec = list(model = c("sGARCH", "gjrGARCH")),
  distribution.spec = list(distribution = c("std", "std")),
  switch.spec = list(do.mix = FALSE),
  constraint.spec = list(regime.const = c("nu")))

print(spec)

# setting custom parameter priors for the beta parameters
# MS-GARCH(1,1)-GJR(1,1)-Student with prior modification
spec <- CreateSpec(variance.spec = list(model = c("sGARCH", "gjrGARCH")),
  distribution.spec = list(distribution = c("std", "std")),
  switch.spec = list(do.mix = FALSE),
  prior = list(mean = list(beta_1 = 0.9, beta_2 = 0.3),
    sd = list(beta_1 = 0.05, beta_2 = 0.01)))

print(spec)
```

dem2gbp

DEM/GBP exchange rate log-returns

Description

The vector `dem2gbp` contains daily observations of the Deutschmark vs British Pound foreign exchange rate log-returns. This dataset has been promoted as an informal benchmark for GARCH time-series software validation. See McCullough and Renfro (1999), and Brooks, Burke, and Persaud (2001) for details. The nominal returns are expressed in percent as in Bollerslev and Ghysels (1996). The sample period is from January 3, 1984, to December 31, 1991, for a total of 1974 observations.

Usage

```
data("dem2gbp")
```

Format

vector of size 1,974.

References

- Bollerslev T., Ghysels, E. (1996) Periodic autoregressive conditional heteroscedasticity. *Journal of Business and Economic Statistics*, 14, 139-151.
- Brooks C., Burke S. P., Persaud G. (2001) *International Journal of Forecasting*, 17, 45-57.
- McCullough B. D., Renfro C. G. (1999) Benchmarks and software standards: A case study of GARCH procedures. *Journal of Economic and Social Measurement*, 25, 59-71.

DIC	<i>Deviance Information Criterion (DIC).</i>
-----	--

Description

Method which computes the Deviance Information Criterion (DIC) from a fit object of type MSGARCH_MCMC_FIT created with [FitMCMC](#).

Usage

```
DIC(fit)

## S3 method for class 'MSGARCH_MCMC_FIT'
DIC(fit)
```

Arguments

`fit` Fit object of type MSGARCH_MCMC_FIT created with [FitMCMC](#).

Details

Computes the Deviance information criterion of Spiegelhalter et al. (2002).

Value

A list with the following elements:

- DIC: Deviance Information Criterion.
- IC: Bayesian Predictive Information Criterion ($IC = 2 * pV + D.bar$).
- pV: Effective number of parameters ($pV = var(D)/2$).
- D.bar: Expected value of the deviance over the posterior.

References

Spiegelhalter, David J., et al. (2002). Bayesian measures of model complexity and fit. *Journal of the Royal Statistical Society: Series B*, 64, 583-639

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on data by MCMC
set.seed(123)
fit <- FitMCMC(spec = spec, data = SMI, ctr = list(nburn = 500L, nmcmc = 500L))

# compute DIC
DIC(fit)
```

ExtractStateFit	<i>Single-regime model extractor.</i>
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Description

Extracts each regime from a fitted multiple regime specification and creates a fitted object for each extracted regime.

Usage

```
ExtractStateFit(object)

## S3 method for class 'MSGARCH_ML_FIT'
ExtractStateFit(object)

## S3 method for class 'MSGARCH_MCMC_FIT'
ExtractStateFit(object)
```

Arguments

object Fit object of type MSGARCH_ML_FIT created with [FitML](#) or MSGARCH_MCMC_FIT created with [FitMCMC](#).

Value

A list of with K element where each element is a fit object of type MSGARCH_ML_FIT or MSGARCH_MCMC_FIT.

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data with ML estimation
fit <- FitML(spec = spec, data = SMI)
SR.fit <- ExtractStateFit(fit)
```

FitMCMC	<i>MCMC/Bayesian estimation.</i>
---------	----------------------------------

Description

Method that performs MCMC/Bayesian estimation of a MSGARCH_SPEC object on a set of observations.

Usage

```
FitMCMC(spec, data, ctr = list())
```

Arguments

spec	Model specification of class MSGARCH_SPEC created with CreateSpec .
data	Vector (of size T) of observations.
ctr	A list of control parameters: <ul style="list-style-type: none"> • par0: Vector (of size d) where d must have the same length as the default parameters of the specification. It is the starting value for the chain (if empty the the method automatically set starting parameters; see *Details*). • nburn (integer >= 0): Number of discarded draws. (Default: nburn = 5000L) • nmcmc (integer > 0): Number of draws. (Default: nmcmc = 10000L) • nthin (integer > 0): Thinning factor (every nthin draws are kept). (Default: nthin = 10L) • do.sort (bool): Does each draw of the MCMC chain are sorted based on the unconditional variance of each models. (Default: do.sort = TRUE) • SamplerFUN: Custom MCMC sampler (see *Details*).

Details

The total number of draws is equal to $\text{nmcmc} / \text{nthin}$. The MCMC/Bayesian estimation relies on an **Rcpp** implementation of the adaptive sampler of Vihola (2012). The implementation is based on the R package **adaptMCMC** (Andreas, 2012). Starting values when par0 is not provided are chosen automatically before sampling (see Ardia et al. (2016) for more details).

SamplerFUN allows for a custom sampler to be used. The function must take the form:

```
function(f_posterior, data, spec, par0, ctr),
```

where f_posterior is the function to optimize, data is the data, spec is the specification, par0 are the starting parameters, and ctr are the control parameters. The inputs spec and data, must be passed as inputs in the sampler (see *Examples*). The custom sampler must output a matrix containing the MCMC chain.

Sorting of each MCMC draw conditional on the unconditional variance via `do.sort = TRUE` serve as to resolve the label switching problem that can arise from the estimation of Markov-switching and mixture model using bayesian methodology.

Value

A list of class MSGARCH_MCMC_FIT with the following elements:

- par: The MCMC chain (matrix from the R package coda (Plummer et al., 2006) of size $\text{nmcmc} / \text{nthin} \times d$).
- accept: Acceptation rate of the sampler.
- spec: Model specification of class MSGARCH_SPEC created with [CreateSpec](#).
- data: Vector (of size T) of observations.
- ctr: list of the control used for the fit.

The MSGARCH_MCMC_FIT with the following methods:

- [DIC](#): Compute Deviance Information Criterion (DIC).
- [Volatility](#): In-sample conditional volatility filtering of the overall process.
- `predict`: Forecast of the conditional volatility of the overall process.
- [UncVol](#): Unconditional volatility in each regime and the overall process.

- **PredPdf**: Predictive method.
- **PIT**: Probability integral transform.
- **Risk**: Value-at-Risk And Expected-Shortfall methods.
- **simulate**: Simulation method.
- **State**: State probabilities methods.
- **ExtractStateFit**: Single-regime model extractor.
- **summary**: Summary of the fit.

References

- Andreas, S. (2012). adaptMCMC: Implementation of a generic adaptive Monte Carlo Markov chain sampler. <https://cran.r-project.org/package=adaptMCMC>
- Ardia, D. Bluteau, K. Boudt, K. Catania, L. & Trottier, D.-A. (2016). Markov-switching GARCH models in R: The MSGARCH package. <https://ssrn.com/abstract=2845809>
- MacDonald, I.L., Zucchini, W. (1997). Hidden Markov and other models for discrete-valued time series. *CRC press*.
- Plummer, M. Best, N. Cowles, K. & Vines, K. (2006). coda: Convergence diagnosis and output analysis for MCMC. *R News*, 6, 7-11. <https://cran.r-project.org/package=coda>
- Vihola, M. (2012). Robust adaptive Metropolis algorithm with coerced acceptance rate. *Statistics and Computing*, 22, 997-1008.

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data by MCMC
set.seed(123)
fit <- FitMCMC(spec = spec, data = SMI, ctr = list(nburn = 500L, nmcmc = 500L, nthin = 1L))
summary(fit)

# custom sampler example
## Not run:
library("mcmc")
f_MCMC <- function(f_posterior, data, spec, par0, ctr){
  par <- mcmc::metrop(f_posterior, initial = par0, nbatch = ctr$nmcmc + ctr$nburn,
    data = data, spec = spec)$batch
  return(par)
}

set.seed(123)
fit <- FitMCMC(spec, data = SMI, ctr = list(SamplerFUN = f_MCMC,
  nburn = 500L, nmcmc = 500L, nthin = 1L))

summary(fit)

## End(Not run)
```

FitML

*Maximum Likelihood estimation.***Description**

Method that performs Maximum Likelihood estimation of a MSGARCH_SPEC object on a set of observations.

Usage

```
FitML(spec, data, ctr = list())
```

Arguments

- | | |
|------|---|
| spec | Model specification created with CreateSpec . |
| data | Vector (of size T) of observations. |
| ctr | <p>A list of control parameters:</p> <ul style="list-style-type: none"> • par0: Vector (of size d) where d must have the same length as the default parameters of the specification. It is the starting value for the optimizer (if empty the the method automatically set starting parameters; see *Details*). • do.se Logical. Should standard errors be computed? (Default: do.se = TRUE). • do.plm Logical. If do.plm = FALSE, parameter transformation during the optimization step is performed without ensuring stationarity for the volatility processes. For combinations of parameters that do not imply stationarity the likelihood value is fixed at -1e10. If fixed is defined in the list constraint.spec of CreateSpec, do.plm = TRUE is used. (Default: do.plm = FALSE) • OptimFUN: Custom optimization function (see *Details*). |

Details

By default, OptimFUN is set such that optimization is done via the well known Broyden- Fletcher- Goldfarb- Shanno (BFGS) algorithm using the optim function with method = "BFGS". Starting values when par0 is not provided are chosen automatically before optimization (see Ardia et al. (2016) for more details)

OptimFUN allows for a custom optimizer to be used. The function must take the form:

```
function(vPw, f_nll, spec, data, do.plm),
```

where vPw are starting parameters (transformed), f_nll is the function to be minimize, spec is the specification, data is the data, and do.plm the originally inputed or default do.plm. The inputs spec, data, and do.plm must be passed as inputs in the optimizer (see *Examples*). It must output a list with the following elements:

- value: Optimal negative log-likelihood.
- par: Optimal parameters.

Value

A list of class MSGARCH_ML_FIT with the following elements:

- par: Vector (of size d) of optimal parameters.

- `loglik`: Log-likelihood of y given the optimal parameters.
- `Inference`: list with elements `MatCoef` and `Hessian`. `MatCoef` is a matrix (of size $d \times 4$) with optimal parameter estimates, standard errors, t-stats, and p-values. `Hessian` is the Hessian (matrix of size $d \times d$) of the negative log-likelihood function evaluated at the optimal parameter estimates `par`.
- `spec`: Model specification of class `MSGARCH_SPEC` created with [CreateSpec](#).
- `data`: Vector (of size T) of observations.
- `ctr`: list of the control used for the fit.

The `MSGARCH_ML_FIT` with the following methods:

- `AIC`: Compute Akaike information criterion (AIC).
- `BIC`: Compute Bayesian information criterion (BIC).
- [Volatility](#): In-sample conditional volatility filtering of the overall process.
- `predict`: Forecast of the conditional volatility of the overall process.
- [UncVol](#): Unconditional volatility in each regime and the overall process.
- [PredPdf](#): Predictive method.
- [PIT](#): Probability Integral Transform.
- [Risk](#): Value-at-Risk and Expected-Shortfall methods.
- `simulate`: Simulation method.
- [State](#): State probabilities methods.
- [ExtractStateFit](#): Single-regime model extractor.
- `summary`: Summary of the fit.

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data by ML
fit <- FitML(spec = spec, data = SMI)
summary(fit)

# custom optimizer example
## Not run:
f_custom_optim <- function(vPw, f_nll, spec, data, do.plm){
  out <- stats::optim(vPw, f_nll, spec = spec, data = data,
    do.plm = do.plm, method = "Nelder-Mead")
  return(out)
}

set.seed(123)
fit <- FitML(spec, data = SMI, ctr = list(OptimFUN = f_custom_optim))
summary(fit)

## End(Not run)
```

PIT	<i>Probability integral transform.</i>
-----	--

Description

Method returning the probability integral transform (PIT).

Usage

```
PIT(object, ...)
```

```
## S3 method for class 'MSGARCH_SPEC'
PIT(object, x = NULL, par = NULL, data = NULL,
     do.norm = FALSE, do.its = FALSE, nahead = 1L, ctr = list(), ...)
```

```
## S3 method for class 'MSGARCH_ML_FIT'
PIT(object, x = NULL, newdata = NULL,
     do.norm = TRUE, do.its = FALSE, nahead = 1L, ctr = list(), ...)
```

```
## S3 method for class 'MSGARCH_MCMC_FIT'
PIT(object, x = NULL, newdata = NULL,
     do.norm = TRUE, do.its = FALSE, nahead = 1L, ctr = list(), ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML or MSGARCH_MCMC_FIT created with FitMCMC .
...	Not used. Other arguments to PIT.
x	Vector (of size n). Used when <code>do.its = FALSE</code> .
par	Vector (of size d) or matrix (of size nmcml x d) of parameter estimates where d must have the same length as the default parameters of the specification.
data	Vector (of size T) of observations.
do.norm	Logical indicating if the PIT values are transformed into standard Normal variate. (Default: <code>do.norm = FALSE</code>)
do.its	Logical indicating if the in-sample PIT is returned. (Default: <code>do.its = FALSE</code>)
nahead	Scalar indicating the number of step-ahead evaluation. Valid only when <code>do.its = FALSE</code> . (Default: <code>nahead = 1L</code>)
ctr	A list of control parameters: <ul style="list-style-type: none"> <code>nsim</code> (integer ≥ 0): Number indicating the number of simulation done for the evaluation of the PIT at <code>nahead > 1</code>. (Default: <code>nsim = 10000L</code>)
newdata	Vector (of size T*) of new observations. (Default <code>newdata = NULL</code>)

Details

If a matrix of MCMC posterior draws is given, the Bayesian probability integral transform is calculated. Two or more step-ahead probability integral transform are estimated via simulation of `nsim` paths up to $t = T + T^* + \text{nahead}$. The empirical probability integral transforms is then inferred from these simulations.

If `do.its = FALSE`, the vector `x` are evaluated as $t = T + T^* + 1, \dots, t = T + T^* + \text{nahead}$ realizations.

If `do.its = TRUE`, `x` is evaluated at each time `t` up to time $t = T + T^*$.

Finally if `x = NULL` the vector `data` is evaluated for sample evaluation of the PIT.

The `do.norm` argument transforms the PIT value into Normal variates so that normality test can be done.

Value

A vector or matrix of class `MSGARCH_PIT`.

If `do.its = FALSE`: Probability integral transform of the points `x` at

$t = T + T^* + 1, \dots, t = T + T^* + \text{nahead}$ or Normal variate derived from the probability integral transform of `x` (matrix of size `nahead x n`).

If `do.its = TRUE`: In-sample probability integral transform or Normal variate derived from the probability integral transform of data if `x = NULL` (vector of size $T + T^*$) or in-sample probability integral transform or Normal variate derived from the probability integral transform of `x` (matrix of size $(T + T^*) \times n$).

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data by ML
fit <- FitML(spec = spec, data = SMI)

# run PIT method in-sample
pit.its <- PIT(object = fit, do.norm = TRUE, do.its = TRUE)

# diagnostic of PIT with qqnorm
qqnorm(pit.its)
qqline(pit.its)

# simulate a serie from the model
set.seed(123)
sim.series <- simulate(object = spec, par = fit$par, nahead= 1000L, nsim = 1L)
sim.series <- as.vector(sim.series$draw)

# run PIT method on the simulated serie with the true par
pit.x <- PIT(object = spec, par = fit$par, data = sim.series, do.norm = TRUE, do.its = TRUE)
qqnorm(pit.x)
qqline(pit.x)
```

predict.MSGARCH_SPEC *predict method.*

Description

Method returning conditional volatility forecasts and density forecasts of the process.

Usage

```
## S3 method for class 'MSGARCH_SPEC'
predict(object, newdata = NULL, nahead = 1L,
        do.return.draw = FALSE, par = NULL, ctr = list(), ...)

## S3 method for class 'MSGARCH_ML_FIT'
predict(object, newdata = NULL, nahead = 1L,
        do.return.draw = FALSE, ctr = list(), ...)

## S3 method for class 'MSGARCH_MCMC_FIT'
predict(object, newdata = NULL, nahead = 1L,
        do.return.draw = FALSE, ctr = list(), ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML or MSGARCH_MCMC_FIT created with FitMCMC .
newdata	Vector (of size T*) of new observations. (Default newdata = NULL)
nahead	Scalar indicating the number of step-ahead evaluation.
do.return.draw	Are the sampled simulation draws returned? (Default do.return.draw = FALSE)
par	Vector (of size d) or matrix (of size nmcmc x d) of parameter estimates where d must have the same length as the default parameters of the specification.
ctr	A list of control parameters: <ul style="list-style-type: none"> • nsim (integer >= 0): Number indicating the number of simulation done for the conditional volatility forecast at nahead > 1. (Default: nsim = 10000L)
...	Not used. Other arguments to Forecast.

Details

If a matrix of MCMC posterior draws is given, the Bayesian predictive conditional volatility forecasts are calculated.

Value

A list of class MSGARCH_CONDVOL with the following elements:

- vol: Conditional volatility Forecast (vector of size nahead).
- draw: If do.return.draw = TRUE:
Draws sample from the predictive distributions (matrix of size nahead x nsim).
If do.return.draw = FALSE: NULL

The MSGARCH_FORECAST class contains the plot method.

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data by ML
fit <- FitML(spec = spec, data = SMI)

# compute the In-sample conditional volatility from the fitted model
forecast <- predict(object = fit, nahead = 5L)
plot(forecast)
```

PredPdf

Predictive density.

Description

Method returning the predictive probability density.

Usage

```
PredPdf(object, ...)
```

```
## S3 method for class 'MSGARCH_SPEC'
PredPdf(object, x = NULL, par = NULL, data = NULL,
  log = FALSE, do.its = FALSE, nahead = 1L, ctr = list(), ...)
```

```
## S3 method for class 'MSGARCH_ML_FIT'
PredPdf(object, x = NULL, newdata = NULL,
  log = FALSE, do.its = FALSE, nahead = 1L, ctr = list(), ...)
```

```
## S3 method for class 'MSGARCH_MCMC_FIT'
PredPdf(object, x = NULL, newdata = NULL,
  log = FALSE, do.its = FALSE, nahead = 1L, ctr = list(), ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML or MSGARCH_MCMC_FIT created with FitMCMC .
...	Not used. Other arguments to Pred.
x	Vector (of size n). Used when do.its = FALSE.
par	Vector (of size d) or matrix (of size nmcml x d) of parameter estimates where d must have the same length as the default parameters of the specification.
data	Vector (of size T) of observations.
log	Logical indicating if the log-density is returned. (Default: log = FALSE)
do.its	Logical indicating if the in-sample predictive is returned. (Default: do.its = FALSE)

nahead	Scalar indicating the number of step-ahead evaluation. Valid only when <code>do.its = FALSE</code> . (Default: <code>nahead = 1L</code>)
ctr	A list of control parameters: <ul style="list-style-type: none"> • <code>nsim</code> (integer ≥ 0) : Number indicating the number of simulation done for the evaluation of the density at <code>nahead > 1</code>. (Default: <code>nsim = 10000L</code>)
newdata	Vector (of size T^*) of new observations. (Default <code>newdata = NULL</code>)

Details

If a matrix of MCMC posterior draws is given, the Bayesian predictive probability density is calculated. Two or more step-ahead predictive probability density are estimated via simulation of `nsim` paths up to $t = T + T^* + \text{nahead}$. The predictive distribution are then inferred from these simulations via a Gaussian Kernel density. If `do.its = FALSE`, the vector `x` are evaluated as $t = T + T^* + 1, \dots, t = T + T^* + \text{nahead}$ realization.

If `do.its = TRUE` and `x` is evaluated at each time `t` up to time $t = T + T^*$.

Finally, if `x = NULL` the vector `data` is evaluated for sample evaluation of the predictive density ((log-)likelihood of each sample points).

Value

A vector or matrix of class `MSGARCH_PRED`.

If `do.its = FALSE`: (Log-)predictive of the points `x` at $t = T + T^* + 1, \dots, t = T + T^* + \text{nahead}$ (matrix of size `nahead x n`).

If `do.its = TRUE`: In-sample predictive of data if `x = NULL` (vector of size $T + T^*$) or in-sample predictive of `x` (matrix of size $(T + T^*) \times n$).

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data by ML
fit <- FitML(spec = spec, data = SMI)

# run PredPdf method in-sample
pred.its <- PredPdf(object = fit, log = TRUE, do.its = TRUE)

# create a mesh
x <- seq(-3,3,0.01)

# run PredPdf method on mesh at T + 1
pred.x <- PredPdf(object = fit, x = x, log = TRUE, do.its = FALSE)
```

Risk

Value-at-Risk and Expected-shortfall.

Description

Method returning the Value-at-Risk and Expected-shortfall risk measures.

Usage

```
Risk(object, ...)

## S3 method for class 'MSGARCH_SPEC'
Risk(object, par, data, alpha = c(0.01, 0.05),
      nahead = 1L, do.es = TRUE, do.its = FALSE, do.cumulative = FALSE,
      ctr = list(), ...)

## S3 method for class 'MSGARCH_ML_FIT'
Risk(object, newdata = NULL, alpha = c(0.01, 0.05),
      do.es = TRUE, do.its = FALSE, nahead = 1L, ctr = list(), ...)

## S3 method for class 'MSGARCH_MCMC_FIT'
Risk(object, newdata = NULL, alpha = c(0.01,
      0.05), do.es = TRUE, do.its = FALSE, nahead = 1L, ctr = list(), ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML or MSGARCH_MCMC_FIT created with FitMCMC .
...	Not used. Other arguments to Risk.
par	Vector (of size d) or matrix (of size nmcml x d) of parameter estimates where d must have the same length as the default parameters of the specification.
data	Vector (of size T) of observations.
alpha	Vector (of size R) of Value-at-risk and Expected-shortfall levels. (Default: alpha = c(0.01, 0.05))
nahead	Scalar indicating the number of step-ahead evaluation. (Default: nahead = 1L). Not used when do.its = TRUE as it only return in-sample one-step ahead risk measures.
do.es	Logical indicating if Expected-shortfall is also calculated. (Default: do.es = TRUE)
do.its	Logical indicating if the in-sample risk estimators are returned. (Default: do.its = FALSE).
do.cumulative	Logical indicating if cumulative risk measure should be return. (Default: do.cumulative = FALSE).
ctr	A list of control parameters: <ul style="list-style-type: none"> • nmesh (integer >= 0) : Number of points for density evaluation. (Default: nmesh = 1000L) • nsim (integer >= 0) : Number indicating the number of simulation done for estimation of the density at nahead > 1. (Default: nsim = 10000L)
newdata	Vector (of size T*) of new observations. (Default newdata = NULL)

Details

If a matrix of MCMC posterior draws is given, the Bayesian Value-at-Risk and Expected-shortfall are calculated. Two or more step ahead risk measures are estimated via simulation of nsim paths up to $t = T + T^* + \text{nahead}$. If do.its = FALSE, the risk estimators at $t = T + T^* + 1, \dots, t = T + T^* + \text{nahead}$ are computed. do.cumulative = TRUE indicate the function to compute the risk measure over aggregated period up to nahead period using the cumsum function on the simulated data.

Value

A list of class MSGARCH_RISK with the following elements:

- VaR:
If do.its = FALSE: Value-at-Risk at $t = T + T^* + 1, \dots, t = T + T^* + \text{nahead}$ at the chosen levels (matrix of size $\text{nahead} \times R$).
If do.its = TRUE: In-sample Value-at-Risk at the chosen levels (Matrix of size $(T + T^*) \times R$).
- ES:
If do.its = FALSE: Expected-shortfall at $t = T + T^* + 1, \dots, t = T + T^* + \text{nahead}$ at the chosen levels (matrix of size $\text{nahead} \times R$).
If do.its = TRUE: In-sample Expected-shortfall at the chosen levels (Matrix of size $(T + T^*) \times R$).

The MSGARCH_RISK contains the plot method. Note that the MCMC/Bayesian risk estimator can take long time to calculate depending on the size of the MCMC chain.

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data with ML estimation
fit <- FitML(spec = spec, data = SMI)

# compute the Value-at-Risk and Expected-shortfall in-sample
risk.its <- Risk(object = fit, alpha = 0.05, do.es = FALSE, do.its = TRUE)
plot(risk.its)

# compute the one-step ahead Value-at-Risk and Expected-shortfall out-of-sample
Risk(object = fit, alpha = 0.05, do.es = FALSE, do.its = FALSE, nahead = 1L)
```

simulate.MSGARCH_SPEC *Simulation of MSGARCH processes.*

Description

Method for simulating MSGARCH processes.

Usage

```
## S3 method for class 'MSGARCH_SPEC'
simulate(object, nsim = 1L, seed = NULL,
  nahead = 1L, par = NULL, nburn = 500L, ...)

## S3 method for class 'MSGARCH_ML_FIT'
simulate(object, nsim = 1L, seed = NULL,
  nahead = 1L, nburn = 500L, ...)
```

```
## S3 method for class 'MSGARCH_MCMC_FIT'
simulate(object, nsim = 1L, seed = NULL,
         nahead = 1L, nburn = 500L, ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML or MSGARCH_MCMC_FIT created with FitMCMC .
nsim	Number of simulations. (Default: nsim = 1L)
seed	Integer indicating if and how the random number generator should be initialized. If seed = NULL, the state of the random generator will not change. (Default: seed = NULL) estimates where d must have the same length as the default parameters of the specification.
nahead	Simulation length. (Default: nahead = 1L)
par	Vector (of size d) or matrix (of size nahead x d) of parameter
nburn	Burnin period discarded (first simulation draws).
...	Not used. Other arguments to simulate.

Details

If a matrix of parameters estimates is provided, nsim simulations will be done for each row.

Value

A list of class MSGARCH_SIM with the following elements:.

- draw: Matrix (of size nahead x nsim) of simulated draws.
- state: Matrix (of size nahead x nsim) of simulated states.
- CondVol: Array (of size nahead x nsim x K) of simulated conditional volatility.

The MSGARCH_SIM class contains the plot method.

Examples

```
# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# generate process
par.sim <- c(0.1,0.6,0.2,0.2,0.8,0.1,0.99,0.01)
set.seed(123)
sim <- simulate(object = spec, nsim = 1L, nahead = 1000L, nburnin = 500L, par = par.sim)
plot(sim)

# generate process after filtering for fitted model
# load data
data("SMI", package = "MSGARCH")

# fit the model on the data with ML estimation
fit <- FitML(spec = spec, data = SMI)

set.seed(123)
```

```
sim <- simulate(fit, nsim = 1000L, nahead = 30L)
plot(sim)
```

SMI

Swiss market index dataset

Description

See Mullen et al. (2011) for a description of this dataset.

Usage

```
data("SMI")
```

Format

zoo object containing 2,500 observations ranging from 1990-11-12 to 2000-10-20.

Source

DEoptim package

References

Mullen, K.M, Ardia, D., Gil, D., Windover, D., Cline, J. (2011). DEoptim: An R Package for Global Optimization by Differential Evolution. *Journal of Statistical Software*, 40(6), 1-26. <http://www.jstatsoft.org/v40/i06/>

State

State probabilities.

Description

Method returning the filtered, predictive, smoothed probabilities of the states, and the most probable path computed with the Viterbi algorithm.

Usage

```
State(object, ...)

## S3 method for class 'MSGARCH_SPEC'
State(object, par, data, ...)

## S3 method for class 'MSGARCH_ML_FIT'
State(object, newdata = NULL, ...)

## S3 method for class 'MSGARCH_MCMC_FIT'
State(object, newdata = NULL, ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML or MSGARCH_MCMC_FIT created with FitMCMC .
...	Not used. Other arguments to State.
par	Vector (of size d) or matrix (of size nmcmc x d) of parameter estimates where d must have the same length as the default parameters of the specification.
data	Vector (of size T) of observations.
newdata	Vector (of size T*) of new observations. (Default newdata = NULL)

Details

If a matrix of parameter estimates is given, each parameter estimate (each row) is evaluated individually.

Value

A list of class MSGARCH_PSTATE with the following elements:

- FiltProb: Filtered probabilities (array of size $(T + T^*) \times (\text{nmcmc or } 1) \times K$).
- PredProb: Predictive probabilities (array of size $(T + T^* + 1) \times (\text{nmcmc or } 1) \times K$).
- SmoothProb: Smoothed probabilities (array of size $(T + T^* + 1) \times (\text{nmcmc or } 1) \times K$).
- Viterbi: Most likely path (matrix of size $(T + T^*) \times (\text{nmcmc or } 1)$).

The class MSGARCH_PSTATE contains the plot method. The plot method contains as input type.prob which is one of "filtered", "predictive", "smoothed", "viterbi". (Default: type.prob = "smoothed")

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data with ML estimation
fit <- FitML(spec = spec, data = SMI)

# compute the filtered state probabilities
state <- State(object = fit)
plot(state, type.prob = "smoothed")
plot(state, type.prob = "predictive")
plot(state, type.prob = "filtered")
plot(state, type.prob = "viterbi")
```

TransMat	<i>Transition matrix.</i>
----------	---------------------------

Description

Method returning the transition matrix.

Usage

```
TransMat(object, ...)

## S3 method for class 'MSGARCH_SPEC'
TransMat(object, par = NULL, nahead = 1L, ...)

## S3 method for class 'MSGARCH_ML_FIT'
TransMat(object, nahead = 1L, ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML .
...	Not used. Other arguments to TransMat.
par	Vector (of size d) of parameter estimates (not required when using a fit object) where d must have the same length as the default parameters of the specification.
nahead	Number of steps ahead. (Default: nahead = 1L)

Value

A matrix (of size $K \times K$) in the case of a Markov-Switching model or a vector (of size K) in the case of a Mixture of GARCH model. The row indicates the starting states while the columns indicates the transition states.

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data by ML
fit <- FitML(spec = spec, data = SMI)

# Extract the transition matrix 10 steps ahead
trans.mat <- TransMat(fit, nahead = 10)
print(trans.mat)
```

UncVol	<i>Unconditional volatility.</i>
--------	----------------------------------

Description

Method returning the unconditional volatility of the process in each state and for the overall process..

Usage

```
UncVol(object, ...)

## S3 method for class 'MSGARCH_SPEC'
UncVol(object, par = NULL, ctr = list(), ...)

## S3 method for class 'MSGARCH_ML_FIT'
UncVol(object, ctr = list(), ...)

## S3 method for class 'MSGARCH_MCMC_FIT'
UncVol(object, ctr = list(), ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML or MSGARCH_MCMC_FIT created with FitMCMC .
...	Not used. Other arguments to TransMat.
par	Vector (of size d) or matrix (of size nmcmc x d) of parameter estimates where d must have the same length as the default parameters of the specification.
ctr	A list of control parameters: <ul style="list-style-type: none"> • nsim (integer >= 0) : Number indicating the number of simulation done for estimation of the unconditional volatility. (Default: nsim = 250L) • nahead (integer >= 0) : Number indicating the number of step ahead performs to estimate the unconditional volatility .(Default: nahead = 5000L) • nburn (integer >= 0) : Number indicating the number of discarded step ahead to estimate the unconditional volatility. (Default: nburn = 1000L)

Details

If a matrix of MCMC posterior draws is given, the Bayesian unconditional volatility are calculated. The unconditional volatility is estimated by first simulating nsim paths up to nburn + nahead, calculating a forecast of the conditional volatility at each step ahead, discarding the first nburn step ahead conditional volatilities forecasts, and computing the mean of the remaining nahead - nburn conditional volatilities forecasts. This method is based on the fact that the conditional volatility forecast will converge to the unconditional volatility the further the forecast is from the starting point. We take the average as a way to remove the noise that comes with the simulation process. Overall, this method allows to compute the unconditional volatility of arbitrarily complex models.

Value

A scalar corresponding to the process unconditional volatility.

Examples

```
# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# compute the unconditional volatility of each regime and the overall process
## Not run:
par <- c(0.1, 0.1, 0.8, 0.2, 0.1, 0.8, 0.99, 0.01)
UncVol(object = spec, par = par)

## End(Not run)
```

Volatility

Volatility filtering.

Description

Method returning the conditional volatility of the process.

Usage

```
Volatility(object, ...)

## S3 method for class 'MSGARCH_SPEC'
Volatility(object, par, data, ...)

## S3 method for class 'MSGARCH_ML_FIT'
Volatility(object, newdata = NULL, ...)

## S3 method for class 'MSGARCH_MCMC_FIT'
Volatility(object, newdata = NULL, ...)
```

Arguments

object	Model specification of class MSGARCH_SPEC created with CreateSpec or fit object of type MSGARCH_ML_FIT created with FitML or MSGARCH_MCMC_FIT created with FitMCMC .
...	Not used. Other arguments to Volatility.
par	Vector (of size d) or matrix (of size nmcmc x d) of parameter estimates where d must have the same length as the default parameters of the specification.
data	Vector (of size T) of observations.
newdata	Vector (of size T*) of new observations. (Default newdata = NULL)

Details

If a matrix of MCMC posterior draws is given, the Bayesian predictive conditional volatility is calculated.

Value

Conditional volatility (vector of size T + T*) of class MSGARCH_CONDVOL.
The MSGARCH_CONDVOL class contains the plot method.

Examples

```
# load data
data("SMI", package = "MSGARCH")

# create model specification
# MS(2)-GARCH(1,1)-Normal (default)
spec <- CreateSpec()

# fit the model on the data by ML
fit <- FitML(spec = spec, data = SMI)

# compute the In-sample conditional volatility from the fitted model
cond.vol <- Volatility(object = fit)
plot(cond.vol)
```

Index

*Topic **datasets**

dem2gbp, [7](#)

SMI, [22](#)

CreateSpec, [3](#), [10](#), [12–14](#), [16](#), [17](#), [19](#), [21](#),
[23–26](#)

dem2gbp, [7](#)

DIC, [8](#), [10](#)

ExtractStateFit, [9](#), [11](#), [13](#)

FitMCMC, [5](#), [8](#), [9](#), [9](#), [14](#), [16](#), [17](#), [19](#), [21](#), [23](#), [25](#),
[26](#)

FitML, [5](#), [9](#), [12](#), [14](#), [16](#), [17](#), [19](#), [21](#), [23–26](#)

MSGARCH (MSGARCH-package), [2](#)

MSGARCH-package, [2](#)

PIT, [5](#), [11](#), [13](#), [14](#)

predict.MSGARCH_MCMC_FIT
(predict.MSGARCH_SPEC), [16](#)

predict.MSGARCH_ML_FIT
(predict.MSGARCH_SPEC), [16](#)

predict.MSGARCH_SPEC, [16](#)

PredPdf, [5](#), [11](#), [13](#), [17](#)

Risk, [5](#), [11](#), [13](#), [18](#)

simulate.MSGARCH_MCMC_FIT
(simulate.MSGARCH_SPEC), [20](#)

simulate.MSGARCH_ML_FIT
(simulate.MSGARCH_SPEC), [20](#)

simulate.MSGARCH_SPEC, [20](#)

SMI, [22](#)

State, [5](#), [11](#), [13](#), [22](#)

TransMat, [24](#)

UncVol, [5](#), [10](#), [13](#), [25](#)

Volatility, [5](#), [10](#), [13](#), [26](#)