

Review of “Time varying and Asymmetric effect
between sovereign credit market and financial
market: The asymmetric DCC model”
(submitted to Economics E-Journal)

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Summary

The manuscript entitled “Time varying and Asymmetric effect between sovereign credit market and financial market: The asymmetric DCC model” provides a multivariate GARCH model to analyze the effects between sovereign credit markets and the financial market. The paper is not well written and also falls short in terms of methodology. The authors justify the use of an asymmetric GARCH model in a dynamic conditional correlation (DCC) framework. Given that the topic under investigation is well-researched with much more suitable methods and on much superior level (see studies in the reference list below, among many others), readers will not learn anything new or gain insight into the workings in the market from the paper.

Review in Detail / Key Aspects

- The paper does not read well at all. Grammar, spelling and overall composure should be much improved. Examples, all even on the first page: “country’s” where I guess “countries” is meant, “specific fundamentals became under observation”, “had find relatively similar results”, “like Beirne and Frantzcher (2013) how find”
- The introduction motivates the paper in light of recent market developments, and puts the study in context with relevant literature and the

current state of research in the respective area. However, there is no red line to follow and also there is neither a natural explanation why the authors chose the respective model for their analysis, nor why they chose the respective variables.

- Section 2 is used to describe the methodology. Apart from the well-known advantage of EGARCH specification over the standard GARCH approach, there is no explanation for the choices they made. Furthermore, a DCC model has its own caveats, like overshooting and instability in the presence of structural breaks, see specifically a recent article of Adams et al. (2017). Also, the topic was researched before with much superior methods.
- Section 3 introduces the data used, again lacking any explanations for choices and/or economic or theoretical considerations.
- In Section 4 the results are discussed. It is unclear what the reader could gain from the analysis on whether a GARCH or EGARCH model is to be preferred, so 4.1. and 4.2. could easily be skipped. The results in 4.3. do not add much to our understanding of the CDS markets, and deriving policy implications as in Section 5 should be avoided given the weak empirical evidence.

References:

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