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December 23, 2025

The Editors  
The Quarterly Journal of Economics

Dear Editors,

I am pleased to submit the manuscript entitled “When Stability Becomes Fragility: Phase Transitions in Financial Markets” for consideration at the Quarterly Journal of Economics.

The paper studies how the relationship between market structure and systemic risk depends on the level of market connectivity. Using global multi-asset data over more than three decades, the analysis identifies a critical connectivity threshold at which the effect of structural fragility on future tail risk inverts, introduces a state variable that captures the persistence of low-dimensional correlation structure and documents a regime-dependent mapping from structure to risk using threshold regression methods.

I believe the paper will be of interest to readers of the Quarterly Journal of Economics working on financial stability, asset pricing, and the macroeconomics of financial markets.

The manuscript is original, has not been published previously, and is not under consideration elsewhere. Replication materials are fully documented and will be made available in accordance with the journal’s data and replication policies.

Thank you for your consideration.

Sincerely,  
Tomás Basaure Larraín