

# Sovereign Risk Monitor

## An augmented credit risk model

### Overview

Sovereign credit risk analysis poorly manages to systematically integrate climate and ESG metrics. There is a growing demand from investors, regulators, and academics to better consider the importance of ESG metrics on solvency analysis. Since 2013, we have pioneered a new quantitative risk monitoring methodology combining ESG factors and financial risk.

Based on an advanced quantitative methodology covering 151 countries, the Sovereign Risk Monitor offers an augmented assessment of the sovereign credit risk. Calibrated and back tested since 2000, this exclusive quantitative model has demonstrated a high correlation to financial market data (5 years CDS, 2 year, and 10 year yields).

### Benefits

- **Integrates new risk factors:** ESG indicators are retained in the model based on their financial materiality on sovereign credit default risk.
- **Increased correlation & prediction vs risk metrics:** our model allows for greater representation of borrowing costs (yields) than traditional credit assessments.

### Features

#### Comprehensive coverage

151 countries covered, with historical data covering over 85 quarters from Q4 1999 to present.

#### Data granularity

Scores available on multiple levels, allowing insights to be drawn at pillar, sub-pillar, and theme levels.

#### Transparent methodology

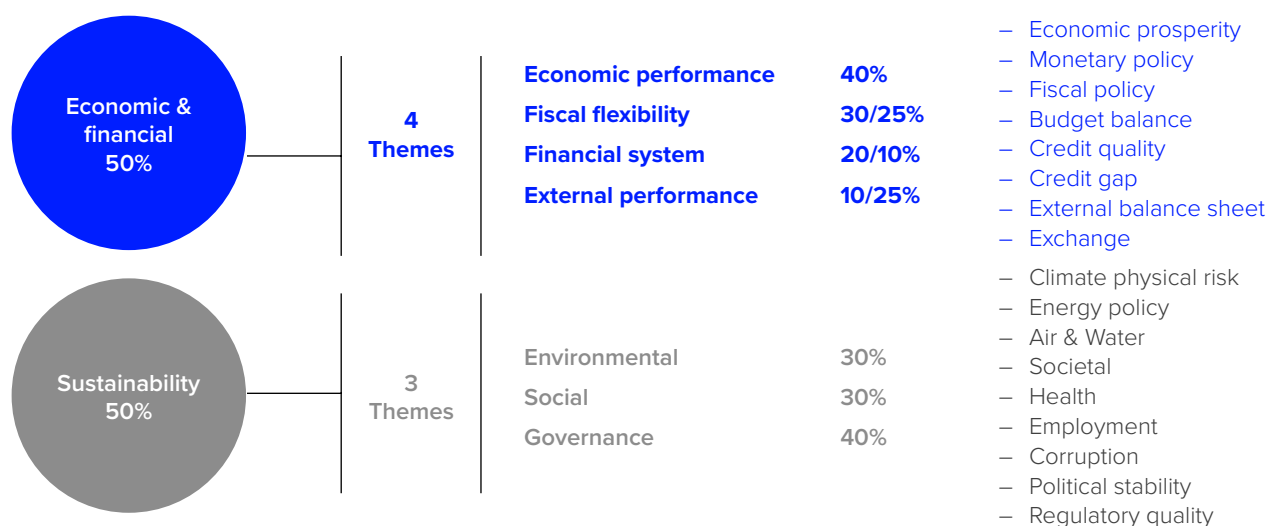
Our quantitative framework provides clarity on the materiality of ESG factors in sovereign credit risk assessment.

#### Flexible access

Access our data directly via sftp. Yield Book clients can access data within the Yield Book Add-In and API as well as in LSEG Datastream to facilitate incorporation of sustainability into investment decision-making.

## Sovereign Risk Monitor: model structure

The Sovereign Risk Monitor combines traditional macro-financial data with the ESG factors that present material risk to sovereign solvency. The quantitative model is comprised of two profiles, covering both Economic/Financial and Sustainability considerations. The weights for each indicator are estimated using an econometric modelling technique called Partial Least Squares (PLS) regressions. Country exposure to ESG and financial risks is weighted according to its level of wealth (Developed market vs. Emerging).



## Using Sovereign Risk Monitor

The Sovereign Risk Monitor can be used to integrate ESG considerations in sovereign bond investments, including active portfolio management and improved pricing models.

### Risk Management



The Sovereign Risk Monitor enables investors identify the ESG risks that present a material risk to sovereign credit, offering a complement to traditional credit assessments.

### Portfolio evaluation and manager due diligence



When selecting and evaluating asset managers, institutional investors are increasingly assessing how they integrate ESG aspects into their processes. The Sovereign Risk Monitor can help assess the range, average, and variance of asset manager portfolios with respect to ESG integration on sovereign bonds.

### Improved Pricing Models



By integrating new factors with material impact on sovereign credit risk not currently captured by CRA ratings, the Sovereign Risk Monitor allows investors to improve internal pricing models.

### Active Portfolio Management



The Sovereign Risk Monitor data set can be used to help establish ESG eligibility criteria for an investment universe or can be applied into a proprietary quant or fundamental model.

### Internal research



The risk and return relationships of different ESG aspects will vary. The Sovereign Risk Monitor provides a granular and comprehensive data set for research and analysis that allow users to develop their own views on how, or how not, to integrate new risks such as climate change on sovereign debt.

## Contact us

To learn more, visit [lseg.com](https://lseg.com); email [info@lseg.com](mailto:info@lseg.com); or call your regional Client Service Team office:

**EMEA** +44 (0) 20 7866 1810

**Asia-Pacific**

**North America** +1 877 503 6437

**Hong Kong** +852 2164 3333

**Tokyo** +81 3 4563 6346

**Sydney** +61 (0) 2 8823 3521

The content of this publication is provided by London Stock Exchange Group plc, its applicable group undertakings and/or its affiliates or licensors (the "LSE Group" or "We") exclusively. Neither We nor our affiliates guarantee the accuracy of or endorse the views or opinions given by any third party content provider, advertiser, sponsor or other user. We may link to, reference, or promote websites, applications and/or services from third parties. You agree that We are not responsible for, and do not control such non-LSE Group websites, applications or services.

The content of this publication is for informational purposes only. All information and data contained in this publication is obtained by LSE Group from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data are provided "as is" without warranty of any kind. You understand and agree that this publication does not, and does not seek to, constitute advice of any nature. You may not rely upon the content of this document under any circumstances and should seek your own independent legal, tax or investment advice or opinion regarding the suitability, value or profitability of any particular security, portfolio or investment strategy. Neither We nor our affiliates shall be liable for any errors, inaccuracies or delays in the publication or any other content, or for any actions taken by you in reliance thereon. You expressly agree that your use of the publication and its content is at your sole risk.

To the fullest extent permitted by applicable law, LSE Group, expressly disclaims any representation or warranties, express or implied, including, without limitation, any representations or warranties of performance, merchantability, fitness for a particular purpose, accuracy, completeness, reliability and non-infringement. LSE Group, its subsidiaries, its affiliates and their respective shareholders, directors, officers employees, agents, advertisers, content providers and licensors (collectively referred to as the "LSE Group Parties") disclaim all responsibility for any loss, liability or damage of any kind resulting from or related to access, use or the unavailability of the publication (or any part of it); and none of the LSE Group Parties will be liable (jointly or severally) to you for any direct, indirect, consequential, special, incidental, punitive or exemplary damages, howsoever arising, even if any member of the LSE Group Parties are advised in advance of the possibility of such damages or could have foreseen any such damages arising or resulting from the use of, or inability to use, the information contained in the publication. For the avoidance of doubt, the LSE Group Parties shall have no liability for any losses, claims, demands, actions, proceedings, damages, costs or expenses arising out of, or in any way connected with, the information contained in this document.

LSE Group is the owner of various intellectual property rights ("IPR"), including but not limited to, numerous trademarks that are used to identify, advertise, and promote LSE Group products, services and activities. Nothing contained herein should be construed as granting any licence or right to use any of the trademarks or any other LSE Group IPR for any purpose whatsoever without the written permission or applicable licence terms.

© 2024 London Stock Exchange Group. All rights reserved.



**LSEG DATA & ANALYTICS**