Mixed Reads on Global CDS

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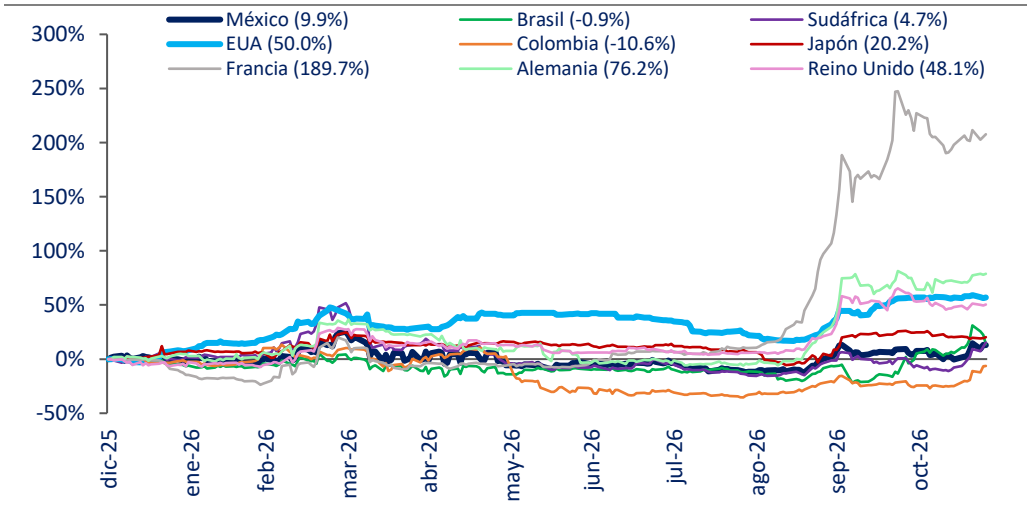
- **So far in November, the perception of sovereign risk for most emerging economies has reacted to fiscal uncertainty in each nation and a global environment of nervousness.**
- **However, CDS from developed economies show monthly declines amid moderated political and fiscal uncertainty in some nations.**
- **Going forward, we believe that the trajectory of the CDS will continue to be conditioned by the state of the geopolitical conflict, the development of global inflation, and the dissipation of fiscal and political concerns.**

The Credit Default Swap (CDS) is a financial instrument that helps measure a country's sovereign risk and reflects market expectations about the government's ability to meet its financial obligations. This instrument works as insurance against debt default, similar to a premium that investors are willing to pay to protect themselves from credit risk.

In October, country risk metrics for emerging economies showed favorable behavior as political and fiscal concerns in the region faded. Meanwhile, the bloc of developed countries showed an increase in local nervousness. However, so far in November the trend has reversed, as the risk, mostly fiscal, for developing nations in a global environment of geopolitical and trade uncertainty. Regarding countries such as France, Germany, the United Kingdom, and the USA, the perception of sovereign risk eased compared to the previous month, although the main fiscal and political risks remain permeated in the CDS compared to the 2025 closing levels.

Metrics by Economy				
Country	CDS today	Var. Biweekly	Var. Monthly	Var. 2026
Mexico	98.40	8.3%	4.0%	9.9%
Brazil	137.05	-7.0%	3.3%	-0.9%
South Africa	141.79	16.1%	7.2%	4.7%
USA	44.44	-3.8%	-4.3%	50.0%
Colombia	187.49	19.2%	17.2%	-10.6%
Japan	28.75	-0.3%	-4.0%	20.2%
France	86.04	-1.4%	-12.2%	189.7%
Germany	12.93	2.0%	0.7%	76.2%
United Kingdom	25.05	0.9%	-8.0%	48.1%
Italy	61.37	-1.9%	-15.7%	118.4%

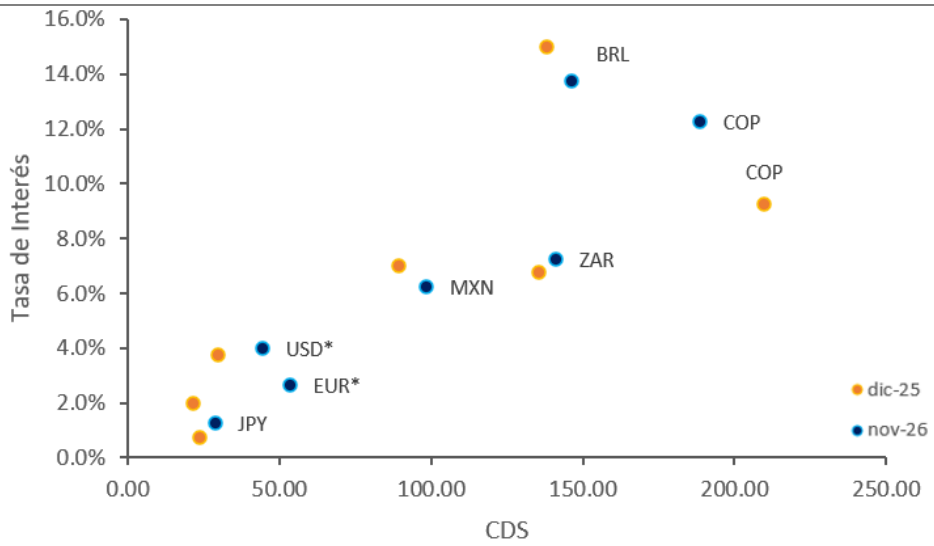
CDS of selected economies, cumulative variation in 2026



Source: Own elaboration with data from Bloomberg.

In Latin America, Brazil recorded a monthly increase of 3.3% in its CDS, as President Lula da Silva's announcement about the next finance minister eased concerns about the direction of public finances. In this regard, the nomination of Luiz Carlos Trabuco, president of the local bank Bradesco SA, boosted the recovery of the Brazilian and real markets, while his CDS fell to a 20-session low around 137.0 bps. In Colombia, the dynamics are contrasting, as the CDS records a monthly increase of 17.2% as projections of lower economic growth limit the central bank's room to raise its benchmark interest rate, weighing on the appeal of *carry trade* strategies, while fiscal uncertainty related to President Abelardo de la Espriella's agenda exacerbates concerns about possible credit rating downgrades.

CDS (bp) vs. reference interest rate for selected economies' currencies



Source: Own elaboration with data from Bloomberg.
* The Eurozone CDS is the average of the metrics for Germany, France, and Italy; for the US interest rate, the upper range of the target rate of federal funds is used.

In Mexico, the reference interest rate is set at 6.50%, which makes the Mexican peso (MXN) less attractive compared to emerging economies such as the South African rand (ZAR), the Colombian peso (COP), and the Brazilian real (BRL). Meanwhile, emerging economies such as the euro (EUR) and the dollar (USD) find support in a more restrictive rhetoric from their central banks, although the increase in their CDS places them well above the benefits provided by the Japanese yen (JPY).

In Mexico, the CDS is trading around 98.4 bps, which implies a monthly increase of 4.0%, since on November 20 it reached a 7-month high at the 102.5 bp mark. Thus, although the current reading is in line with its average of the last 21 days, compared to the quarterly and annual average, the current levels are one standard deviation above. In its quarterly report, Banxico revised upward its economic growth forecast for 2026 (to 1.9% from the previous 1.5%), given the increase in exports and investment during Q3-26, but kept its estimate for next year at 2.0% unchanged. However, the low dynamism of job creation in the US, uncertainty about fiscal consolidation, and the persistent geopolitical risk premium in the Middle East have weighed on investor perception in the last quarter, while the weakening of the Mexican peso against the dollar shows less appetite for *carry trade strategies*.

In the bloc of developed economies, the change in CDS compared to the previous month is evident, as France, which accumulated a 189.7% increase in its country risk during 2026, shows a monthly moderation of 12.2%. The situation in the bloc's second-largest economy has recently drawn attention, as protests related to the rising cost of living raised political and fiscal concerns, leading the CDS to trade at levels similar to those of an emerging economy (above 100 bps). On the macroeconomic front, France's economy contracted by 0.2% in Q3-26, after stagnating (0.0%) in the previous period. Thus, we consider that, despite the recent moderation in its country risk metrics, this situation will add downward pressure for the euro in the coming months.

Meanwhile, Germany's CDS is trading around 13.0 bps, close to its highest since April 2025 (13.3 bps), as the approval of a 2027 budget, which implies a 6.0% increase compared to 2026 and allocates more than half to labor and social programs, as well as defense, aligns with internal pressures for military strengthening. In line, the economic activity trajectory of the bloc's largest economy shows signs of slowdown in 2026 (0.4%, 0.3%, and 0.1% quarterly for each period, respectively).

What to expect?

Going forward, we believe that the trajectory of CDS, both developed and emerging economies, will continue to be conditioned by geopolitical uncertainty, global inflation behavior, and each nation's fiscal concerns. While November data show stability compared to the October rebound, a deviation analysis from quarterly trends confirms the acceleration in global country risk perception, with readings between 0.5 (Brazil) and 2.3 (Colombia) standard deviations above the 90-day average. Additionally, the loss of appetite for *carry trade* strategies with Mexican and Colombian pesos, given the divergence between the monetary policy of their central banks and the Fed, while risk stability in Brazil (with an interest rate of 13.75%) drives investor rotation toward the real. Thus, we consider that the Mexican peso will continue to face headwinds to limit losses against the dollar in the short term.

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