The Global Financial Cycle and country risk in emerging markets during stress episodes: A Copula-CoVaR approach

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This paper investigates the tail-dependence structure of emerging market sovereign credit default swaps (CDS) and the Global Financial Cycle (GFC) across eleven emerging markets. Using Copula-CoVaR estimations, we find significant tail-dependence between the GFC, represented by the VIX Volatility Index, and emerging market CDS. These results are essential in the context of distressed global financial markets. Furthermore, our results help evaluate CDS dynamics and provide a more suitable metric to analyze sovereign risk beyond the traditional CoVaR. Moreover, we present additional evidence supporting the importance of the global financial cycle in sovereign risk dynamics in different episodes from 2004 to 2022.