1. Title:
The COVID-19 Pandemic and Sovereign Bond Risk

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3. Abstract
Governments around the world are tackling the COVID-19 pandemic with a mix of public health, fiscal, macroprudential, monetary, or market-based policies. We aim to quantify the impact on European sovereign CDS spreads of the pandemic and the policy measures taken by governments in an event study. We find that a higher number of cases and deaths and public health containment responses significantly increase the uncertainty among investors in European government bonds. Other governmental policies magnify the effect in the short run as supply chains are disrupted.

4. Data description
We are using the European daily 5-year sovereign Credit Default Swap (CDS) spreads denominated in EUR, which are the most traded and liquid contracts in the CDS market. The source of our data is Thomson Reuters DataStream, and we consider 26 European countries for which we have available information to compute the abnormal performance. The market index used to compute the abnormal performance and the betas for all events is the DataStream Europe Sovereign 5-year CDS index.

5. JEL codes for the project
H12, H81, G15

6. Key-words
COVID-19 Pandemic; Policy Measures; Sovereign Risk; CDS Spread