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# Trade-Policy Uncertainty vs. Geopolitical Risk: What Moves Sovereign CDS in the Backstop Era, 2015–2025

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# Trade-Policy Uncertainty vs. Geopolitical Risk: What Moves Sovereign CDS in the Backstop Era, 2015-2025

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## Abstract

Uncertainty surrounding trade-policy and geopolitical tensions is widely viewed as a key driver of sovereign credit risk, yet little is known about the magnitude, persistence and comparative importance of these shocks in the post-crisis environment. This paper provides the first systematic cross-country assessment of how trade-policy uncertainty (TPU) and geopolitical risk (GPR) affect sovereign CDS spreads across 15 economies, including euro-area sovereigns, the United States and China, over 2015-2025. We combine a recursively identified VAR with oil and exchange-rate controls and a time-varying-parameter VAR to measure both average impulse responses and evolving transmission patterns. Three results stand out. First, TPU and GPR shocks generate economically small and short-lived movements in sovereign CDS spreads: peak effects remain well below one basis point and dissipate within weeks, even during the US-China trade tensions, the onset of COVID-19 or the 2022 energy shock. Second, cross-country heterogeneity reflects institutional and structural features: core euro-area sovereigns show near-zero reactions, Italy exhibits sign-asymmetric responses and peripheral and small open economies display episodic but non-persistent sensitivity. The United States and China also react modestly. Third, GPR shocks tend to be slightly more impactful than TPU, yet neither induces persistent repricing of sovereign risk. Overall, the findings suggest that the post-crisis monetary framework has significantly constrained the transmission of global uncertainty to sovereign CDS spreads.

*Keywords:* Credit Risk, Sovereign CDS, Trade-policy Uncertainty, Geopolitical Risk, Uncertainty Transmission, VAR, TVP-VAR, Euro Area.

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## 1. Introduction

The past two decades have been marked by a succession of global disruptions, heterogeneous in origin yet similar in their ability to generate sharp increases in macroeconomic uncertainty and financial volatility. The bursting of the technology bubble in 2001, the 2007 subprime crisis, the euro area sovereign debt crisis beginning in 2010, the COVID-19 shock in 2020 and the 2022 energy crisis each generated abrupt reassessments of risk and significant repricing across global financial markets (Maital and Barzani, 2020; Tsifikidou and Metaxas, 2023). Taken together, these episodes underscore the central role of uncertainty as a key driver of sovereign risk valuation and motivate a closer examination of how uncertainty shocks propagate into sovereign credit markets.

In this environment, credit default swaps (CDS) have emerged as highly informative indicators of sovereign creditworthiness due to their depth, liquidity and ability to adjust rapidly to news and shifts in global sentiment (Packer and Suthiphongchai, 2003; Pan et al., 2024). Their market-driven nature, coupled with standardised contract structures and active participation by international investors, enables CDS prices to incorporate macro-financial shocks almost instantaneously. Unlike sovereign bond spreads, which may be influenced by market frictions, regulatory constraints, or issuance calendars, CDS spreads tend to respond directly to changes in perceived default risk, making them particularly well suited for capturing short-term fluctuations in uncertainty (Alper et al., 2013; Boeck et al., 2024). These intrinsic properties justify the use of sovereign CDS as a primary instrument for analysing how global disturbances affect sovereign risk assessments.

A growing empirical literature confirms that sovereign CDS are highly sensitive to geopolitical, macro-financial and policy-related shocks, with global risk factors frequently outweighing domestic fundamentals during periods of market stress (Gündüz and Kaya, 2013; Sensoy et al., 2017; Sabkha et al., 2018, 2019; Said et al., 2022; Lee et al., 2025). These studies also suggest that market efficiency and price discovery may deteriorate as uncertainty builds, sometimes even before crises fully materialise, underscoring the relevance of uncertainty for sovereign credit dynamics (Stulz, 2010).

A major development in the uncertainty literature is the emergence of news-based indicators such as the trade-policy uncertainty index (*TPU*) and the geopolitical risk index (*GPR*). These indices capture the intensity of trade disputes and geopolitical tensions using systematically collected newspaper content (Caldara and Iacoviello, 2022; Ahir et al., 2022). They provide forward-looking signals on global uncertainty that traditional financial and macroeconomic indicators do not capture. Episodes such as the 2018-2019 United States-China trade war, Russia's invasion of Ukraine in 2022 and recurrent conflicts in the Middle East illustrate how *TPU* and *GPR* can fluctuate sharply in response to policy confrontation and geopolitical instability. Despite their widespread use in macroeconomic and asset-pricing research (Pastor and Veronesi, 2012; Baker et al., 2016; Caldara et al., 2020), the extent to which these two forms of uncertainty propagate to sovereign CDS markets remains insufficiently understood, particularly when both *TPU* and *GPR* are analyzed jointly within a unified empirical framework.

Taken together, the growing reliance on sovereign CDS as timely measures of sovereign credit risk and the rising prominence of *TPU* and *GPR* naturally raise the question of how these two dimensions interact. Yet, despite this conceptual complementarity, existing research has not disentangled the relative influence of trade-policy uncertainty

and geopolitical risk on sovereign credit markets. While prior studies document the sensitivity of CDS to broad measures of global risk, they do not compare how distinct categories of uncertainty propagate across borders nor whether these shocks generate heterogeneous or persistent adjustments in sovereign risk pricing. Addressing these gaps is essential for understanding the channels through which uncertainty is transmitted internationally and for evaluating the resilience of sovereign risk valuation frameworks.

These gaps motivate our analysis. Sovereign CDS spreads offer a natural setting to examine whether shocks related to geopolitical risk and trade-policy uncertainty lead to substantial and persistent adjustments in sovereign credit risk or whether their effects are transitory and rapidly arbitrated away. Understanding the magnitude and persistence of these responses carries important implications. For policymakers, it clarifies whether sovereign credit markets amplify tensions arising from geopolitical and trade-policy conflicts or whether institutional backstops help dampen transmission. For investors, it provides guidance on whether exposure to geopolitical and policy shocks requires frequent rebalancing of sovereign credit positions or only adjustments during major episodes of stress. For researchers, it sheds light on the mechanisms through which different forms of global uncertainty affect sovereign risk premia and the international transmission of shocks.

Our contributions are threefold. First, we provide the first systematic cross-country comparison of how trade-policy uncertainty (TPU) and geopolitical risk (GPR) transmit to sovereign CDS markets across 15 major sovereigns, including the euro area, the United States and China, over 2015-2025. This joint assessment identifies which type of global uncertainty exerts stronger and more persistent influence on sovereign credit risk, a question that the existing literature has not addressed. Second, we use a unified empirical framework combining a recursively identified VAR with a time-varying-parameter VAR, enabling us to measure both average impulse-response dynamics and evolving sensitivities in the presence of institutional interventions such as OMT, PEPP and the Transmission Protection Instrument. Third, we document strong cross-country heterogeneity and pronounced state dependence. By distinguishing tranquil periods from stress regimes, we show that global uncertainty affects sovereign CDS spreads only episodically, with temporary amplifications during trade tensions, the onset of COVID-19 and the 2022 energy shock, but virtually no persistence otherwise.

Overall, our findings indicate that the effects of geopolitical and trade-policy uncertainty on sovereign CDS spreads are more limited and state-dependent than commonly assumed. On average, TPU and GPR shocks generate only modest and short-lived adjustments in sovereign credit spreads, with transmission intensifying primarily during well-defined stress periods. These results help reconcile the broadly stable levels of sovereign CDS spreads observed in recent years with the sharp but infrequent jumps recorded during major geopolitical episodes. By clarifying when and through which channels global uncertainty shapes sovereign credit markets, the paper contributes to the broader literature on uncertainty, financial integration and sovereign risk.

The rest of the paper is organized as follows. [section 2](#) presents the theoretical background and reviews the literature on sovereign credit risk and global uncertainty. [section 3](#) introduces the data and describes the methodological framework. [section 4](#) and [section 5](#) respectively report the empirical results and provide a detailed discussion of the cross-country evidence. [section 6](#) concludes the paper.

## 2. Literature review

The literature on uncertainty and sovereign credit risk has expanded rapidly over the past decade, yet the mechanisms through which different forms of global uncertainty propagate into sovereign CDS markets remain only partially understood. Existing research has developed along two largely separate strands, one focused on trade-policy uncertainty and the other on geopolitical risk, each offering important insights but leaving critical comparative and dynamic questions unanswered. This section reviews these contributions, highlights their limitations and fragmentation, and establishes the specific gaps that motivate our integrated analysis of TPU and GPR within a unified empirical framework.

### *2.1. Trade-policy uncertainty and financial markets*

Trade-policy uncertainty, defined as unpredictability in trade rules and policy enforcement, has risen sharply over the past decade and become a central concern for policymakers and firms. A substantial macroeconomic literature documents its disruptive effects on real economic outcomes. Studies show that increases in trade-policy uncertainty reduce trade flows (Handley and Limão, 2017; Crowley et al., 2018; Cui and Li, 2023), hinder employment and firm entry (Bloom, 2009; Pierce and Schott, 2016; Handley and Limão, 2017), and depress investment and corporate activity (Caldara et al., 2020). These findings highlight the role of trade-policy uncertainty as a first-order driver of global economic conditions. Given these widespread real-economy effects, an important question concerns how trade-policy uncertainty transmits to financial markets, where uncertainty is priced continuously and often more rapidly than in macroeconomic aggregates.

In financial markets, trade-policy uncertainty shapes asset valuation through multiple channels. Studies show that increases in trade-policy uncertainty raise equity volatility and affect stock market performance (He et al., 2021; Younis et al., 2024), influence option implied premia (Pastor and Veronesi, 2012; Pástor and Veronesi, 2013), and alter credit risk assessments, including in corporate and sovereign credit derivative markets (Byström et al., 2005; Alexander and Kaeck, 2008; Liu and Zhong, 2017; Pan et al., 2024). Beyond these broad market reactions, trade-policy uncertainty also induces heterogeneous sectoral risk premia. Sectors more exposed to trade-policy disruptions consistently earn higher returns as compensation for bearing greater uncertainty (Pastor and Veronesi, 2012; Pástor and Veronesi, 2013; Fillat and Garetto, 2015; Barrot et al., 2019). This premium is further amplified when shipping costs are low, when Normal Trade Relations tariffs are low, or when industries rely heavily on imports from China (Bianconi et al., 2021), highlighting the importance of international trade linkages in shaping risk exposure. Firm level evidence also confirms that political and policy uncertainty induces precautionary behaviour, with firms postponing capital expenditure, reducing leverage, restricting dividend payments and accumulating cash (Julio and Yook, 2012; Huang et al., 2015; Zhang et al., 2015). These adjustments underscore the broad transmission of trade-policy uncertainty to both financial and corporate decision making.

The theoretical foundations for these effects are grounded in models in which policy shocks increase risk premia by heightening the sensitivity of asset prices to fundamental uncertainty (Pastor and Veronesi, 2012; Pástor and Veronesi, 2013). These models predict that political or policy shocks exert a stronger effect when economic conditions are

weak, when political information is more transparent or when the policy environment is perceived as heterogeneous. This mechanism increases both volatility and co movement in financial markets and provides a rationale for why trade-policy uncertainty should transmit strongly to credit markets. [Pástor and Veronesi \(2013\)](#) further decompose asset price dynamics into capital shocks, impact shocks and political shocks, showing that the latter become particularly influential in weak economic environments, when governments are more likely to adopt new policies. Political shocks also have stronger effects when political information is more transparent or when new policies are perceived as heterogeneous. These mechanisms heighten volatility and co movement across financial markets, reinforcing the theoretical basis for expecting strong transmission of trade-policy uncertainty to credit risk indicators.

Although trade-policy uncertainty has been explored extensively in equity, option and corporate credit markets, the literature on sovereign CDS has developed largely independently. Key empirical determinants of CDS spreads include interest rates, equity returns, implied volatility and conditions ([Benkert, 2004](#); [Byström et al., 2005](#); [Alexander and Kaeck, 2008](#); [Ericsson et al., 2009](#); [Sabkha et al., 2018, 2019](#)). Additional studies show that uncertainty affects CDS premia by altering risk neutral and physical default probabilities ([Pouzo and Presno, 2016](#); [Zhang, 2008](#); [Gilchrist and Zakrajšek, 2012](#)), and that CDS indices may become more sensitive to structural variables during crises even when underlying solvency remains unchanged ([Alexander and Kaeck, 2008](#)). Moreover, hedging strategies that rely on equity prices can become ineffective in stressed markets ([Yu, 2006](#)), further amplifying the effect of uncertainty on CDS spreads.

More recent work incorporates news-based measures of uncertainty into the analysis of sovereign credit risk. [Pan et al. \(2024\)](#) show that political economic uncertainty extracted from textual data significantly increases sovereign CDS spreads, especially in developed, investment grade economies, and emphasize the strong connection between CDS dynamics and global uncertainty indicators such as the World Uncertainty Index ([Ahir et al., 2018, 2022](#)). However, even these studies consider political or economic uncertainty in isolation, leaving open the question of how trade-policy uncertainty compares with other global uncertainty drivers. While corporate CDS spreads react to trade-policy uncertainty around political events, especially in economies with weaker investor protection ([Liu and Zhong, 2017](#)), corresponding evidence for sovereign CDS remains scarce. This disconnect between the trade-policy uncertainty literature and the CDS literature suggests that an important channel of transmission remains unexplored.

Overall, despite extensive research on both trade-policy uncertainty and sovereign credit risk, the empirical link between trade-policy uncertainty and sovereign CDS spreads remains fragmented and incomplete. Existing studies do not assess whether trade-policy uncertainty constitutes a distinct transmission channel relative to other forms of global uncertainty, nor whether its impact propagates heterogeneously across sovereign credit markets. These gaps motivate the need for a systematic and comparative analysis of how trade-policy uncertainty affects sovereign risk pricing.

### *2.2. Geopolitical risk and sovereign credit markets*

Although trade-policy uncertainty captures policy driven disruptions in global trade, it represents only one facet of the broader uncertainty landscape. A second, increasingly prominent source of global risk arises from geopolitical tensions, which propagate

through different economic, financial and strategic channels. To complement the preceding discussion of trade-policy uncertainty, the next subsection examines the literature on geopolitical risk and its relevance for sovereign credit markets.

Geopolitical dynamics, defined as the analysis of international relations through the lens of geography and the spatial positioning of nations, have major implications for stability (Khraiche et al., 2023; Afonso et al., 2024). Episodes of heightened geopolitical tension such as the invasion of Ukraine by the Russian Federation in 2022, the outbreak of large-scale hostilities in Israel and the Gaza Strip in 2023, and the confrontation between Israel and Iran in 2025 triggered sharp movements in global financial markets. These events were accompanied by substantial jumps in sovereign CDS spreads, reflecting a rapid reassessment of default risk in response to rising geopolitical uncertainty<sup>1</sup>.

While these country-specific episodes reveal the scale of GPR's impact, a growing academic literature provides systematic evidence that geopolitical tensions meaningfully affect sovereign credit risk across a wide range of economies. In the European context, Bratis et al. (2024), following Bratis et al. (2020), show that macroeconomic uncertainty driven by geopolitical tensions significantly influenced sovereign bond yields and CDS spreads during the euro area debt crisis, with a weaker relationship in subsequent periods. At the global level, Demiralay et al. (2024) analyze 39 countries and find that idiosyncratic geopolitical shocks immediately raise sovereign risk premia by widening CDS spreads. The effect becomes more pronounced when geopolitical tensions coincide with high baseline sovereign risk, elevated market volatility or weak macroeconomic fundamentals. At the firm level, Huang (2025) documents that corporate CDS spreads increased substantially during the Russia-Ukraine war, with firms experiencing higher default probabilities and lower credit ratings. These patterns indicate that geopolitical uncertainty erodes investor confidence and amplifies financial vulnerability at both corporate and sovereign levels.

Another strand of the literature show that geopolitical tensions propagate internationally through trade, financial and collateral channels. Afonso et al. (2024) show that geopolitical shocks originating in neighbouring countries spill over into domestic sovereign credit risk, reinforcing the view that geopolitical-risk shocks extend beyond national borders. The magnitude of these spillovers depends on structural characteristics of the economy. Differences in macro-financial fundamentals between advanced economies, emerging European markets and large systemic players imply that sovereign CDS responses to geopolitical shocks are heterogeneous, a point emphasized in International Monetary Fund classifications (Department, 2023) and in empirical sovereign risk studies. Despite this progress, the existing literature still treats geopolitical uncertainty in isolation, leaving open important questions about how its effects compare with other global sources of uncertainty, particularly trade-policy uncertainty.

### *2.3. Linking TPU and GPR: Toward a Unified Understanding of Uncertainty Transmission*

Research on trade-policy uncertainty and geopolitical risk has evolved along two largely separate strands. The first focuses on trade-policy uncertainty and its effects on financial markets, examining equity and option pricing (Pástor and Veronesi, 2013;

Bali et al., 2017), sovereign CDS dynamics (Pan et al., 2024), the relationship between the economic policy uncertainty index and United States CDS indices (Wisniewski and Lambe, 2015), and the impact of national elections on credit risk (Liu and Zhong, 2017). The second strand analyzes geopolitical risk, documenting how geopolitical shocks influence equity returns, exchange-rate performance and commodity markets such as precious metals and energy (Baur and Smales, 2020; Ivanovski and Hailemariam, 2022; Iyke et al., 2022; Salisu et al., 2022; Gök et al., 2023). Although both literatures demonstrate that uncertainty shapes financial markets, they remain largely disconnected.

Across these two strands, four important gaps emerge. First, no study directly compares trade-policy uncertainty and geopolitical risk in the context of sovereign CDS markets, making it impossible to assess their relative importance as drivers of sovereign credit risk. Second, existing evidence provides limited insight into the intensity and persistence of each uncertainty type, as most papers examine levels or contemporaneous correlations rather than dynamic adjustment paths captured through impulse response analysis. Third, the cross-country heterogeneity of uncertainty transmission remains largely unexplored, despite substantial structural differences between advanced economies, emerging European markets and large systemic global players. Fourth, empirical work rarely covers the recent period, which includes major geopolitical crises and unprecedented institutional interventions, such as the European Central Bank's Pandemic Emergency Purchase Programme (ECB's PEPP) and Transmission Protection Instrument (TPI), that may fundamentally alter the way uncertainty transmits to sovereign risk.

Our study addresses all four gaps by jointly examining the effects of trade-policy uncertainty and geopolitical-risk shocks on sovereign CDS spreads across multiple country groups within a unified empirical framework combining a recursively identified VAR and a time-varying-parameter VAR. This approach makes it possible to evaluate not only the magnitude and persistence of uncertainty shocks but also their evolution over time and across heterogeneous environments. By focusing explicitly on sovereign CDS, the analysis assesses how both trade-policy uncertainty and geopolitical risk related uncertainty are transmitted to credit markets through changes in risk premia. The aim is to determine whether these shocks generate significant upward adjustments in spreads, leave them broadly unchanged, or contribute to spread compression.

Several empirical and theoretical considerations further justify our focus on CDS. First, CDS spreads offer timelier information on credit conditions than equity based indicators (Blanco et al., 2005). Second, because CDS contracts are standardised and quoted daily, they provide more homogeneous time series than options, reducing measurement error. Third, the global liquidity of CDS and the absence of trading restrictions allow uncertainty shocks to propagate rapidly and asynchronously across markets. To isolate the specific effect of each source of uncertainty, we combine trade-policy uncertainty and geopolitical risk with macroeconomic and financial controls while focusing on five year sovereign CDS contracts, the most liquid maturity segment. The use of a time-varying-parameter VAR further enables us to capture evolving sensitivities in the transmission of uncertainty to sovereign credit risk.

Finally, existing research suggests that geopolitical risk may exert stronger and more persistent effects on sovereign CDS than trade-policy uncertainty. Geopolitical tensions typically signal deep, structural and long lasting disruptions affecting economic stability, political institutions and international relations (Demiralay et al., 2024; Huang, 2025).

By contrast, trade-policy uncertainty often reflects more temporary or reversible policy shifts that may be mitigated through negotiation or political adjustments (Pástor and Veronesi, 2013; Caldara et al., 2020; Pan et al., 2024). These differences motivate an empirical comparison of trade-policy uncertainty and geopolitical-risk shocks to assess whether sovereign credit markets embed higher and more durable risk premia in response to geopolitical uncertainty.

The findings of this study are relevant for researchers, investors, policymakers and governments seeking to understand how different forms of global uncertainty shape sovereign credit risk and how these effects vary across countries and institutional contexts.

### 3. Methodological framework

#### 3.1. Data and variables

Daily data for 15 countries are collected over the period from 1 January 2015 to 20 June 2025. The sample includes 13 euro area economies, together with China and the United States. The country selection reflects three criteria: market relevance, geopolitical exposure and trade-policy centrality. First, we include major advanced economies from Europe such as France, Germany and Finland, due to their central roles in global finance and high sensitivity to regional geopolitical tensions, particularly linked to recent events such as the Russia-Ukraine conflict. Second, we incorporate emerging European markets that are more directly exposed to regional spillovers, given the heightened tensions associated with the Russia-Ukraine conflict and ongoing regional frictions in Europe. Third, we add the United States and China, whose bilateral trade measures have been central to global trade-policy uncertainty fluctuations since 2018, notably the frequent policy shifts during and after the Trump administration and subsequent trade tensions<sup>3</sup>. This combination creates a balanced and representative sample for a comprehensive analysis of how uncertainty shocks propagate across heterogeneous economic and geopolitical contexts.

For each country, the five year CDS mid spread is used as the benchmark measure of sovereign credit risk, consistent with standard practice in the sovereign risk literature, since the five year maturity concentrates most liquidity and accounts for the majority of trading volume. The data are sourced from Refinitiv®.

Uncertainty is captured through two news-based indices: the trade-policy uncertainty index of Caldara et al. (2019) and the geopolitical risk index of Caldara and Iacoviello (2022). The geopolitical risk index (*GPR*) reflects the frequency of articles related to geopolitical tensions, conflict and war in leading international newspapers, while the trade-policy uncertainty (*TPU*) index measures uncertainty surrounding changes in trade laws, tariffs and trade agreements based on systematic text analysis. Both indicators are retrieved from their publicly available repositories on the Policy Uncertainty Website<sup>4</sup>.

To control for global conditions, two additional variables are included. The first is the Brent crude oil price (*OIL*), a benchmark frequently used to capture global

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<sup>3</sup>The inclusion of emerging European markets is supported by empirical evidence documenting their sensitivity to geopolitical spillovers from neighbouring conflicts (Bratis et al., 2024).

<sup>4</sup>[www.policyuncertainty.com](http://www.policyuncertainty.com)

commodity and risk conditions. The second control variable,  $FX$ , captures exchange-rate movements vis à vis the United States dollar. For euro area and European countries, the exchange-rate is the bilateral rate against the United States dollar, reported as the price of one United States dollar in domestic currency. For the United States, where a domestic United States dollar rate is not defined, the exchange-rate is proxied by a broad United States dollar index. These controls account for fluctuations in global risk appetite and external financing pressures that may influence sovereign CDS spreads independently of trade-policy uncertainty and geopolitical risk dynamics.

Because the various series originate from different markets and time zones, all data are synchronized to a common daily timestamp before being converted to weekly frequency. This dataset provides a consistent and high frequency basis for evaluating how trade-policy uncertainty and geopolitical-risk shocks transmit to sovereign credit risk across countries that differ markedly in economic structure, geopolitical exposure and global market integration.

### 3.2. Econometric model: A two step framework

To examine how trade-policy uncertainty ( $TPU$ ) and geopolitical risk ( $GPR$ ) propagate to sovereign credit risk, we adopt a two step econometric framework combining a baseline vector autoregression (VAR) with a time-varying-parameter VAR (TVP-VAR). This integrated approach captures both the average transmission of uncertainty shocks and the evolution of their effects over time.

Trade-policy uncertainty ( $TPU$ ), geopolitical risk ( $GPR$ ), oil prices ( $OIL$ ) and exchange-rates ( $FX$ ) are transformed into log first-differences at the weekly frequency, while the CDS spread enters as a weekly change in basis points. Weekly sampling is based on the last business day of the week. When variables are available at higher frequency, the last observation of the week is used to ensure consistent alignment across markets and time zones. Working-level stationarity of the transformed series is assessed with ADF and KPSS. All series are aligned by calendar week.

Let:

- $TPU_t$  and  $GPR_t$  denote the weekly log differences of the trade-policy uncertainty and geopolitical risk indices,
- $OIL_t$  the weekly log differences of the Brent crude price,
- $FX_t$  the weekly log difference of the bilateral domestic United States dollar exchange-rate for non United States countries, and the weekly log difference of a broad United States dollar index for the United States,
- $\Delta CDS_t$  the weekly change in the five year sovereign CDS spread, measured in basis points.

#### Step 1: Baseline VAR model

For each country, we estimate a reduced-form VAR of order  $p$ , consistent with standard weekly macro-financial dynamics:

$$Z_t = A_1 Z_{t-1} + \dots + A_p Z_{t-p} + u_t,$$

where

$$Z_t = \begin{bmatrix} TPU_t \\ GPR_t \\ OIL_t \\ FX_t \\ \Delta CDS_t \end{bmatrix}$$

$A_1, \dots, A_p$  are coefficient matrices, and  $u_t$  is the vector of reduced form disturbances with covariance matrix  $\Sigma_u$ . The lag order  $p$  is selected separately for each country using the Akaike information criterion over the range  $p \in \{1, \dots, 8\}$ .

Structural identification is achieved via a Cholesky decomposition of  $\Sigma_u$ , imposing the ordering  $(TPU, GPR, OIL, FX, \Delta CDS)$ <sup>5</sup>. This ordering reflects the assumption that sovereign CDS spreads can respond contemporaneously to uncertainty shocks, oil prices and exchange-rates, while the uncertainty indices do not react contemporaneously to CDS movements within the weekly horizon. This is consistent with the construction of the trade-policy uncertainty and geopolitical risk indices based on monthly or lower frequency textual information.

Let  $B$  be the lower-triangular impact matrix such that :

$$u_t = B\varepsilon_t$$

where  $\varepsilon_t$  is a vector of orthogonal shocks with identity covariance matrix,  $\varepsilon_t \sim (0, I_5)$ . The elements of  $\varepsilon_t$  represent innovations in trade-policy uncertainty, geopolitical risk, oil prices, exchange-rates and CDS spreads.

*Impulse Response Functions.* : orthogonalized impulse response functions (IRFs) are computed over horizons  $h = 0, \dots, 12$  and extended to  $h = 20$  in robustness checks. Uncertainty around the IRFs is quantified with residual based bootstrap confidence bands, typically at 68% and 90%, which preserve the cross equation correlation structure. Because the VAR is estimated in original units, the response of sovereign credit risk to a one-standard-deviation trade-policy uncertainty or geopolitical risk shock is directly measured in basis points at each horizon. For interpretation, we report peak responses and cumulative effects over horizons 0 to 4 and 0 to 8 weeks.

*Subsample Stability Assessment.* : To gauge structural stability, the VAR is re-estimated on two subsamples split at 1 March 2020, which coincides with the onset of the COVID-19 shock and the introduction of major policy backstops such as the European Central Bank's Pandemic Emergency Purchase Programme. The same identification and bootstrap procedures are applied to both subsamples.

#### *Step 2, time-varying-parameter VAR*

The static VAR captures average transmission over the full sample, but geopolitical and trade-policy dynamics evolved significantly during the period under study. To account for such changes, we estimate a time-varying-parameter VAR (TVP-VAR):

$$Z_t = A_{1,t}Z_{t-1} + \dots + A_{p,t}Z_{t-p} + u_t$$

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<sup>5</sup>Shocks are identified via a Cholesky decomposition with ordering  $(TPU, GPR, OIL, FX, \Delta CDS)$  and one-standard-deviation normalization. Swapping  $TPU$  and  $GPR$  leaves the orthogonalized IRFs for  $\Delta CDS$  virtually unchanged, and generalized IRFs are numerically identical, consistent with low correlation  $TPU$  and  $GPR$  innovations.

With time-varying coefficient matrices, following random-walk-type laws of motion:

$$A_{j,t} = A_{j,t-1} + \eta_{j,t}, \quad j = 1, \dots, p$$

where  $\eta_{j,t}$  is a vector of state innovations. The covariance matrix of  $u_t$  evolves using a recursive least squares estimator with exponentially weighted moving average (EWMA) innovation covariance, allowing coefficients to adjust smoothly to changing volatility regimes.

This specification yields date-by-date impulse responses, offering a dynamic view of how the effects of trade-policy uncertainty and geopolitical-risk shocks have strengthened or weakened over time, particularly around major events such as the 2018 to 2019 trade tensions, the COVID-19 shock and the 2022 energy crisis.

To visualise the time variation in these responses, we construct date-horizon impulse response heatmaps. For each week, we compute orthogonalized impulse responses from the time-varying-parameter VAR over horizons  $h = 0, \dots, 12$ , using the same Cholesky ordering as in the static VAR. Shocks are normalized to one contemporaneous standard deviation at each date, so the heatmaps report the response of  $\Delta CDS_{t+h}$  in basis points per one-standard-deviation *TPU* or *GPR* shock for every  $(t, h)$  combination. The resulting  $T \times H$  surface is displayed as a colour map.

As an additional identification check, we compute sign-restricted impulse responses that impose non negative contemporaneous effects of trade-policy uncertainty and geopolitical risk on  $\Delta CDS$ . The resulting profiles are qualitatively consistent with those obtained under the recursive identification scheme.

## 4. Empirical results

### 4.1. Descriptive statistics

Preliminary tests in [Table 1](#) show that weekly changes in sovereign CDS spreads display means extremely close to zero, consistent with their behaviour as stationary, high-frequency risk-pricing movements rather than trend-driven variables. In every country, the standard deviation of  $\Delta CDS$  is several times larger than the mean, confirming that sovereign risk varies mainly through short-term noise and episodic shocks rather than systematic drift. The table also shows that CDS changes exhibit significant kurtosis (for instance Belgium 43.052, France 30.445), signaling the presence of fat tails and occasional large jumps. This aligns with existing evidence documenting discontinuities and crisis-driven extremes in sovereign CDS markets. By contrast, the uncertainty series  $\Delta \log(TPU)$  and  $\Delta \log(GPR)$  have much smaller standard deviations (around 0.45 and 0.78) and very low kurtosis, indicating that weekly fluctuations in news-based uncertainty indices are smoother and less explosive than sovereign credit-risk movements. Oil prices and exchange-rates show minimal weekly variation as well, with standard deviations concentrated around 0.02 for oil and 0.01 for exchange-rates, reflecting high liquidity and strong mean-reversion in these markets.

Although the broad patterns are consistent across countries, several sovereigns stand out. Greece exhibits both the highest volatility and the most extreme kurtosis in  $\Delta CDS$  (kurtosis above 30), which is consistent with its well-documented post-crisis fragility and the recurrent large movements in Greek sovereign risk recorded during crisis period. Belgium and France also present very large kurtosis values, confirming that tail events

remain an important component of European sovereign-risk repricing. By contrast, Austria, Finland and the Netherlands display the smallest  $\Delta CDS$  variance, indicating relatively stable sovereign-risk conditions. The uncertainty variables ( $TPU$  and  $GPR$ ) remain highly similar across countries, as they are global indices rather than country-specific measures, which mechanically reduces cross-sectional dispersion.

From a methodological perspective, these descriptive features justify the use of VAR models in levels of weekly changes, since all series behave as stationary high-frequency processes with no trend and with well-defined second moments. They also suggest that bootstrap confidence intervals are necessary in the empirical analysis because the heavy-tailed nature of CDS changes invalidates IID-Gaussian assumptions. Overall, the descriptive statistics provide a coherent and empirically robust foundation for the VAR and TVP-VAR estimation framework.

Table 1: Descriptive statistics for sovereign CDS and uncertainty variables

Variable	N	Mean	Median	Std. dev.	Min	Max	Kurtosis
<b>Austria</b>							
$\Delta CDS$	504	-0.0289	-0.0160	0.898	-59450	89590	14550
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(US\ dollar\ index)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>Belgium</b>							
$\Delta CDS$	504	-0.0340	-0.0405	0.8843	-59450	80450	9384
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>China</b>							
$\Delta CDS$	347.0	0.1043	0.1030	1.0721	-50650	135070	7504
$\Delta \log(TPU)$	347.0	-0.0042	-0.0089	0.7976	-24871	23500	0.189
$\Delta \log(GPR)$	347.0	0.0027	0.0086	0.4419	-15583	13030	0.525
$\Delta \log(Oil)$	347.0	0.0006	0.0006	0.0218	-0.0733	0.0734	0.754
$\Delta \log(CNY/USD)$	347.0	0.0000	-0.0008	0.0077	-0.0226	0.0308	55.369
<b>Finland</b>							
$\Delta CDS$	504	-0.0326	-0.0395	0.8972	-59450	89590	12173
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>France</b>							
$\Delta CDS$	504	-0.0202	-0.0260	0.823	-53550	71280	9045
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124

Continued on next page

Table 1 (continued)

Variable	N	Mean	Median	Std. dev.	Min	Max	Kurtosis
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>Germany</b>							
$\Delta CDS$	504	-0.0309	-0.0285	0.8361	-59450	74450	10550
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>Greece</b>							
$\Delta CDS$	504	-0.6301	-0.0905	17.616	-264490	274420	166.931
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>Ireland</b>							
$\Delta CDS$	504	-0.0221	-0.0305	0.7948	-53550	68210	8328
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>Italy</b>							
$\Delta CDS$	504	-0.1048	-0.1015	2.4676	-144160	481490	9677
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>Latvia</b>							
$\Delta CDS$	328.0	0.0930	-0.0535	3.3462	-143330	225120	12448
$\Delta \log(TPU)$	328.0	0.0175	-0.0211	0.7526	-21012	23500	0.113
$\Delta \log(GPR)$	328.0	0.0028	0.0077	0.4519	-15583	13030	0.283
$\Delta \log(Oil)$	328.0	-0.0001	-0.0002	0.0232	-0.0733	0.0922	1.054
$\Delta \log(EUR/USD)$	328.0	0.0001	-0.0004	0.0112	-0.0388	0.0431	1372
<b>Lithuania</b>							
$\Delta CDS$	338	-0.0166	-0.0195	2.9121	-135560	197420	10820
$\Delta \log(TPU)$	338	0.0134	-0.0225	0.7472	-21012	23500	0.130
$\Delta \log(GPR)$	338	0.0023	-0.0013	0.4517	-15583	13030	0.249
$\Delta \log(Oil)$	338	-0.0001	-0.0001	0.0225	-0.0733	0.0734	0.605
$\Delta \log(EUR/USD)$	338	0.0001	-0.0006	0.0110	-0.0388	0.0431	1368
<b>Netherlands</b>							
$\Delta CDS$	504	-0.0235	-0.0265	0.824	-53550	74350	9791

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Table 1 (continued)

Variable	N	Mean	Median	Std. dev.	Min	Max	Kurtosis
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>Portugal</b>							
$\Delta CDS$	504	-0.0354	-0.0290	1.2544	-119280	179060	9651
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>Spain</b>							
$\Delta CDS$	504	-0.0598	-0.2335	5.3263	-341990	508610	23220
$\Delta \log(TPU)$	504	0.0176	-0.0089	0.775	-24013	23500	0.116
$\Delta \log(GPR)$	504	-0.0013	-0.0013	0.452	-15583	13231	0.124
$\Delta \log(Oil)$	504	0.0002	0.0003	0.0224	-0.0733	0.0922	0.883
$\Delta \log(EUR/USD)$	504	0.0001	-0.0004	0.0106	-0.0388	0.0431	1368
<b>United States</b>							
$\Delta CDS$	328	0.0984	0.0020	2.4856	-235000	187620	37778
$\Delta \log(TPU)$	328	0.0208	-0.0030	0.7842	-22511	22016	-0.111
$\Delta \log(GPR)$	328	0.0024	0.0213	0.4281	-15583	13030	0.490
$\Delta \log(Oil)$	328	-0.0005	-0.0004	0.0225	-0.0733	0.0922	1.230
$\Delta \log(US\ dollar\ index)$	328	-0.0002	0.0006	0.0099	-0.0422	0.0314	1479

**Note:**  $N$  is the number of weekly observations for each series. *Std. dev.* denotes the standard deviation. *Min* and *Max* are the minimum and maximum weekly changes in the sample. Kurtosis refers to the excess kurtosis of each series. All variables are weekly log-differences except  $\Delta CDS$ , which is measured in basis points.

#### 4.2. Baseline impulse responses, magnitude and persistence

This section reports the estimated dynamic responses of sovereign CDS spreads to trade-policy uncertainty and geopolitical-risk shocks across the 15 countries in the sample. We summarize, for each sovereign, the peak effects of one-standard-deviation shocks, the cumulative responses over short and medium horizons, and the time-varying patterns obtained from the TVP-VAR, distinguishing where relevant between the pre-COVID and post-COVID periods<sup>6</sup>.

Table 2 reports the corresponding peak responses of weekly CDS changes together with a simple measure of economic persistence, defined as the last horizon at which the absolute impulse remains at least 10 % of its maximum magnitude. For trade-policy uncertainty shocks, peak responses range from about - 1.1 basis points in Greece to just below 1 basis point in Portugal, with most countries clustered below 0.5 basis points in absolute value. For geopolitical-risk shocks, peak impacts are small and of similar

<sup>6</sup>Full estimation results are available from the authors upon request.

order, with slightly larger negative values in Greece and moderate positive responses in a few advanced economies.

Table 2: Peak impulse responses of sovereign CDS to TPU and GPR shocks

Country	TPU peak (bp)	GPR peak (bp)	Persistence
Austria	-0.0841 bp at $h = 3$	0.0747 bp at $h = 1$	TPU 6 weeks, GPR 4 weeks
Belgium	-0.1000 bp at $h = 4$	0.1139 bp at $h = 3$	TPU 10 weeks, GPR 5 weeks
China	-0.3910 bp at $h = 3$	0.5243 bp at $h = 0$	TPU 8 weeks, GPR 8 weeks
Finland	0.0744 bp at $h = 2$	-0.0655 bp at $h = 1$	TPU 4 weeks, GPR 2 weeks
France	0.2208 bp at $h = 2$	0.0186 bp at $h = 2$	TPU 4 weeks, GPR 6 weeks
Germany	0.0608 bp at $h = 3$	0.9070 bp at $h = 1$	TPU 7 weeks, GPR 8 weeks
Greece	-1.1056 bp at $h = 4$	-2.1414 bp at $h = 5$	TPU 10 weeks, GPR 7 weeks
Ireland	0.1267 bp at $h = 0$	0.0984 bp at $h = 1$	TPU 9 weeks, GPR 4 weeks
Italy	-0.7921 bp at $h = 2$	0.5675 bp at $h = 1$	TPU 6 weeks, GPR 6 weeks
Latvia	0.4630 bp at $h = 1$	0.1216 bp at $h = 1$	TPU 2 weeks, GPR 3 weeks
Lithuania	0.4140 bp at $h = 0$	0.1767 bp at $h = 0$	TPU 2 weeks, GPR 3 weeks
Netherlands	0.0834 bp at $h = 2$	0.0689 bp at $h = 4$	TPU 7 weeks, GPR 5 weeks
Portugal	0.9616 bp at $h = 0$	0.5444 bp at $h = 4$	TPU 7 weeks, GPR 9 weeks
Spain	-0.2956 bp at $h = 2$	0.2777 bp at $h = 3$	TPU 9 weeks, GPR 8 weeks
United States	0.1914 bp at $h = 1$	0.1495 bp at $h = 1$	TPU 2 weeks, GPR 2 weeks

**Note:** Peaks in basis points per one-standard-deviation shock.

Combining the peak responses in [Table 2](#) with the full set of country-level impulse responses and their time-varying profiles reveals a clear and consistent pattern across the sample. Uncertainty shocks, whether arising from trade-policy or geopolitical tensions, generate only limited and short-lived adjustments in sovereign CDS spreads. Peaks generally occur within the first week, cumulative effects over one to two months remain small, and the TVP-VAR results indicate that episodes of heightened sensitivity are episodic and concentrated around well-identified stress windows such as the 2018-2019 trade disputes, the onset of COVID-19 and the 2022 energy shock. Outside these periods, impulse responses revert rapidly and confidence intervals typically include zero. Overall, the evidence suggests that sovereign credit markets absorb uncertainty shocks with notable resilience over 2015-2025, displaying only localized and temporary deviations rather than sustained repricing of sovereign risk.

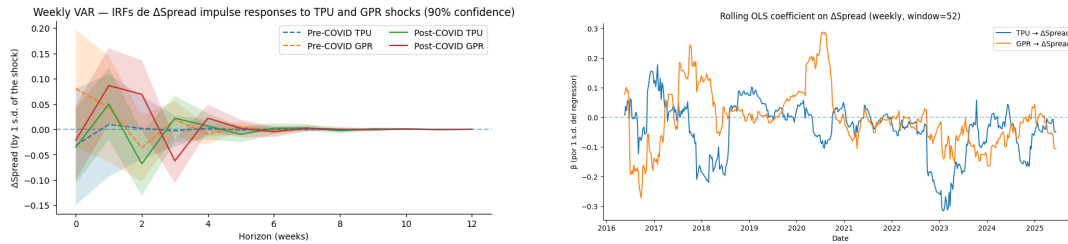
#### 4.3. *country-specific responses*

In this subsection we briefly review the main patterns for individual sovereigns, focusing on the sign, magnitude and persistence of the impulse responses and on the time variation captured by the heatmaps.

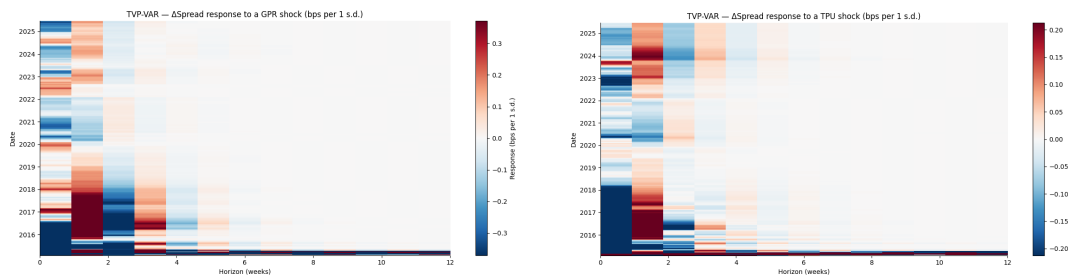
For clarity and comparability, sovereigns are grouped according to their structural and financial characteristics. We distinguish: (i) stable mid-tier euro area economies (Austria and Belgium), which exhibit low but not core-level sovereign risk; (ii) core euro area sovereigns (Finland, France, Germany, the Netherlands); (iii) higher-risk euro area sovereigns (Greece, Italy, Portugal, Spain); (iv) small open economies (Ireland, Latvia, Lithuania); along with two large systemic players (China and the United States).

*Stable mid-tier euro area sovereigns.* : Stable mid-tier euro area sovereigns display a common pattern of very small, short-lived, and economically negligible responses to both TPU and GPR shocks. Although minor fluctuations arise at short horizons, neither uncertainty measure generates persistent or sizeable adjustments in sovereign CDS spreads for these countries.

For Austria, as shown in Figure 1, a trade-policy uncertainty shock yields a small negative impact on the CDS spread, with a peak of about -0.08 basis point at horizon  $h = 3$ , followed by a mild positive rebound and a near-zero cumulative effect over the full horizon. geopolitical-risk shocks produce similarly small movements, with a positive spike of roughly 0.07 bp at  $h = 1$  and a negative dip of about -0.05 bp at  $h = 2$ , also leaving the cumulative response essentially flat. In the post COVID window, amplitudes are even more muted and remain economically minor, with TVP-VAR responses to both TPU and GPR staying well below 0.53 bp in absolute value. In the most recent segment of the sample, signs diverge but magnitudes remain small: TPU generates a modest positive blip (peak around 0.06 bp at  $h = 1$ ), whereas GPR is slightly negative on impact.



(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI) (b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)

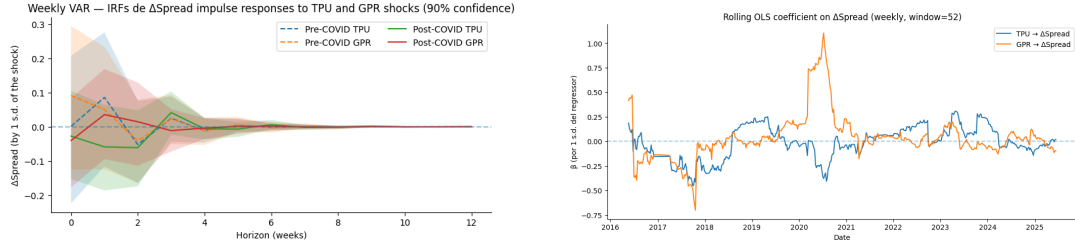


(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock (d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

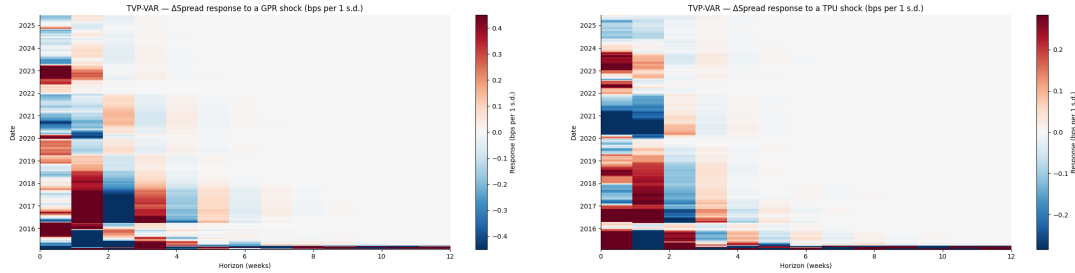
Figure 1: Dynamic responses of Austrian sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

Moving from Austria to Belgium (Figure 2), the overall magnitude of responses remains small, but Belgium exhibits slightly more pronounced short horizon movements. In the Belgian weekly specification, a one-standard-deviation TPU shock generates a small negative peak in CDS changes of about -0.10 basis point at  $h = 4$ , which reverses quickly. A GPR shock is larger on impact, with a peak of about 0.12 bp at  $h = 3$ , but the response again fades within a few weeks. Episodes of higher sensitivity are concentrated around global stress windows and do not translate into persistent shifts in

the level of the CDS spread.



(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI) (b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)



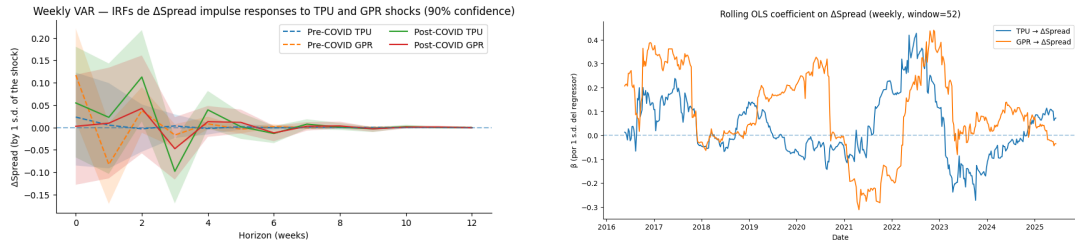
(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock (d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

Figure 2: Dynamic responses of Belgium sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

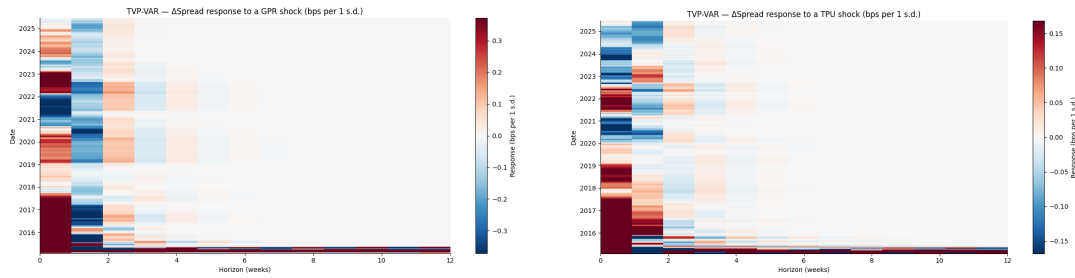
*Core euro area sovereigns.* : Finland and the Netherlands display clear but modest and short-lived directional reactions (Figure 3) and Figure 4). In both cases, trade-policy uncertainty shocks generate small short-horizon positive deviations in weekly CDS changes, while geopolitical-risk shocks produce either mildly negative or near-zero responses. orthogonalized impulse responses confirm that these effects dissipate rapidly, and that cumulative impacts over four and eight weeks remain negligible.

For Finland, a one-standard-deviation TPU shock produces a positive peak of approximately 0.07 bp in CDS changes at horizon  $h = 2$ , whereas a GPR shock yields a short-run negative impact of -0.07 bp at  $h = 1$ . The sign-restricted TVP-VAR indicates that pre-COVID responses fluctuate between small negative on-impact effects and mild positive corrections at short horizons. In the post-COVID period, small negative impacts appear, but remain short-lived, and in the most recent window the effects converge back toward zero.

For the Netherlands, a TPU shock generates a 0.08 bp peak at horizons  $h = 2$  and dies out rapidly, returning to zero within roughly seven weeks. A GPR shock elicits a smaller response than TPU, with a peak of about 0.07 bp at  $h = 4$ , with 90% confidence bands overlapping zero at nearly all horizons and the impulse reverting by weeks 5-6. TVP-VAR heatmaps confirm that sensitivity is confined to a few isolated episodes (2016-2018, 2020 and 2022) and do not reveal any persistent pattern across time or horizons. Rolling OLS coefficients on both TPU and GPR remain close to zero, with non-persistent sign reversals and only temporary excursions into positive or negative territory. Identification robustness is strong, as sign-restricted TVP-VAR



(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI) (b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)



(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock (d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

Figure 3: Dynamic responses of Finnish sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

produces closely match the recursive VAR, and mild winsorisation leaves signs and magnitudes unchanged.

Figure 5 and Figure 6 show that both France and Germany exhibit the characteristic pattern of core euro area sovereigns: impulse amplitudes that are more pronounced than in mid-tier countries, yet still well below one basis point and short-lived. In both cases, TPU shocks generate small positive peaks, whereas GPR shocks produce short-run fluctuations that revert within a few weeks. Across horizons, residual-bootstrap confidence bands typically include zero, and cumulative effects over four and eight weeks remain economically negligible. Time-varying heatmaps further confirm episodic spikes in sensitivity around major global events such as the pandemic or the 2022 European energy shock, but these do not form persistent bands, and median responses systematically mean-revert within one to two months.

For France, impulse amplitudes remain below half a basis point. A one-standard-deviation TPU shock peaks at about 0.22 bp at  $h = 2$ , while orthogonalized VAR IRFs display sub-basis point movements concentrated at very short horizons ( $h = 1-2$ ). Both TPU and GPR responses return to baseline within a few weeks, and 90% bootstrap bands straddle zero at nearly all horizons. TVP-VAR heatmaps show brief episodes of heightened sensitivity, most notably at the onset of the pandemic and during the 2022 energy shock, yet these episodes dissipate rapidly, and the median responses mean revert within 4-6 weeks.

Shifting to Germany, the results reinforce the pattern observed so far: A TPU shock yields a peak response of about 0.06 bp at  $h = 3$ , with the response falling below 10% of its maximum after roughly seven weeks. GPR shocks produce a higher short-run

# Trade-Policy Uncertainty vs. Geopolitical Risk

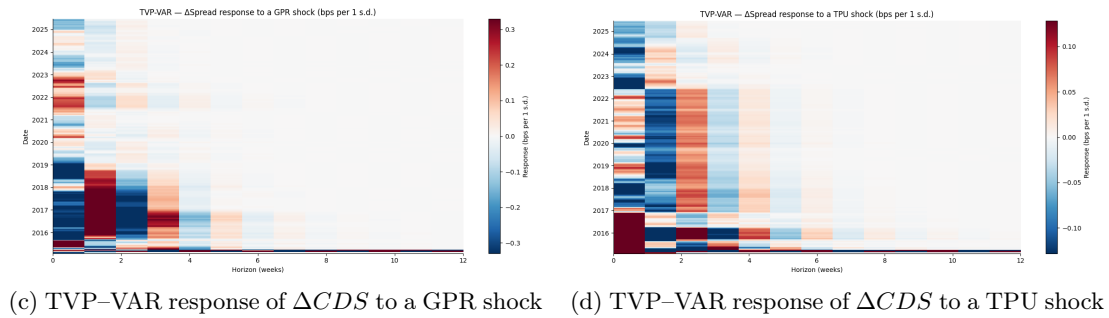
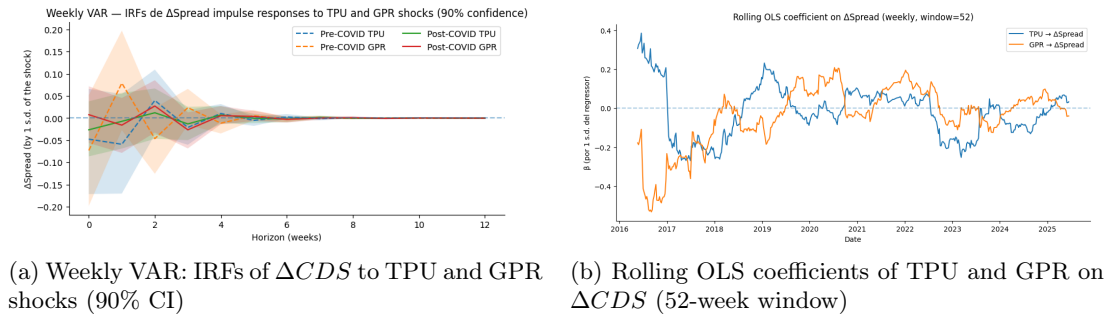


Figure 4: Dynamic responses of Dutch sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

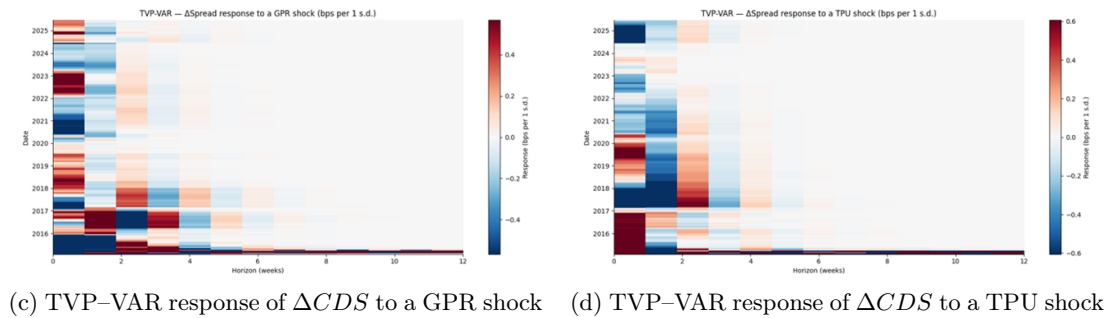
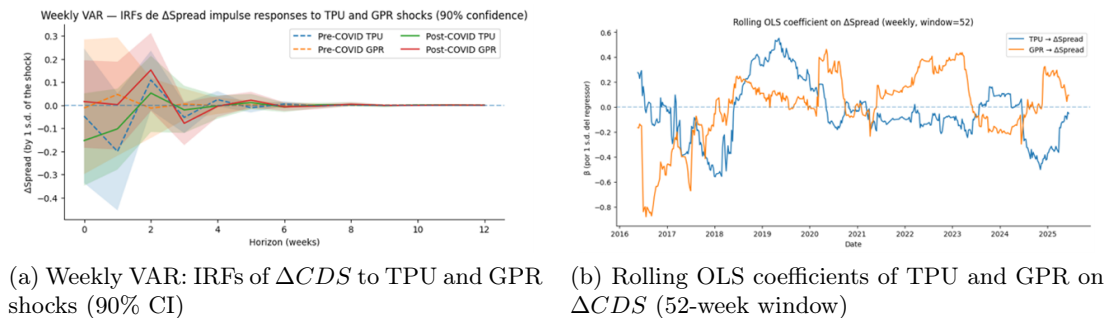


Figure 5: Dynamic responses of French sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

spike around 0.9 bp at  $h = 1$ , yet the adjustment still fully reverts within one to two months, and 90% confidence bands encompass zero. Time-varying heatmaps indicate episodic but transient intensifications, while TPU responses remain muted. Rolling correlations and rolling OLS coefficients oscillate around zero with non-persistent sign changes, reinforcing that uncertainty shocks exert only weak, time-localized influence on German sovereign CDS.

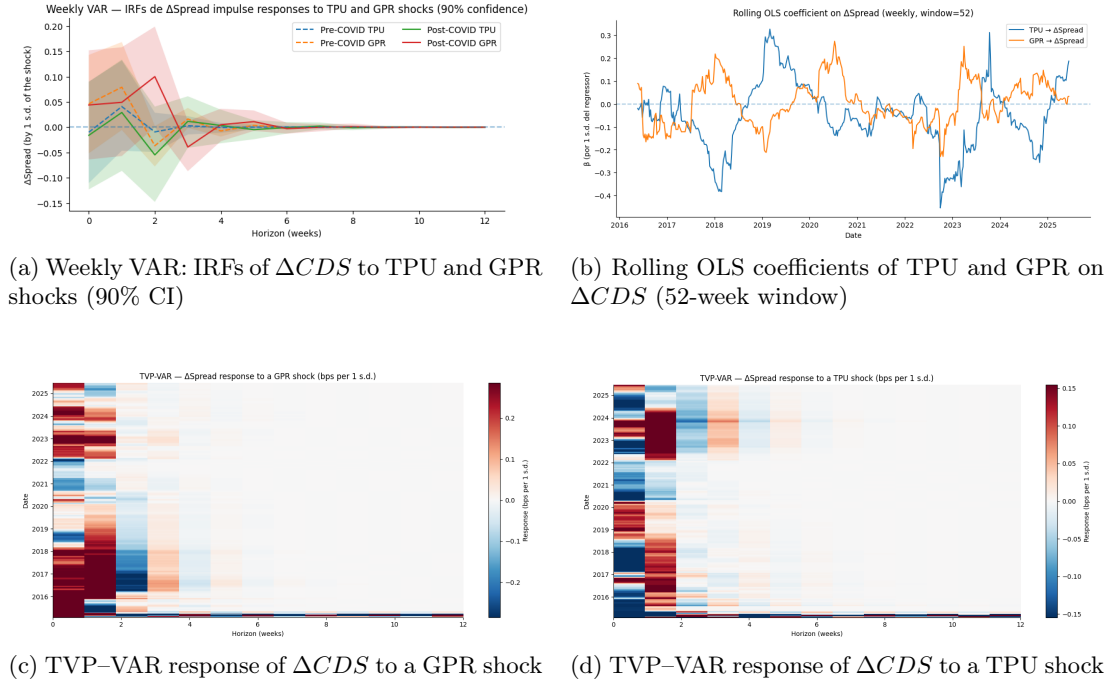


Figure 6: Dynamic responses of German sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

These results remain stable across alternative identification schemes, pre/post-COVID subsamples, and placebo lead-shock tests. Consistent with these modest effects, forecast performance does not improve meaningfully relative to a constant-parameter VAR.

*Higher risk euro area sovereigns.* : Among higher-risk euro area sovereigns, Italy, Portugal and Spain, responses are overall structured but remain transitory. Within this group, Italy displays the largest short-run reactions, whereas Portugal and Spain follow broadly similar hump-shaped profiles with modest medium-horizon effects. Across all three countries, confidence bands frequently overlap zero and the cumulative effects over 0-4 and 0-8 weeks remain economically limited, reinforcing the view that uncertainty shocks do not generate persistent changes in sovereign CDS spreads.

In Italy, trade-policy uncertainty shocks generate small negative impacts that revert within six weeks, while geopolitical-risk shocks produce modest positive humps at very short horizons. The results for Italy (Figure 7) present a more pronounced pattern than in most euro-area peers, with relatively large but still transitory responses of both TPU and GPR shocks, rather than sustained pass-through into sovereign risk.

A one-standard-deviation TPU shock generates a negative impact on the weekly change in the CDS, with the IRF peaking at roughly -0.8 bp at horizon  $h = 2$  before

reversing sign and returning to zero within six weeks. The associated cumulative effects over 0-4 and 0-8 weeks remain modest in magnitude and are surrounded by wide 90% confidence bands that include zero. GPR shocks also elicit positive short-run responses, with a smaller hump (peak close to 0.6 bp at  $h = 1$ ) and similarly limited cumulative effects, again with bootstrap intervals broadly straddling zero.

Time-varying maps show episodic intensifications rather than persistent effects, with marked spikes in 2016-2017, during the May-October 2018 period of heightened political and budget tensions, at the onset of COVID-19 in March 2020, and in 2022 amid the European energy-price shock and renewed uncertainty about Italy’s fiscal stance.

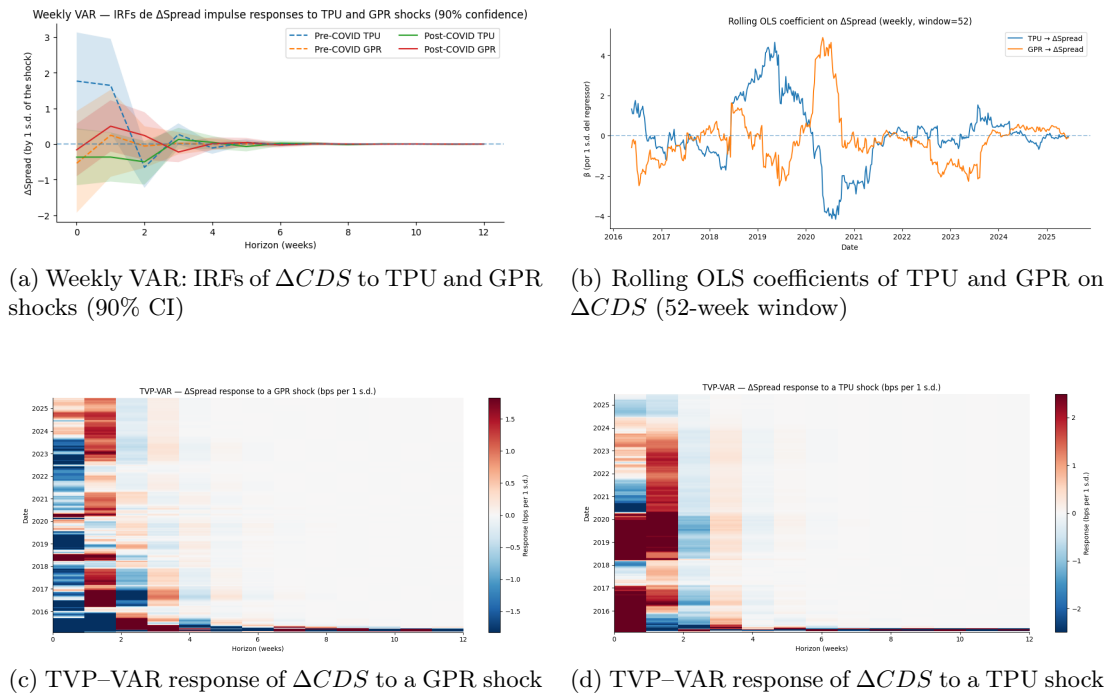


Figure 7: Dynamic responses of Italian sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

Portugal exhibits a similar hump-shaped structure, although the medium-horizon movements are slightly more pronounced than in other higher-risk sovereigns, while remaining economically negligible overall. In the weekly impulse-response analysis (Figure 8), a one-standard-deviation TPU shock generates a positive response of  $\Delta CDS$ , with a peak of approximately 0.96 bp at  $h = 0$  followed by a decline and sign reversion; the response falls below one-tenth of its peak after roughly six to seven weeks. A GPR shock yields a smaller reaction, with a maximum of around 0.54 bp at  $h = 4$  and persistence of about eight to nine weeks. In both cases, 90% confidence bands largely straddle zero and cumulative effects remain modest.

The date-horizon TVP heatmaps indicate that TPU activity clusters in 2016-2017, while post-2021 responses are faint and quickly mean-reverting. For GPR, the heatmap shows similar early-sample episodes, followed by long periods in which shocks have little visible impact on the CDS. Rolling OLS coefficients confirm that both TPU and GPR coefficients exhibit sizeable swings in the mid-2010s but converge toward values

close to zero after 2019. Overall, the Portuguese evidence suggests weak, episodic and non-persistent effects of policy and geopolitical uncertainty on sovereign CDS spreads.

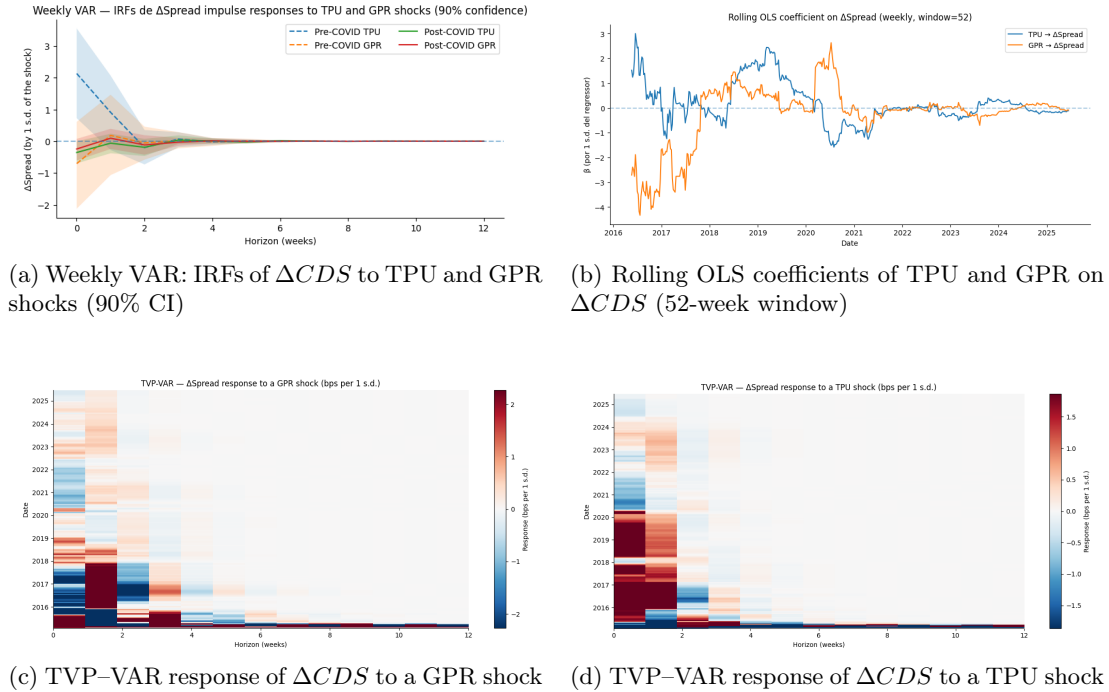
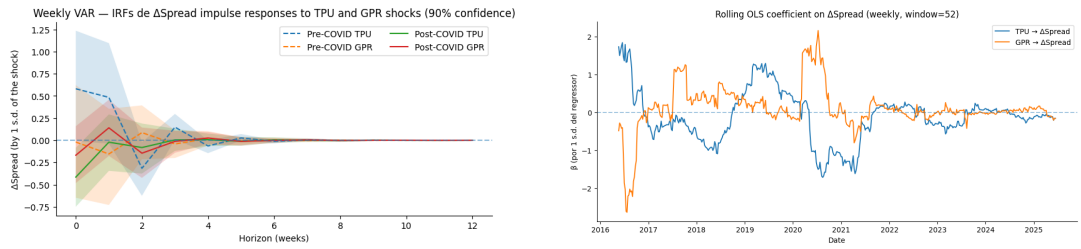


Figure 8: Dynamic responses of Portuguese sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

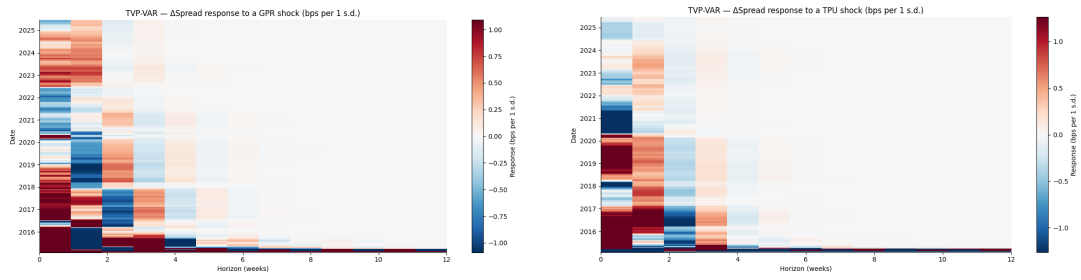
Spain follows a pattern broadly consistent with Portugal and Italy but with smaller amplitudes. Turning to Spain (Figure 9), the sign and magnitude of the TPU and GPR responses differ, but the transient nature of adjustments remains consistent with the broader euro-area evidence. In the weekly VAR, a one-standard-deviation TPU shock generates a negative response of Spain’s  $\Delta CDS$ , with a trough of -0.3 bp at  $h = 2$  and convergence toward zero within about nine weeks. A GPR shock yields a positive response, peaking at 0.28 bp at  $h = 3$ , with persistence of roughly eight weeks, although 90% confidence bands broadly straddle zero across all horizons.

The pre-COVID subsample displays more pronounced TPU and GPR profiles, whereas post-COVID amplitudes are smaller and mean-reversion is faster. These findings indicate modest, short-to-medium-horizon effects of TPU and GPR on Spanish sovereign CDS spreads.

The case of Greece introduces a slightly different profile (Figure 10): uncertainty shocks can generate short bursts of sensitivity, yet these reactions remain episodic and do not translate into any sustained pass-through to sovereign credit risk. In the full-sample VAR, a one-standard-deviation TPU shock produces an initially negative response in weekly CDS changes, reaching a trough of about -1.1 bp at horizon  $h = 4$  and falling below 10% of its peak magnitude after roughly ten weeks. GPR shocks generate an even larger negative response, with a trough of approximately -2.1 bp at  $h = 5$ , although the 90% bootstrap bands are wide and overlap zero across many horizons. In both cases, cumulative effects dissipate within a few weeks.



(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI)      (b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)



(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock      (d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

Figure 9: Dynamic responses of Spanish sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

The time-varying evidence reinforces this interpretation. TVP-VAR date-horizon heatmaps show that the sensitivity of Greek CDS to TPU and GPR shocks is concentrated in the mid-2010s, where short-horizon responses can be sizeable and occasionally alternate in sign. Beyond these early years, the TPU and GPR surfaces become largely blank, indicating that any transmission is highly episodic and fades quickly. Rolling OLS coefficients confirm this pattern: the coefficient on TPU exhibits large values at the start of the sample but converges rapidly toward zero, while the coefficient on GPR shows a similarly transient negative spike in 2016 before fluctuating around zero thereafter. Overall, the combined evidence suggests that although Greece displays the strongest short-run reactions among euro-area sovereigns, uncertainty shocks exert no systematic or persistent influence on Greek sovereign CDS.

*Small open economies.* : Among small open economies, Ireland, Latvia and Lithuania display uniformly short-lived and episodic responses to uncertainty shocks. Across all three sovereigns, TPU shocks tend to generate small positive deviations in weekly CDS changes, while GPR shocks remain negligible or modest. Time-varying heatmaps confirm that sensitivity is clustered around a limited number of well-identified stress windows (such as Brexit-related uncertainty, the COVID-19 shock, and the regional geopolitical fallout from Russia’s invasion of Ukraine) while outside these periods the surfaces are largely blank.

For Ireland (Figure 11), a one-standard-deviation TPU shock produces a modest hump-shaped response, peaking at about 0.13 bp on impact ( $h = 0$ ) and propagating over the first week. GPR shocks generate a smaller short-run reaction, with a peak of roughly 0.10 bp at  $h = 1$ , and the response becomes negligible after four weeks.

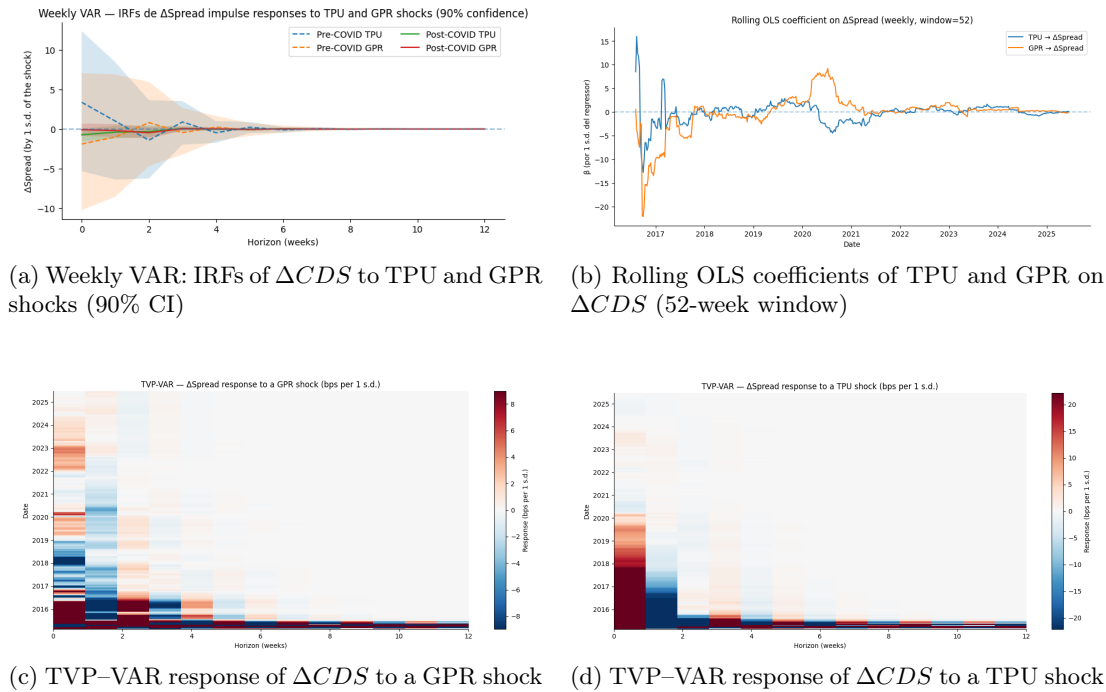


Figure 10: Dynamic responses of Greek sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

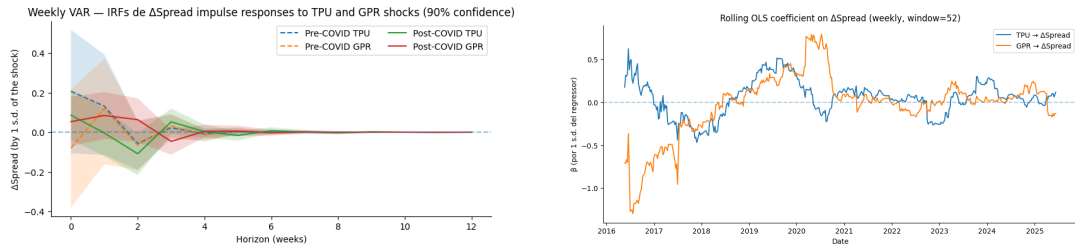
TVP-VAR date-horizon heatmaps show that these sensitivities are concentrated in specific subperiods rather than representing a persistent feature of Irish sovereign risk. TPU-related activity is most pronounced in 2016-2017 and again in 2018-2019, coinciding with the Brexit referendum and subsequent negotiations over the Irish border backstop, and reappears only weakly at the onset of COVID-19 in early 2020.

GPR responses are episodically stronger during the pandemic and the European energy-price surge following Russia’s invasion of Ukraine, but mean-revert within four to six weeks. Rolling OLS coefficients confirm that both TPU and GPR display sizeable swings in the early years but converge toward near-zero values after 2019, with only moderate temporary excursions during major shock episodes.

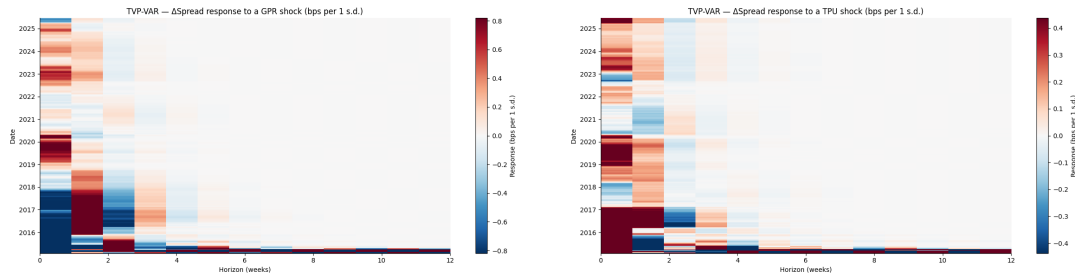
Structural robustness is strong. A sign-restricted TVP-VAR produces impulse profiles qualitatively consistent with the recursive VAR, and FEVD results show that at short horizons, own CDS dynamics dominate overwhelmingly, with TPU and GPR shocks accounting for only a small and non-persistent share of Irish sovereign credit-spread variability.

Moving from a larger sovereign issuer to a smaller market such as Latvia (Figure 12), both the VAR and TVP-VAR again point to short-horizon effects that dissipate rapidly. A one-standard-deviation TPU shock raises the weekly change in Latvia’s CDS by about 0.46 bp at  $h = 1$ , with a fast reversion to zero within two weeks. The GPR response is smaller (0.12 bp at  $h = 1$ ) and similarly short-lived. In both cases, 90% bootstrap bands generally straddle zero across most horizons, and cumulative effects over 0-4 and 0-8 weeks remain economically negligible.

A pre and post-COVID split and a sign-restricted TVP-VAR (TVP-SVAR) confirm



(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI) (b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)



(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock (d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

Figure 11: Dynamic responses of Irish sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

the episodic nature of these effects. Before 2020, TPU impulses are very small (0.1 to 0.2 bp), whereas post-COVID they rise modestly (0.4 to 0.5 bp), but both profiles revert within four to six weeks. GPR responses in the TVP framework are slightly negative or near zero in the post-2020 period, again dissipating quickly.

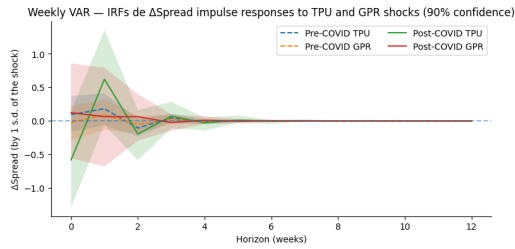
The date-horizon heatmaps align closely with Latvia’s macro-financial narrative over 2015-2025. More pronounced short-run responses in the mid-2010s coincide with post-euro-accession adjustment and banking-sector reforms, while intensifications in 2020, 2022 and 2023 correspond to the COVID-19 shock and heightened geopolitical tensions following Russia’s invasion of Ukraine.

Lithuania displays a similar pattern, with very limited and rapidly mean-reverting adjustments (Figure 13). In the weekly VAR, a one-standard-deviation TPU shock generates a positive change in the CDS with a peak of about 0.41 bp at  $h = 0$  and a rapid decay that becomes negligible after two weeks. GPR shocks are even smaller, peaking at around 0.18 bp at impact and fading within two to three weeks. Pre- and post-COVID estimates show similar magnitudes and identical short-run profiles.

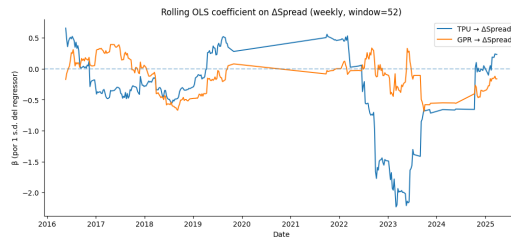
Time variation captured by the TVP-VAR is episodic, with activity concentrated around identifiable stress windows. Lithuania’s rapid energy reorientation after 2022 and credible policy backstops within the euro area are consistent with the transient, mean-reverting nature of the estimated effects.

*Global Uncertainty Hubs.* : China and the United States provide an informative benchmark for the transmission of TPU and GPR shocks outside the euro area. Despite their central roles in global uncertainty, the model-based results point to limited and short-lived sovereign CDS responses. The VAR and TVP-VAR estimates for both countries

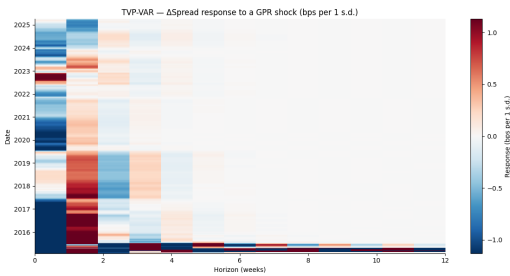
# Trade-Policy Uncertainty vs. Geopolitical Risk



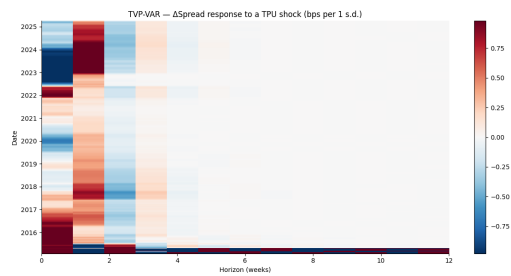
(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI)



(b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)

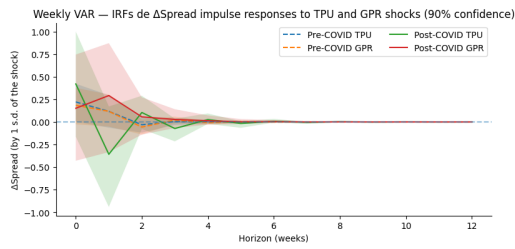


(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock

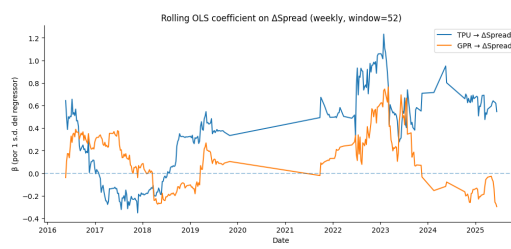


(d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

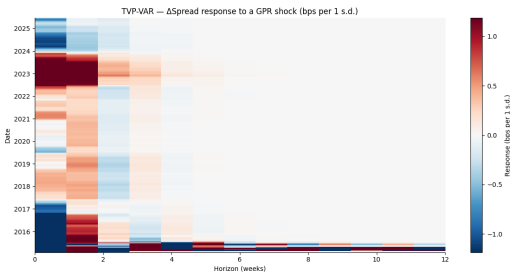
Figure 12: Dynamic responses of Latvian sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)



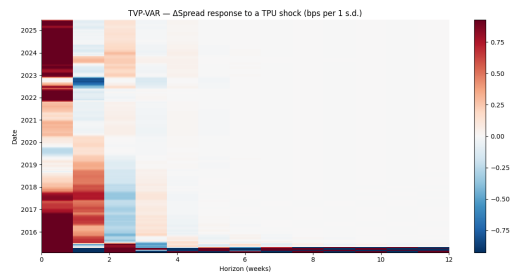
(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI)



(b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)



(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock

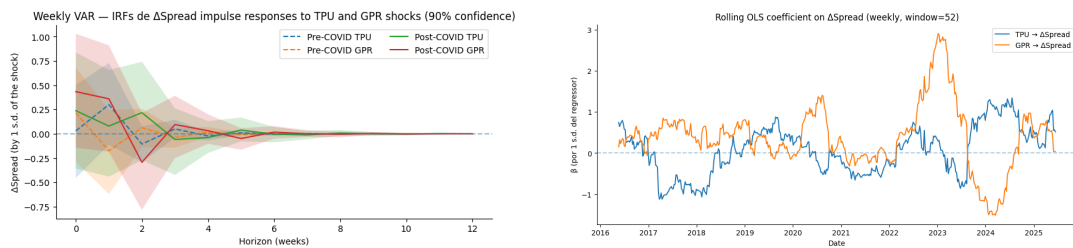


(d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

Figure 13: Dynamic responses of Lithuanian sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

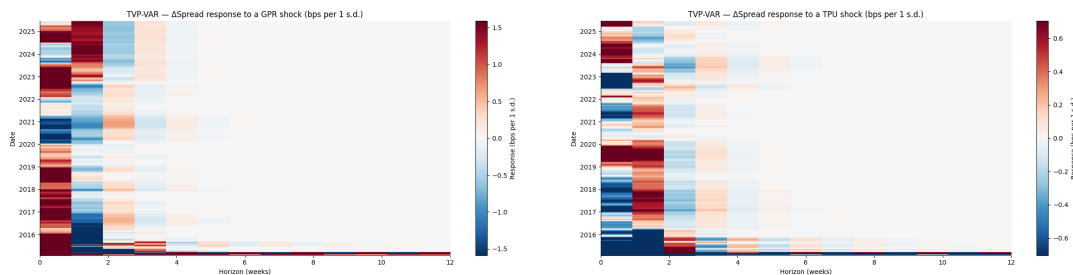
show modest peak amplitudes, rapid mean reversion and episodic rather than persistent sensitivity to uncertainty shocks.

For China (Figure 14), the weekly VAR indicates that a one-standard-deviation TPU shock generates a small short-horizon decline in CDS spreads, peaking at approximately -0.39 bp at  $h = 3$  and reverting toward zero within eight weeks. GPR shocks trigger a somewhat larger immediate increase, with a peak of about 0.52 bp at  $h = 0$ , but the effect dissipates within six to eight weeks. In both cases, the 90% residual-bootstrap confidence intervals are wide and include zero over most horizons, and cumulative effects over 0-4 and 0-8 weeks remain negligible. The TVP-VAR confirms this pattern, showing that short-run responses are restricted to isolated periods and that no persistent band of elevated sensitivity emerges.



(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI)

(b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)



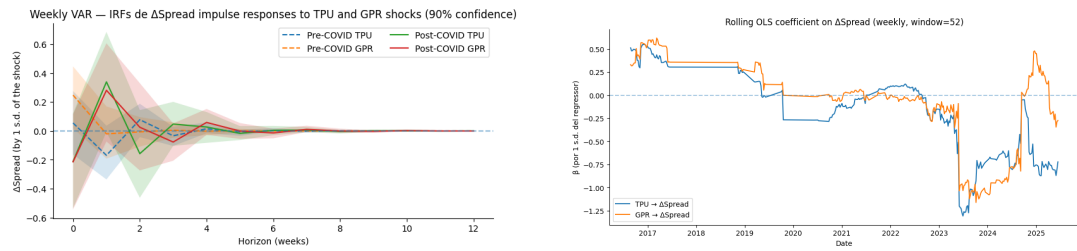
(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock

(d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

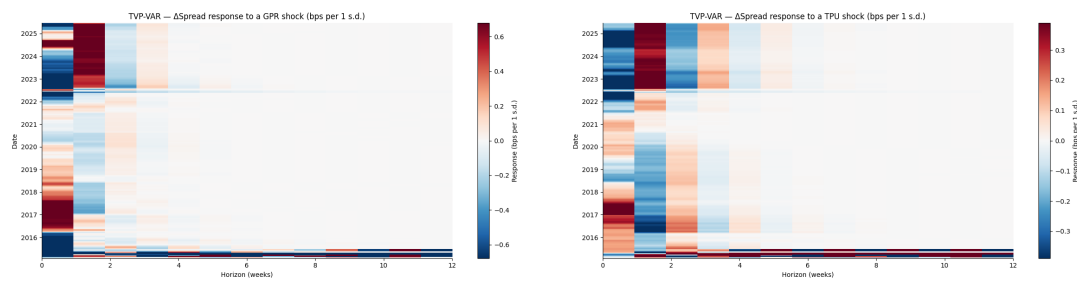
Figure 14: Dynamic responses of Chinese sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

For the United States, the weekly VAR likewise produces small and rapidly decaying responses (Figure 15). A one-standard-deviation TPU shock yields a modest increase in weekly CDS changes, with a peak near 0.19 bp at  $h = 1$  before reverting within two weeks. GPR shocks generate a similarly limited reaction, peaking at roughly 0.15 bp at  $h = 1$  and fading quickly thereafter. Time-varying impulse response heatmaps show that short-lived intensifications coincide with specific events, including the 2016 election, the COVID-19 shock and the geopolitical tensions of 2022-2023, but baseline sensitivities remain close to zero throughout the sample.

Overall, the VAR and TVP-VAR evidence demonstrates that uncertainty shocks exert only mild and transitory effects on the sovereign CDS of China and the United States, with no indication of sustained transmission mechanisms. Peak impacts stay well below one basis point, confidence bands frequently span zero, and the time-varying



(a) Weekly VAR: IRFs of  $\Delta CDS$  to TPU and GPR shocks (90% CI) (b) Rolling OLS coefficients of TPU and GPR on  $\Delta CDS$  (52-week window)



(c) TVP-VAR response of  $\Delta CDS$  to a GPR shock (d) TVP-VAR response of  $\Delta CDS$  to a TPU shock

Figure 15: Dynamic responses of US sovereign CDS spreads to one-standard-deviation TPU and GPR shocks (VAR, rolling-window OLS, and TVP-VAR analyses)

responses reveal episodic rather than persistent sensitivity across the sample.

### 5. Discussion

The empirical results reveal a remarkably consistent pattern across the 15 sovereigns studied. Both trade-policy uncertainty and geopolitical-risk shocks generate small, short-lived and statistically fragile reactions in weekly sovereign CDS spreads, with substantial heterogeneity across-country groups. The discussion is therefore organized around five themes that reflect this heterogeneity: (i) the resilience of core and mid-tier euro-area sovereigns, (ii) the asymmetric but still transitory responses in Italy, (iii) the episodic sensitivity observed in peripheral and small open economies, (iv) the muted but occasionally stress-driven reactions in Spain and France, and (v) the limited transmission of uncertainty to global systemic issuers such as the United States and China.

Across Austria, Belgium, France, Germany, the Netherlands, Finland, Ireland and Spain, uncertainty shocks translate into sub-basis-point adjustments that dissipate within a few weeks. Such muted reactions are consistent with the post-2012 institutional architecture of the euro-area sovereign market. The introduction of crisis-management tools by the ECB, notably Outright Monetary Transactions and later the Pandemic Emergency Purchase Programme, has anchored expectations about default risk and significantly reduced the credibility of redenomination scenarios. With tail outcomes viewed as remote and with liquidity support perceived as readily deployable, investors tend to discount uncertainty shocks rapidly, preventing them from propagating into persistent sovereign-risk repricing. Integrated and highly liquid bond markets reinforce this stabilizing mechanism. Episodes of global or regional stress often trigger intra-euro-area

flight-to-safety reallocations, shifting portfolios toward higher-grade sovereigns rather than producing a broad-based widening of spreads. In several cases, this mechanism even results in temporary spread compression. Together, these institutional and market features explain why many core and near-core sovereigns exhibit near-zero or mildly negative average reactions to TPU and GPR shocks despite repeated waves of international uncertainty over 2015-2025.

Within this generally resilient environment, Italy constitutes a clear outlier. The sign of its response differs sharply across uncertainty types: geopolitical-risk shocks are associated with temporary increases in sovereign CDS spreads, whereas trade-policy uncertainty episodes often coincide with short-run spread compression. The former is consistent with Italy's structural vulnerabilities. A high public-debt burden, a pronounced bank-sovereign nexus and intermittent episodes of fiscal and political tension heighten Italy's sensitivity to risk-off phases. Geopolitical shocks that elevate perceptions of tail risk are therefore readily transmitted through financial-sector balance sheets and market expectations of future policy tightening. By contrast, the negative short-run response to TPU reflects a distinct transmission channel. Several TPU spikes coincide with falling oil prices or with episodes in which ECB backstops dominate market expectations, generating transient compression of higher-yield sovereign spreads. Italy, historically the prime beneficiary of the credibility of potential ECB intervention, reacts strongly to these valuation channels. This asymmetry highlights that the direction of the CDS response depends critically on the nature of the uncertainty shock, with geopolitical tensions amplifying macro-financial fragilities and trade-policy shocks interacting more directly with commodity prices and anticipated monetary support.

A similar distinction emerges for peripheral and smaller sovereign markets such as Portugal, Spain, Latvia and Lithuania, where thinner market liquidity and higher macro-financial risk coexist with increasingly credible policy backstops. In these markets, uncertainty shocks can trigger sharper short-term movements than in core sovereigns, yet the effects remain episodic and systematically non-persistent. Greece provides an extreme illustration. Although TPU and GPR shocks generate the largest short-run troughs in the sample, these adjustments remain small in absolute economic terms and are accompanied by wide confidence bands. Sensitivity is concentrated in the mid-2010s and fades thereafter. For Portugal and Spain, hump-shaped profiles occasionally appear around well-identified stress windows, but medium-horizon effects remain limited and often close to zero. When the currency union is perceived as effectively backstopped, investors may treat some peripheral issuers as "high-beta safe assets", reallocating toward them in search of yield within a protected monetary jurisdiction. Such behaviour can temporarily compress spreads or, at minimum, mitigate widening when uncertainty rises. Since 2020, successive ECB interventions have further reduced redenomination and contagion risk, reinforcing the tendency of these markets to exhibit transitory rather than persistent reactions to uncertainty shocks.

Spain and France illustrate an additional gradient within the euro area. France appears among the most insulated sovereigns in the sample, displaying negligible average responses to both types of uncertainty, with only minimal and short-lived deviations during major global stress events. Spain, while structurally more exposed than France, exhibits amplitudes far smaller than Italy and displays rapid mean reversion even when TPU and GPR induce sign-asymmetric effects. In both countries, the only visible deviations arise in specific stress windows, notably the COVID-19 crisis and the 2022

energy shock, when temporary liquidity strains and elevated risk aversion briefly increase the responsiveness of CDS spreads. The swift disappearance of these blips supports an interpretation in which institutional credibility and expectations about ECB support largely dominate the transmission of uncertainty to sovereign-risk premia.

Outside the euro area, the United States and China also display modest, rapidly dissipating CDS reactions to TPU and GPR shocks, yet for fundamentally different structural reasons. In the United States, safe-asset status, very deep and liquid Treasury markets and a globally diversified investor base ensure that uncertainty shocks are absorbed quickly and rarely translate into revised default expectations. The sovereign CDS market remains small relative to the underlying government-bond market and is predominantly used for hedging, which further dampens the transmission of weekly uncertainty shocks. In China, capital controls, state-guided financial conditions and a policy regime that places less weight on market-driven price discovery insulate sovereign CDS spreads from global uncertainty. Shocks tend to be absorbed through administrative tools and domestic policy adjustments, producing small, episodic and rapidly mean-reverting reactions. Despite contrasting institutional designs, both countries exhibit a similar reduced-form pattern of short-horizon, non-persistent responses.

Taken together, these sovereign-specific episodes point toward several cross-cutting messages. First, geopolitical shocks tend to produce slightly larger short-run effects than trade-policy shocks, especially around major geopolitical events such as the invasion of Ukraine or the recent escalation in the Middle East. Yet the relative importance of GPR and TPU remains country-specific and depends on the dominant transmission channels and prevailing macro-financial conditions. Second, across all 15 sovereigns, neither source of uncertainty generates persistent repricing of sovereign credit risk in the post-2015 environment. Peaks typically occur within one to two weeks and impulse responses revert toward zero within a few weeks, rarely exceeding a one- to two-month horizon. Third, institutional frameworks and market structures appear central in shaping these dynamics. Credible monetary backstops, safe-asset characteristics and deep liquidity buffers consistently dampen the propagation of uncertainty shocks, while weaker fundamentals or thinner markets may amplify the initial reaction without altering its lack of persistence. Overall, the decade marked by major geopolitical disruptions and trade tensions did not translate into a durable tightening of sovereign-credit conditions. Instead, unprecedented monetary and fiscal interventions, combined with the structural demand for safe and quasi-safe assets, have compressed the uncertainty-sovereign-risk channel, transforming even large uncertainty shocks into localised and temporary deviations in CDS spreads rather than sustained shifts in sovereign default risk.

## 6. Conclusion

This paper investigates how trade-policy uncertainty and geopolitical risk transmit to sovereign credit risk across a panel of 15 countries, including euro area sovereigns, the United States and China, over 2015-2025. Using weekly five year CDS spreads, a recursively identified VAR with commodity and exchange-rate controls, together with a time-varying-parameter VAR, provides a unified assessment of the magnitude, persistence and time variation of uncertainty shocks in heterogeneous environments.

Three empirical findings stand out. First, both trade-policy uncertainty and geopolitical risk generate economically small and short lived movements in sovereign CDS

spreads. Peak responses to one-standard-deviation shocks are typically well below one basis point and revert within four to eight weeks, even during major stress episodes such as the 2018-2019 trade disputes, the onset of COVID-19 and the 2022 European energy shock. Robustness checks, including alternative identification schemes and sign restricted TVP-VAR, confirm the limited persistence of the transmission mechanism.

Second, the cross sectional heterogeneity reflects structural and institutional differences rather than differences in shock size. Core and mid tier euro area sovereigns display muted and rapidly mean reverting reactions, consistent with the post-crisis monetary architecture, in which credible ECB backstops and deep market liquidity suppress fears of redenomination and default. Italy is the main exception, exhibiting sign asymmetry, with geopolitical tensions raising CDS spreads while trade-policy uncertainty is associated with temporary spread compression. Peripheral and small open economies show episodic but non persistent sensitivity, while Greece's larger short run reactions remain small relative to its underlying volatility and fade quickly. Outside the euro area, the United States and China also display only modest, short horizon adjustments, though driven by different institutional reasons.

Third, geopolitical shocks tend to generate slightly larger immediate effects than trade-policy shocks, but neither source of uncertainty produces sustained repricing of sovereign credit risk in advanced economies. Institutional frameworks, safe asset characteristics and liquidity conditions appear to absorb and reallocate uncertainty before it can propagate into medium horizon sovereign risk premia.

These findings have several implications. For policymakers, they suggest that the post-crisis configuration of monetary and fiscal frameworks has proved effective in containing the transmission of global uncertainty to sovereign risk premia, at least in advanced and systemically important economies. The resilience of sovereign CDS spreads in the face of recurrent trade and geopolitical shocks indicates that backstops and institutional commitments have compressed the uncertainty-sovereign risk channel. For investors, the results imply that hedging strategies against trade-policy and geopolitical risk may be most relevant during well identified stress episodes rather than on a continuous basis, and that country-specific structural features, such as Italy's vulnerability or Greece's historical fragility, play a more important role than average global uncertainty levels. For researchers, the paper highlights the importance of jointly analyzing distinct forms of global uncertainty within a unified empirical framework, of allowing for time variation in the transmission mechanism and of explicitly accounting for the institutional environment when assessing how global shocks propagate to sovereign credit markets.

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