▪ Journal of Competitiveness

Economic policy uncertainty and sovereign bond yields: A global perspective

Jessica Paule-Vianez, Sandra Escamilla-Solano, Paola Plaza-Casado, Nawazish Mirza

Abstract

Recent economic crises, including the global financial crisis, the euro area crisis, and recurring political and trade tensions, have increased interest in the role of psychological and social factors in economic outcomes. In this context, economic policy uncertainty (EPU) has gained attention due to its potential negative effects on economic activity. This paper examines the impact of EPU on 10-year sovereign bond yields. We apply a two-stage least squares (2SLS) panel model to a sample of 20 countries from February 2011 to September 2019. The results show that EPU has a positive and significant effect on sovereign bond yields. When comparing country groups, the effect is positive and statistically significant only in developed economies. These findings suggest that investor insecurity related to EPU affects sovereign bond markets and highlights the importance of reducing policy uncertainty to limit adverse effects on public debt.

Keywords: *Economic policy uncertainty, Sovereign bond, Behavioral finance, Yield, Debt market*

JEL Classification: E71, G18, G40, E44, C33

Article history: Received: September 2025; Accepted: July 2026; Published: July 2026

1 INTRODUCTION

Information uncertainty challenges several findings that are difficult to reconcile with traditional asset pricing models (Jiang et al., 2005). In uncertain environments, investors often rely on heuristic shortcuts when evaluating financial assets (Dow, 2010). The literature shows that uncertainty strongly affects investor sentiment, particularly in response to social, political, or economic conditions (Knight, 1921; Price & Tewksbury, 1997; Shiller, 2005). Recently, economic policy uncertainty (EPU) has attracted growing attention. It refers to uncertainty arising from economic policymakers' future actions (Baker et al., 2016; Paule-Vianez et al., 2020).

Prior research identifies three main channels through which EPU affects the economy: (1) the real options channel, (2) the precautionary savings channel, and (3) the cost of capital channel (Grenadier & Malenko, 2010; Fang et al., 2017; Drobetz et al., 2018; Xu, 2020; Benlagha & Hemrit, 2022). The cost of capital channel suggests that higher uncertainty increases perceived risk and lowers expected profitability. As a result, investors demand higher returns. This raises the cost of debt and can delay investment decisions (Prüser & Schlösser, 2020; Gupta et al., 2024; Gyamerah et al., 2024).

A country's economic condition is often assessed using macroeconomic indicators such as stock market performance and sovereign risk premium. These variables are sensitive to investor

https://doi.org/10.7441/joc.2026.02.10

behavior and reflect confidence in financial markets, national economies, and large firms (North, 1981; Quddus et al., 2000). Following Knight (1921), the risk premium can be defined as the compensation required by investors for holding assets with measurable risk, linked to uncertainty about potential default.

In this context, higher levels of EPU are expected to increase the risk premium demanded by sovereign bond investors. This should translate into higher sovereign bond yields. However, empirical evidence on this relationship remains limited (Wang et al., 2017; Prüser & Schlösser, 2020; Paule-Vianez et al., 2021; Balcilar et al., 2021; Ioannidis & Ka, 2021; Costantini & Sousa, 2022). Some recent contributions provide indirect support. For instance, Andrikopoulos et al. (2023) show that EPU reduces gross capital inflows.

Existing studies report mixed results. Wang et al. (2017) examine the United States and identify a structural break around April 2009. Before this date, EPU and bond yields were negatively correlated in the long run. Afterward, the relationship became positive. These findings suggest that the link between EPU and sovereign yields is not stable over time. Other contributions highlight cross-country heterogeneity. Prüser and Schlösser (2020) analyze 11 EMU countries and find asymmetric effects between more fragile economies (GIIPS) and more stable ones. EPU increases demand for bonds in safer countries while raising risk premia in more vulnerable economies. Similarly, Paule-Vianez et al. (2021) show that higher EPU leads to higher required returns on Spanish sovereign bonds. The international transmission of EPU has also been explored. Balcilar et al. (2021) find that EPU in advanced economies helps predict emerging market bond spreads, particularly at the tails of the distribution. This predictive power weakens in central quantiles, where volatility is lower. Finally, some studies focus on the term structure of sovereign risk. Ioannidis and Ka (2021) show that EPU has stronger predictive power for short-term securities in the United States. In contrast, Costantini and Sousa (2022) find that, in the euro area, EPU increases the risk premium on long-term bonds relative to short-term safe assets. This reflects a clear flight-to-safety behavior.

This study goes a step further in the study of the influence of EPU on profitability of the sovereign bond. We not only evaluate the impact of uncertainty on sovereign bond yields but do so by examining 20 different countries across multiple continents and differentiating the impact based on developed versus developing countries. Following previous literature, we would expect to find that higher EPU would translate to more investors requesting higher yields from the sovereign bonds of developing countries due to assumed greater risk in contrast to developed countries, a priori considered more stable. To this end, a sample of monthly data from 20 countries was collected for the period from February 2011 to September 2019. Accordingly, our testable hypotheses are as follows:

H1: EPU increases sovereign bond yields.

H2: EPU has a differential impact on sovereign bond yields across developed and developing countries.

Applying two-stage least squares under a panel data approach, we show that EPU has a positive effect on the 10-year bond yield. However, when distinguishing between developed and developing countries, the positive relationship only remains significant for developed countries.

This study therefore makes two major contributions. First, it analyzes the impact of EPU on the profitability of sovereign bonds of countries spanning four different continents, whereas previous literature has focused solely on European and North American countries (with the exception of the study by Balcilar et al. (2021), which does not consider EPU of emerging countries). Second, this study differentiates the previous relationship considering developed

https://doi.org/10.7441/joc.2026.02.10

and developing countries. Although previous literature has differentiated between stable and weak countries, or safe versus risky investments, no previous study has examined the influence of EPU on the profitability of the sovereign bond in terms of whether a country is classified as a developed or developing nation. Our study is the first to account for this type of classification in the relationship between EPU and sovereign bond yield.

The rest of the paper is structured as follows. In section 2, we describe the data used in the study. In section 3, we explain and justify our proposed methodology. In section 4, we present and discuss the results. Finally, section 5 concludes the study.

2 DATA

To analyze the influence of EPU on the government bond yield, a sample of monthly data from 20 countries was collected for the period of February 2011 to September 2019. The countries selected in this study were Germany, Brazil, Canada, Chile, China, Colombia, South Korea, Spain, the United States, France, Greece, Holland, India, Ireland, Italy, Japan, Mexico, the United Kingdom, Russia, and Sweden. The choice of these countries, as well as of the sample period, resides in the availability of data regarding the main variables (10-year bond yield and EPU), and the control variables shown later. Thus, we obtain a total of 2,080 observations for each variable.

As a measure of EPU, we selected the monthly EPU country index based on news available on the economic policy uncertainty web platform (http://www.policyuncertainty.com). Each EPU index reflects the relative frequency of newspaper articles in a given country that contain at least a combination of terms related to economics, politics, and uncertainty. Therefore, the value of each index is representative of the proportion of newspaper articles in a country dealing with EPU that month. These EPU indices, by country, have been constructed based on several studies: Baker et al. (2013) (China); Kroese et al. (2015) (Netherlands); Baker et al. (2016) (Brazil, Canada, France, Germany, India, Italy, Mexico, South Korea, Russia, the United Kingdom and the United States); Cerda et al. (2016) (Chile); Zalla (2016) (Ireland); Gil and Silva (2018) (Colombia); Hardouvelis et al. (2018) (Greece); Arbatli et al. (2017) (Japan); Armelius et al. (2017) (Sweden); and Ghirelli et al. (2019) (Spain). Although the EPU indices are derived from different authors and national newspapers, they are all constructed under a unified methodological framework and incorporate an internal normalization procedure for each series. This ensures that the observed differences reflect genuine cross-country variation in the intensity of uncertainty, rather than substantive methodological inconsistencies.

Table 1 shows the descriptive statistics of EPU levels in the countries analyzed. The country with the highest measure of EPU is the United Kingdom, which reached its maximum of 1141.8 in July 2016 following the Brexit referendum, afterwhich the United Kingdom exited the European Union. If we consider the coefficients of variation, we observe that developing countries tend to exhibit higher volatility in EPU, whereas developed economies— with the exception of the United Kingdom—display more stable levels of EPU. These findings highlight the greater vulnerability and institutional instability characterizing developing countries.

Tab. 1 – Descriptive statistics of EPU by country. Source: own research

Variable	Mean	Median	Minimum	Maximum	Std. Dev.	C.V.
EPU_{Brazil}	198.43	166.72	66.507	676.96	108.73	0.54794
EPU_{Canada}	232.05	219.66	111.18	449.62	78.824	0.33968

https://doi.org/10.7441/joc.2026.02.10

EPU_{Chile}	123.66	115.27	53.737	282.83	42.145	0.34081
EPU_{China}	240.12	196.60	59.441	852.05	156.22	0.65058
$EPU_{Colombia}$	114.03	110.64	48.971	196.05	38.565	0.33820
EPU_{France}	259.45	243.87	132.22	574.63	80.163	0.30897
$EPU_{Germany}$	175.87	168.84	65.217	454.01	65.861	0.37450
EPU_{Greece}	109.26	102.92	56.457	188.70	27.565	0.25230
EPU_{India}	103.27	83.519	32.884	283.69	55.977	0.54207
$EPU_{Ireland}$	152.58	147.56	34.008	282.13	56.054	0.36737
EPU_{Italy}	124.49	117.75	31.702	241.02	38.914	0.31257
EPU_{Japan}	112.29	107.68	62.653	231.59	30.227	0.26920
EPU_{Korea}	155.48	130.27	55.901	538.18	78.945	0.50775
$EPU_{México}$	53.050	48.844	12.090	161.47	25.901	0.48824
$EPU_{Netherlands}$	99.087	91.751	27.632	233.73	39.315	0.39678
EPU_{Russia}	193.47	187.95	36.585	400.02	83.087	0.42946
EPU_{Spain}	131.34	128.24	66.647	234.37	27.767	0.21141
EPU_{Sweden}	104.06	103.83	62.169	156.73	15.923	0.15303
EPU_{UK}	326.01	297.48	114.80	1141.8	161.15	0.49429
EPU_{US}	142.55	134.92	63.877	284.14	47.550	0.33356

The data for the sovereign bond yield of the countries in our study have been extracted from Investing (https://es.investing.com). The yield measure used is the month's 10-year government bond yield.

Table 2 shows the descriptive statistics of the 10-year sovereign bond yield in the period under study. Greece stands out as the country with the highest yield provided by its sovereign bond, reaching a maximum monthly yield of 36.591% in February 2012, coinciding with the debt crisis in Greece.

Tab. 2 – Descriptive statistics of the 10-year government bond yield by country. Source: own research

Variable	Mean	Median	Minimum	Maximum	Std. Dev.	C.V.
Y_{Brazil}	11.315	11.422	7.0450	16.490	1.8676	0.16506
Y_{Canada}	1.9301	1.8820	0.99700	3.3530	0.50809	0.26325
Y_{Chile}	4.6005	4.5350	2.7300	6.0100	0.66925	0.14547
Y_{China}	3.5654	3.5500	2.7440	4.6300	0.42069	0.11799
$Y_{Colombia}$	23.317	6.8570	4.7900	125.25	40.488	1.7364
Y_{France}	1.4075	0.95300	-0.40900	3.7110	1.0285	0.73075
$Y_{Germany}$	0.91710	0.61250	-0.70300	3.3580	0.86814	0.94662
Y_{Greece}	10.374	8.3170	1.3760	36.591	7.4530	0.71840
Y_{India}	7.7775	7.8105	6.2430	9.0440	0.69465	0.089316
$Y_{Ireland}$	2.8830	1.1700	-0.08300	11.813	3.0265	1.0498
Y_{Italy}	3.1091	2.6275	0.82800	7.0790	1.5786	0.50773
Y_{Japan}	0.39603	0.34500	-0.27500	1.2590	0.41415	1.0458
Y_{Korea}	2.7236	2.5775	1.2730	4.6700	0.81487	0.29918
$Y_{México}$	6.5212	6.2150	4.4500	9.2400	0.94861	0.14547

https://doi.org/10.7441/joc.2026.02.10

$Y_{Netherlands}$	1.1390	0.72000	-0.55200	3.6490	0.95497	0.83839
Y_{Russia}	8.5192	8.1795	6.5300	14.090	1.4530	0.17056
Y_{Spain}	2.8281	1.7275	0.12300	6.7600	1.8792	0.66447
Y_{Sweden}	1.1304	0.8750	-0.36500	3.3290	0.88530	0.78319
Y_{UK}	1.7966	1.7230	0.47900	3.6910	0.70638	0.39319
Y_{US}	2.2846	2.2790	1.4500	3.4700	0.47897	0.20965

Regarding control variables, this study has included variables associated with equity markets and political uncertainty (Arouri et al., 2016; Christou et al., 2017; Ren et al., 2020; Paule-Vianez et al., 2021).

The control variables are shown in Table 3.

Tab. 3 – Control variables. Source: own research

Variable	Acronym	Source
Interbank rate	IR	OECD.Stat
Exchange rate with USD	ER	OECD.Stat
Oil prices	OP	Investing
Share prices indices	SPI	OECD.Stat

Further, it is relevant to evaluate the correlations between the different variables under study (Table 4).

Tab. 4 – Bivariate correlations of the study variables. Source: own research

Variable	EPU	Y	IR	ER	OP	SPI
EPU	1.0000					
Y	-0.0874*** (0.000)	1.0000				
IR	-0.1402*** (0.000)	0.4259*** (0.000)	1.0000			
ER	-0.0967*** (0.000)	0.2452*** (0.000)	0.1950*** (0.000)	1.0000		
OP	-0.1466*** (0.000)	0.1663*** (0.000)	0.2128*** (0.000)	-0.0557*** (0.0097)	1.0000	
SPI	-0.0523** (0.015)	0.1699*** (0.000)	0.1653*** (0.000)	0.2149*** (0.000)	-0.3231*** (0.000)	1.0000

Note. ***, ** and * indicate the significance level of 1%, 5% and 10%, respectively

All correlations are significant, even when the coefficients are low. As all fall below 0.5, the problem of multicollinearity does not arise in this study (Hair et al., 2010).

https://doi.org/10.7441/joc.2026.02.10

3 METHODOLOGY

To analyze the influence of EPU on the 10-year government bond yield at a global level, we first analyze the stationarity of the variables under study using the Breitung and Das (2005) test. Because the data have both temporal and cross-sectional dimensions, this test is chosen due to its superior power compared to traditional individual time series tests (Hlouskova & Wagner, 2006).

Table 5 shows the results obtained when applying the test assuming trend (null hypothesis existence of unit root). We find that, without applying differences, the variables interbank rate, exchange rate, and share price index have a unit root.

Tab. 5 – Study of the stationarity of the variables with the Breitung and Das test. Source: own research

Variable	Order of integration 0		Order of integration 1	
	Statistic	p value	Statistic	p value
EPU	-14.2900	0.0000***	-24.1168	0.0000***
Y	-2.3855	0.0085***	-23.7771	0.0000***
IR	4.8937	1.0000	-16.2399	0.0000***
ER	-1.1993	0.1152	-21.6537	0.0000***
OP	-2.9916	0.0014***	-23.0902	0.0000***
SPI	-0.2930	0.3848	-21.0764	0.0000***

Note. ***, ** and * indicate the significance level of 1%, 5% and 10%, respectively

Based on the results of our stationarity analysis, and following Enders (2004), we reject the application of the cointegration analysis, as not all the variables are integrated in the same order. To solve the problem of spurious regression on non-stationary variables, we propose introducing differences to all independent variables to eliminate the unit root problem (Montero 2013) and subsequently apply panel data analysis.

The panel data analysis treats the data set of each unit of analysis independently over time, known as individual effects. There are two main models within the panel data methodology: the fixed effects model and the random effects model. The fixed effects model assumes that the individual effects are correlated with the explanatory variables; however, the random effects model assumes the condition that the individual effects are not correlated with the explanatory variables of the model. To determine which of these models is most appropriate, we employed the Hausman test. In this study, the Hausman test gives a p-value of 0.93544, and therefore the random effects model is selected as the most consistent to evaluate the influence of EPU on sovereign bond yield.

Another important issue to consider is the possible presence of endogeneity in the face of omitted unobservable variables or inverse causality. Regarding the latter, EPU is not necessarily a strictly exogenous variable. This is because, although EPU could affect the yield on public debt, the yield on public debt may also affect EPU levels.

We therefore propose a two stage least squares to control endogeneity. Two-stage least squares is a standard time series tool for addressing endogeneity, and it requires the identification and use of instrumental variables (Greene, 2003). It is necessary to impart the endogenous explanatory variable, in this case, EPU. Thus, the two-stage least squares estimator for random effects used to analyze the influence of EPU on the 10-year sovereign bond yield is as follows:

https://doi.org/10.7441/joc.2026.02.10

First stage:

$$dEPU_{it} = \alpha + \beta_1 dIR_{it} + \beta_2 dER_{it} + \beta_3 dOP_{it} + \beta_4 dSPI_{it} + v_{it} \qquad t = 1,2,\dots,T.$$

Second stage:

$$Y_{it} = \alpha + \beta_1 \widehat{dEPU}_{it} + \beta_2 dIR_{it} + \beta_3 dER_{it} + \beta_4 dOP_{it} + u_{it} \qquad t = 1,2,\dots,T.$$

With this model, the existence of a significant influence of EPU on the bond yield can be determined when the regression coefficient of $\widehat{dEPU}_{it}$ is different from 0.

4 RESULTS AND DISCUSSION

We now examine the results of studying the influence of EPU on 10-year government bond yields with the two-stage least squares estimator for random effects. The models exhibit an appropriate goodness of fit: the R^2 values are in line with expectations, and the instrument diagnostics support both the validity of the specification and the consistency of the estimators.

Table 6 shows the results found when analyzing the global impact of EPU on 10-year bond yields. Considering the instrumental and control variables, EPU has a positive effect on 10-year government bond yields with a significance level of less than 5%. We can see that, for each point of increase in the EPU index from one month to the next, there is an estimated 0.066% increase in government bond yield, considering the rest of the variables constant. This relationship supports our initial hypothesis, H1, showing that EPU increases perception of risk, thereby reducing investor confidence in that country and causing the yield on its debt to increase.

Tab. 6 – Influence of EPU on the 10-year sovereign bond yield. Source: own research

First-stage G2SLS regression						
dEPU	Coef.	Std. Err.	Z	p value	[95% Conf.	Interval]
Cons	1.17774	36.46457	0.03	0.974	-70.2915	72.64698
dIR	11.39456	5.486066	2.08	0.038**	0.6420633	22.14705
dER	0.0858604	0.0737452	1.16	0.244	-0.0586775	0.2303984
dOP	-0.564843	0.2406712	-2.35	0.019**	-1.03655	-0.0931362
dSPI	-1.733467	0.3451288	-5.02	0.000***	-2.409907	-1.057027
G2SLS random-effects IV regression						
Y	Coef.	Std. Err.	Z	p value	[95% Conf.	Interval]
Cons	4.866541	5.915075	0.82	0.411	-6.733621	16.4667
dEPU	0.0658557	0.0322964	2.04	0.042**	0.0025186	0.1291929
dIR	1.289975	0.9768351	1.32	0.187	-0.6257145	3.205664
dER	-0.0560902	0.0125986	-4.45	0.000***	-0.0807977	-0.0313828
dOP	0.0300821	0.0474755	0.63	0.526	-0.063023	0.1231871

Note. ***, ** and * indicate the significance level of 1%, 5% and 10%, respectively

https://doi.org/10.7441/joc.2026.02.10

The results support the positive correlation found by Wang et al. (2017) between sovereign bond yield and EPU after April 27, 2009 (our sample period begins in February 2011). Our results also corroborate the findings of Prüser and Schlösser (2020), Paule-Vianez et al. (2021), and Costantini and Sousa (2022).

Prüser and Schlösser (2020) found differences in the effect of EPU on the yield of the sovereign bond in more fragile and more stable countries in Europe, spurring our own interest in studying this phenomenon. Expanding on this idea, we compare the influence of EPU in developed and developing countries. Using the World Trade Organization (WTO) to guide the grouping of developed and developing countries, Table 7 shows how the countries under analysis are classified.

Tab. 7 - Classification of the countries under study into developed and developing economies. Source: own research based on the WTO.

Developed countries	Developing countries
Canada	Brazil
France	Chile
Germany	China
Greece	Colombia
Ireland	India
Italy	Mexico
Japan	Russia
Netherlands	
South Korea	
Spain	
Sweden	
the United Kingdom	
the United States	

Table 8 shows the results obtained when analyzing the influence of EPU on sovereign bond returns by distinguishing between developed and developing countries. The results show that the relationship previously found between EPU and sovereign bond yield only remains significant in the case of developed countries with a confidence level greater than 99%. Accordingly, H2 is supported.

https://doi.org/10.7441/joc.2026.02.10

Tab. 8 – Influence of EPU on the 10-year sovereign bond yield. Distinction between developed and developing countries. Source: own research

First-stage G2SLS regression						
dEPU	Developed countries			Developing countries		
	Coef.	Std. Err.	Z (p value)	Coef.	Std. Err.	Z (p value)
Cons	0.9667667	33.57167	0.03 (0.977)	1.603802	9.212698	0.17 (0.862)
dIR	32.90619	29.76695	1.11 (0.269)	10.87649	5.837362	1.86* (0.062)
dER	1.130556	2.621201	0.43 (0.666)	0.0957901	0.0789873	1.21 (0.225)
dOP	-0.5985807	0.3018861	-1.98** (0.047)	-0.4810084	0.4000392	-1.20 (0.229)
dSPI	-1.906868	0.4426693	-4.31*** (0.000)	-1.512467	0.568641	-2.66*** (0.008)
G2SLS random-effects IV regression						
Y	Developed countries			Developing countries		
	Coef.	Std. Err.	Z (p value)	Coef.	Std. Err.	Z (p value)
Cons	2.448833	2.139415	1.14 (0.252)	8.398516	2.254247	3.73*** (0.000)
dEPU	0.0475641	0.0147938	3.22*** (0.001)	0.1075346	0.0919603	1.17 (0.242)
dIR	-6.088129	1.973408	-3.09*** (0.002)	1.029693	1.791523	0.57 (0.565)
dER	0.0784113	0.1645297	0.48 (0.634)	-0.0627921	0.022744	-2.76*** (0.006)
dOP	0.0524388	0.0235144	2.23*** (0.026)	-0.0027629	0.1171482	-0.02 (0.981)

Note. ***, ** and * indicate the significance level of 1%, 5% and 10%, respectively

These results do not support the findings of Prüser and Schlösser (2020). Rather, they show that in developed countries, increases in EPU are associated with increases in the sovereign bond yield, while in developing countries, there are no significant results regarding the influence of EPU. One possible explanation for this result could be the lower level of economic and governmental stability experienced in most developing countries. This instability may cause longstanding uncertainty in the minds of investors with regard to the economic policies of these countries, such that a higher or lower EPU is not a relevant factor in the decision of whether or not to invest in the country's sovereign bond.

5 CONCLUSIONS

The effects of EPU on the economy have been a topic of great interest in the scientific community in recent years. Financial crises, coupled with global events including ongoing political disputes, Brexit, the US-China trade war, the Covid-19 crisis, and, more recently, the Russia-Ukraine, Israel-Palestine, and United States-Iran wars have underscored the importance

https://doi.org/10.7441/joc.2026.02.10

of understanding how uncertainty regarding fiscal, regulatory, and monetary policies can impact various economic fundamentals.

In this study, we evaluate the influence of EPU on the performance of sovereign bonds. We base our work on the fact that increases in EPU should be reflected by sovereign bond investors demanding higher premium to invest in these assets, which should in turn result in a higher yield of the sovereign bond. To this end, our study has analyzed the influence of EPU on the sovereign bond yield from a global perspective, analyzing 20 countries, using monthly data from the period from February 2011 to September 2019.

The results obtained by applying two-stage least squares show that EPU positively and significantly influences sovereign bond yield with more than 95% confidence. Further, they show how, for each point of increase in the EPU index from one month to the next, there is a 0.066% increase in the yield on public debt.

To take things a step further, we distinguish the possible influence of EPU on 10-year sovereign bond yields in developed versus developing countries. Our results show a positive and significant effect of EPU on the 10-year bond yield only in developed countries. This highlights the greater sensitivity of investment in public debt to EPU in developed countries.

Feelings of investor insecurity generated by EPU have tangible effects on public debt markets. In periods of uncertainty, investors reduce risk by incorporating sovereign bonds into their portfolios to enhance allocation efficiency. In particular, the fact that a positive and significant relationship between EPU and 10-year bond yields is only found in developed countries highlights the need for greater control by governments and central banks over the transparency and stability of their decisions in order to control, among other issues, the country risk premium.

The research yields several implications: 1) For monetary authorities, institutional stability directly contributes to lowering sovereign borrowing costs. Accordingly, policy actions should be oriented toward signaling transparency, credibility, and macroeconomic stability to financial markets. 2) With respect to market efficiency, the inclusion of EPU as an explanatory variable can improve the predictive performance of econometric models, thereby enhancing portfolio optimization and asset allocation strategies. 3) Regarding cross-country heterogeneity, in developed economies, EPU constitutes a valuable indicator for anticipating and managing risk, as well as an observable proxy for the sovereign risk premium. By contrast, in developing economies, the absence of a statistically significant effect may suggest that its explanatory power is limited relative to other determinants, such as exchange rate dynamics, sovereign spreads, and broader macro-financial conditions.

The lack of EPU influence on the yield of sovereign bonds in developing countries found in this study can serve to motivate future lines of research. Future studies could aim to explain in detail why uncertainty regarding prospective economic policies is unimportant for investing in the public debt of developing countries, as well as identify the most relevant factors that would condition the decision to invest or not to invest in these sovereign bonds.

This study has several limitations stemming from the data, the methodology, and the scope of the analysis. The use of economic policy uncertainty indices constructed by different authors introduces heterogeneity in both the underlying construction criteria and media sensitivity, which may affect cross-country comparability between developed and developing economies. Furthermore, estimation via two-stage least squares relies on the validity and strength of the instruments; therefore, the presence of weak instruments or residual correlations cannot be entirely ruled out. In terms of scope, the analysis focuses on aggregate relationships between EPU and sovereign bond returns, without capturing country-specific institutional, political, or

https://doi.org/10.7441/joc.2026.02.10

financial dynamics, nor potential regional interdependencies or contagion effects. These limitations suggest that the results should be interpreted with caution and complemented by further research that expands both the temporal horizon and the methodological framework.

6 REFERENCES

1. Andrikopoulos, A., Chen, Z., Chortareas, G., & Li, K. (2023). Global economic policy Uncertainty, gross capital Inflows, and the mitigating role of Macroprudential policies. *Journal of International Money and Finance, 131*, 102793. https://doi.org/10.1016/j.jimonfin.2022.102793
2. Arbatli, E. C., Davis, S. J., Ito, A., & Miake, N. (2017). Policy uncertainty in Japan. *National Bureau of Economic Research*, working paper 23411. https://doi.org/10.3386/w23411
3. Armelius, H., Hull, I., & Köhler, H. S. (2017). The timing of uncertainty shocks in a small open economy. *Economics Letters*, *155*, 31–34. https://doi.org/10.1016/j.econlet.2017.03.016
4. Arouri, M., Estay, C., Rault, C., & Roubaud, D. (2016). Economic policy uncertainty and stock markets: Long-run evidence from the US. *Finance Research Letters*, *18*, 136–141. https://doi.org/10.1016/j.frl.2016.04.011
5. Baker, S. R., Bloom, N., & Davis, S. J. (2013). Economic policy uncertainty in China. Unpublished paper. University of Chicago.
6. Baker, S. R., Bloom, N., & Davis, S. J. (2016). Measuring economic policy uncertainty. *Quarterly Journal of Economics*, *131*(4), 1593–1636. https://doi.org/10.1093/qje/qjw024
7. Balcilar, M., et al. (2021). Role of global, regional, and advanced market economic policy uncertainty on bond spreads in emerging markets. *Economic Modelling*, *102*, 105576. https://doi.org/10.1016/j.econmod.2021.105576
8. Benlagha, N., & Hemrit, W. (2022). Does economic policy uncertainty matter to explain connectedness within the international sovereign bond yields? *Journal of Economics and Finance*, *46*, 1–21. https://doi.org/10.1007/s12197-021-09554-8
9. Breitung, J., & Das, S. (2005). Panel unit root tests under cross-sectional dependence. *Statistica Neerlandica*, *59*(4), 414–433. https://doi.org/10.1111/j.1467-9574.2005.00299.x
10. Cerda, R., Silva, A., & Valente, J. T. (2016). *Economic policy uncertainty indices for Chile*. Economic policy uncertainty working paper. https://www.policyuncertainty.com
11. Christou, C., Cunado, J., Gupta, R., & Hassapis, C. (2017). Economic policy uncertainty and stock market returns in PacificRim countries: Evidence based on a Bayesian panel VAR model. *Journal of Multinational Financial Management*, *40*, 92–102. https://doi.org/10.1016/j.mulfin.2017.03.001
12. Costantini, M., & Sousa, R. M. (2022). What uncertainty does to euro area sovereign bond markets: Flight to safety and flight to quality. *Journal of International Money and Finance*, *122*, 102574. https://doi.org/10.1016/j.jimonfin.2021.102574
13. Dow, S. C. (2011). Cognition, market sentiment and financial instability. *Cambridge Journal of Economics*, *35*(2), 233–249. https://doi.org/10.1093/cje/beq029

14. Drobetz, W., El Ghoul, S., Guedhami, O., & Janzen, M. (2018). Policy uncertainty, investment, and the cost of capital. *Journal of Financial Stability*, *39*, 28-45, https://doi.org/10.1016/j.jfs.2018.08.005
15. Enders, W. (2004). Cointegration and error-correction models. In *Applied econometrics times series*. (pp. 319–386). Wiley.
16. Fang, L., Yu, H., & Li, L. (2017). The effect of economic policy uncertainty on the long-term correlation between US stock and bond markets. *Economic Modelling*, *66*, 139-145. https://doi.org/10.1016/j.econmod.2017.06.007
17. Ghirelli, C., Pérez, J. J., & Urtasun, A. (2019). A new economic policy uncertainty index for Spain. *Economics Letters*, *182*, 64–67. https://doi.org/10.1016/j.econlet.2019.05.021
18. Gil, M. & Silva, D. (2018). *Economic policy uncertainty indices for Colombia*. https://www.policyuncertainty.com/colombia.html
19. Greene, W. H. (2003). *Econometric analysis*. Prentice Hall.
20. Grenadier, S. R., & Malenko, A. (2010). A Bayesian approach to real options: The case of distinguishing between temporary and permanent shocks. *Journal of Finance*, *65*(5), 1949-1986.
21. Gupta, G., Mahakud, J., & Singh, V. K. (2024). Economic policy uncertainty and investment-cash flow sensitivity: Evidence from India. *International Journal of Emerging Markets*, *19*(2), 494–518. https://doi.org/10.1108/IJOEM-11-2020-1415
22. Gyamerah, S. A., Agbi-Kaiser, H. O., Asare, C., & Dzupire, N. (2024). Asymmetric impact of heterogenous uncertainties on the green bond market. *Discrete Dynamics in Nature and Society*, *1*, 6644658. https://doi.org/10.1155/2024/6644658
23. Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). M*ultivariate data analysis.* Prentice Hall.
24. Hardouvelis, G. A., Karalas, G., Karanastasis, D., & Samartzis, P. (2018). *Economic policy uncertainty, political uncertainty and the greek economic crisis. Political Uncertainty and the Greek Economic Crisis*. SSRN. https://ssrn.com/abstract=3155172 or http://dx.doi.org/10.2139/ssrn.3155172
25. Hlouskova, J., & Wagner, M. (2006). The performance of panel unit root and stationarity tests: Results from a large scale simulation study. *Econometric Reviews*, *25*(1), 85–116. https://doi.org/10.1080/07474930500545504
26. Ioannidis, C., & Ka, K. (2021). Economic policy uncertainty and bond risk premia. *Journal of Money, Credit and Banking*, *53*(6), 1479–1522 . https://doi.org/10.1111/jmcb.12748
27. Jiang, G., Lee, C. M., & Zhang, Y. (2005). Information uncertainty and expected returns. *Review of Accounting Studies*, *10*(2), 185–221. https://doi.org/10.1007/s11142-005-1528-2
28. Knight, F. H. (1921). *Risk, uncertainty, and profit*. Schaffner & Marx.
29. Kroese, L., Kok, S., & Parlevliet, J. (2015). Beleidsonzekerheid in Nederland. *Economisch Statistiche Berichten*, *4715*, 464–467.
30. Montero, R. (2013). *Variables no estacionarias y cointegración*. Documentos de Trabajo en Economía Aplicada. Universidad de Granada, Spain.

https://doi.org/10.7441/joc.2026.02.10

31. North, D. C. (1981). *Structure and change in economic history*. Norton.

32. Paule-Vianez, J., Escamilla-Solano, S., & Martínez-Navalón, J. G. (2021). Influencia de la incertidumbre de política económica en la rentabilidad del bono español. *UCJC Business and Society Review*, *18*(1), 56–89. https://doi.org/10.3232/18.01.2021

33. Paule-Vianez, J., Gómez-Martínez, R., & Prado-Román, C. (2020). Effect of economic and monetary policy uncertainty on stock markets. Evidence on return, volatility and liquidity. *Economics Bulletin*, *40*(2), 1261–1271.

34. Price, V., & Tewksbury, D. (1997). *News values and public opinion: A theoretical account of media priming and framing*. In G. A. Barnett & F. J. Boster (Eds.), *Progress in the communication sciences* (pp. 173–212). Ablex.

35. Prüser, J., & Schlösser, A. (2020). The effects of economic policy uncertainty on European economies: Evidence from a TVP-FAVAR. *Empirical Economics*, *58*(6), 2889–2910. https://doi.org/10.1007/s00181-018-01619-8

36. Quddus, M., Goldsby, M., & Farooque, M. (2000). Trust: The social virtues and the creation of prosperity-a review article. *Eastern Economic Journal*, *26*(1), 87–98. https://www.jstor.org/stable/40325970

37. Ren, Y., Guo, Q., Zhu,. H., & Ying, W. (2020). The effects of economic policy uncertainty on China's economy: Evidence from time-varying parameter FAVAR. *Applied Economics*, *52*(29), 3167–3185. https://doi.org/10.1080/00036846.2019.1707475

38. Shiller, R. J. (2005). *Behavioral Economics and Institutional Innovation*. Cowles Foundation Discussion Paper No. 1499. Yale University. SSRN. https://ssrn.com/abstract=671024

39. Wang, J., Sun, X., & Li, J. (2017). How does economic policy uncertainty interact with sovereign bond yield? Evidence from the US. *Procedia Computer Science*, *122*, 154–158. https://doi.org/10.1016/j.procs.2017.11.354

40. Xu, Z. (2020). Economic policy uncertainty, cost of capital, and corporate innovation. *Journal of Banking & Finance*, *111*, 105698https://doi.org/10.1016/j.jbankfin.2019.105698

41. Zalla, R. (2017). Economic policy uncertainty in Ireland. *Atlantic Economic Journal*, *45*(2), 269–271. https://doi.org/10.1007/s11293-017-9536-8

Contact information
Prof. Jessica Paule-Vianez, Ph.D.
University of Extremadura
Faculty of Economics and Business
Department of Financial Economics and Accounting
Spain
E-mail: jessicapv@unex.es
ORCID: https://orcid.org/0000-0001-8918-582X

https://doi.org/10.7441/joc.2026.02.10

Prof. Sandra Escamilla-Solano, Ph.D.
Rey Juan Carlos University
Faculty of Economics and Business
Department of Business Economics
Spain
E-mail: sandra.escamilla@urjc.es
ORCID: https://orcid.org/0000-0001-9150-9467

Prof. Paola Plaza-Casado, Ph.D.
Rey Juan Carlos University
Faculty of Economics and Business
Department of Business Economics
Spain
E-mail: paola.plaza@urjc.es
ORCID: https://orcid.org/0000-0002-8869-6123

Prof. Nawazish Mirza, Ph.D.
Excelia Business School, CERIIM
Finance Academic Department
France
E-mail: elahimn@excelia-group.com
ORCID: https://orcid.org/0000-0003-4265-9519

https://doi.org/10.7441/joc.2026.02.10