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Dynamic correlations of equity market and economic policy uncertainty in South America

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ABSTRACT

This study examines the dynamic relationship between economic policy uncertainty (EPU) and equity markets in Brazil, Chile, and Argentina within the context of presidential elections and political episodes from 2010 to 2025. While the literature establishes a negative correlation between policy uncertainty and equity returns, it relies on low-frequency data that cannot capture the immediate market response to high-stakes political episodes. The dynamic conditional correlation (DCC)-generalized autoregressive conditional heteroscedasticity model was used to estimate time-varying correlations between 5-year credit default swap (CDS) spreads and equity indices. To address endogeneity, two-stage least squares was used to examine how presidential elections and political episodes affect these correlations. The Argentine sample is shorter (July 2023 to August 2025) due to data availability for that country. High-frequency analysis revealed a persistent negative co-movement between EPU and equity markets across all three countries. Electoral episodes and social commotions generate statistically significant shifts in DCCs, with the intensity and persistence of these effects varying across institutional contexts. This study documents that abrupt shifts in the uncertainty-equity correlation during political episodes are detectable at daily frequency but absent from monthly analyses. The heterogeneous pattern of responses across Brazil, Chile, and Argentina advances understanding of how institutional fragility and macroeconomic conditions affect the transmission of political risk to financial markets. The study supports investors, risk managers, and regulators in emerging economies by offering a high-frequency framework for monitoring political risk. The findings provide a market-sensitive basis for portfolio management and regulatory oversight during electoral cycles and episodes of institutional instability. This study introduces a high-frequency methodological framework by employing fluctuations as a dynamic proxy for EPU, shifting the analysis from traditional low-frequency indices to a market-based metric capable of capturing real-time volatility. The findings expand the research field of political risk measurement in equity markets and provide practitioners with a more responsive tool for estimating the effects of political shocks.

Keywords: economic policy uncertainty, credit default swaps, dynamic conditional correlations, South America, political episodes.

1. INTRODUCTION

Global empirical studies establish economic policy uncertainty (EPU) as a risk factor that drives fluctuations in equity market returns (Asafo-Adjei et al., 2020; Durmaz, 2024; Gea et al., 2021; Hong et al., 2024; Huang et al., 2023; Oliveira et al., 2023). Although the literature confirms a prevalent pattern of negative correlation between EPU and equity returns (Antonakakis et al., 2013; Dakhlaoui & Aloui, 2016; Ghosh et al., 2021; Hashmi et al., 2021; Mgadmi et al., 2025; Xiong et al., 2018; Yang & Jiang, 2016), most investigations rely on low-frequency data, overlooking circumstances capable of triggering sharp shifts in this adverse co-movement. This gap motivates the present study.

The growing literature demonstrates that investors focus on signals issued by the central government regarding the direction of economic policy, given that political leadership determines the course of economic progress (Chui et al., 2023; Galariotis et al., 2018; Lee et al., 2021; Marschner & Ceretta, 2021). This uncertainty about future policies has material consequences for

investment decisions, given that corporate investments are irreversible. Uncertainty raises the option value of waiting, a mechanism grounded in investment irreversibility, which leads firms to defer commitments until uncertainty is resolved (Bernanke, 1983; Dixit & Pindyck, 1994; McDonald & Siegel, 1986; Rodrik, 1991). Understanding the policy orientation of political leaders and electoral candidates is relevant, given that those who assume office determine the course of fiscal and monetary policies (Baker et al., 2016; Bekiros et al., 2016; Choi et al., 2020; Liu & Zhang, 2015; Zhang, 2025). In this context, political uncertainty is a channel through which the political process affects real economic outcomes, generating cycles of corporate investment (Julio & Yook, 2012).

Political circumstances such as national electoral contests that determine a country's leadership elevate policy uncertainty and precipitate stock market volatility. As a consequence, markets may demand a higher political risk premium (Ayman & Essaddam, 2021; Brogaard et al., 2020; Kelly et al., 2016; Pástor & Veronesi, 2012, 2013). This perspective supports the notion that political uncertainty, which is intrinsic to competitive presidential electoral processes, and EPU tend to co-occur. Two central factors explain this co-occurrence. First, the fierce dispute between candidates and the uncertainty surrounding the electoral outcome constitute the primary source of political uncertainty. Second, once in office, the elected leadership defines new economic guidelines, and the subsequent uncertainty about the direction of these policies generates EPU. Idiosyncratic episodes of political uncertainty may alter the dynamic co-movement between stock market risk and EPU.

This study models the time-varying co-movement between equity market risk and policy uncertainty during the Brazilian, Chilean, and Argentine electoral cycles from 2010 to 2025, covering three economies whose political transitions carry international financial relevance. The growing interest in EPU has led to the development of several proxies, with the monthly EPU index being the most prominent (Baker et al., 2016; Ferreira et al., 2019). However, to capture the high-frequency response of markets to specific political dates, this study uses credit default swap (CDS) as a country-level proxy for policy uncertainty. A CDS is a derivative financial instrument that functions as insurance against sovereign default risk and, in liquid markets such as Brazil's, offers daily quotations. Given that episodes of political uncertainty tend to concentrate on specific, consequential dates, the daily variation of CDS spreads alongside broad equity indices offers a more granular approach for identifying sharp shifts in co-movements than the monthly frequency of the EPU index.

Despite their different sources, EPU and CDS intersect in their ability to capture policy uncertainty through four theoretical mechanisms. Within the expectations channel, political uncertainty affects investors' outlook, which elevates default risk and increases CDS spreads (Pástor & Veronesi, 2013). Under the real options channel, policy uncertainty deters corporate investment, which may compromise government and corporate revenues, so that default risk reflects into higher CDS spreads (Bernanke, 1983; Dixit & Pindyck, 1994; McDonald & Siegel, 1986). Along the financing cost channel, policy uncertainty raises borrowing costs, creating an adverse cycle in which rising debt service costs elevate default risk. Through the confidence channel, policy uncertainty reduces investor and consumer confidence, dampening economic activity and the capacity to service debt (Chowdhury & Ahmed, 2022). This study examines how election dates condition the negative co-movement between equity markets and policy uncertainty, consistent with the view that political uncertainty effects are state-dependent (Baker et al., 2016; Kelly et al., 2016).

2. POLITICAL UNCERTAINTY, EPU AND EQUITY MARKETS

The distinction between political uncertainty and EPU is defined by their respective sources. While PU stems from electoral outcomes, government instability, or geopolitical tensions (Gulen & Ion, 2016; Julio & Yook, 2012), EPU arises from concerns about fiscal, monetary, and regulatory trajectories (Baker et al., 2016; Brogaard et al., 2020). Despite their distinct origins, both converge to shape investor expectations through informational asymmetry, influencing corporate investment cycles and capital allocation (Goodell et al., 2020; Kelly et al., 2016).

Seminal work by Niederhoffer et al. (1970) and Niederhoffer (1971) established that U.S. presidential elections carry significant short-term informational content. This evidence laid the groundwork for the uncertainty information hypothesis and the overreaction hypothesis, which Brown et al. (1988) and De Bondt and Thaler (1985) framed as departures from the efficient market hypothesis. Subsequent literature expanded this debate by examining how electoral disputes and political campaigns affect equity valuation and the broader business environment (Mgadmi et al., 2025; Musah et al., 2023; Pantzalis et al., 2000).

The introduction of the EPU index by Baker et al. (2016) enabled researchers to quantify co-movements between policy fluctuations and the real economy. Drawing on the real options framework, the literature postulates that elevated uncertainty raises the option value of waiting, leading firms to defer investment decisions (Bernanke, 1983; Dixit & Pindyck, 1994). This mechanism motivated a growing research agenda documenting the negative relationship between policy uncertainty and stock returns across diverse geographies, including North America, Europe, and BRICS (Brazil, Russia, India, China, and South Africa) nations (Gea et al., 2021; Hong et al., 2024; Phan et al., 2018).

Evidence suggests that elevated uncertainty reduces corporate valuation and raises market volatility (Durmaz, 2024; Kundu & Paul, 2022). This relationship is conditional on national institutional frameworks and economic cycles, with emerging markets exhibiting greater sensitivity due to weaker governance and reliance on foreign capital (He et al., 2020; Zhao & Park, 2024). The spillover effects of U.S. policy uncertainty constitute a global driver that can reduce the predictive power of local indices in international equity markets (Ghani & Ghani, 2024; Huang et al., 2023).

Early empirical evidence on return-uncertainty dynamics relied on static frameworks, but the maturation of the literature required a transition toward time-varying models. Following Engle (2002), the dynamic conditional correlation–generalized autoregressive conditional heteroskedasticity (DCC-GARCH) approach became central to capturing volatility transmissions and financial contagion across national markets (Celik, 2012; Chiang et al., 2007). These models track how markets respond to macro-financial variables under uncertainty, identifying spillovers induced by global shocks (Ahmad et al., 2014; Nguyen et al., 2020).

Using DCC-GARCH, Antonakakis et al. (2013) documented the negative co-movement between EPU and stock returns, emphasizing its time-varying nature. Their analysis revealed a sign reversal during the 2008–2009 global financial crisis, when large-scale bailout packages produced a positive market response despite elevated policy uncertainty. This finding underscores the capacity of policy interventions to override the structural negative tendency in the correlation, estimated at −0.1830. In a related analysis, Dakhlaoui and Aloui (2016) found negative mean return spillovers between U.S. EPU and BRIC indices, interrupted by abrupt shifts into positive territory. They conclude that market participants monitor U.S. policy conditions, a dynamic relevant to international portfolio management and volatility forecasting (Nguyen et al., 2020).

In the Chinese context, Xiong et al. (2018) and Yang and Jiang (2016) found that correlations are negative and time-varying, with fluctuations intensifying during major events such as the 2015–2016 market crash. Both studies show that the magnitude of the co-movement is sensitive to the time range and the occurrence of systemic shocks. Evidence from Indonesia suggests a predominantly negative and time-varying relationship between EPU and stock market returns (Hashmi et al., 2021). The findings indicate that increases in global policy uncertainty are generally associated with declines in the Indonesian stock market, particularly during periods of heightened economic stress. This behavior is consistent with the broader literature on emerging markets, where uncertainty shocks tend to trigger capital outflows and downward pressure on asset prices.

The evidence reviewed in this section points to a consistent structural pattern in which rising EPU depresses equity valuations through the discount rate and real options channels. This inverse relationship has been documented across different geographies and methodological frameworks, suggesting that financial markets process political and institutional risk through a shared structural mechanism. This pattern, grounded in the real options mechanism (Bernanke, 1983; Dixit & Pindyck, 1994) and the discount rate channel (Pástor & Veronesi, 2012, 2013), motivates the first hypothesis.

H_1: the DCC between EPU and equity market returns exhibits a sustained negative sign in South American emerging markets.

Beyond the structural level, the negative co-movement between policy uncertainty and equity markets does not evolve in isolation from the political-electoral calendar. Investors actively track the trajectories of presidential contenders because the electoral outcome determines who will hold the authority to shape fiscal, monetary, and regulatory policies. This anticipatory behavior means that specific political junctures such as election rounds, institutional crises, and social commotions carry the potential to introduce abrupt informational discontinuities into the uncertainty-equity relationship. When a high-stakes political date arrives, market participants reassess sovereign risk and revise their expectations about the future policy environment, generating measurable shifts in the dynamic co-movement that a structural average cannot capture. These arguments lead to the second hypothesis.

H_2: presidential electoral episodes and political turmoil events generate statistically significant shifts in the DCC between EPU and equity market returns.

Yet the impact of political episodes on dynamic correlations does not operate uniformly across markets. The institutional architecture of each country, its fiscal credibility, the stability of its political system, and its degree of macroeconomic fragility condition how forcefully a given political shock translates into shifts in the uncertainty-equity relationship. A presidential election in a country with robust institutions and a predictable sovereign risk profile generates a different market response than the same type of event in a context of chronic fiscal distress and depleted external reserves. This context-dependence implies that while the direction of the co-movement may be shared across South American emerging markets, the intensity and persistence of politically induced shifts are idiosyncratic. This reasoning motivates the third hypothesis.

H_3: the impact of political episodes on DCCs is heterogeneous across countries, reflecting differences in institutional frameworks and macroeconomic fragilities.

3. METHODOLOGY

This section presents the econometric framework employed to test the hypotheses developed in the theoretical review.

3.1 Sample and Data Sources

The dataset comprises daily log-returns, calculated as $R_{it} = ln\ (P_t / P_{t-1})$, for the 5-year CDS and the primary equity indices of IBOVESPA (Brazil), S&P/CLX IPSA (Chile), and S&P MERVAL (Argentina). The 5-year CDS is employed as a high-frequency proxy for EPU, as it reflects market-based sovereign default risk and responds instantaneously to political commotions. The 5-year horizon was selected due to its superior liquidity in emerging markets. The time range covers January 4, 2010, to October 24, 2025**,** providing over 3,900 observations for Brazil and Chile, while capturing the recent Argentine volatility context. All data were retrieved from Refinitiv®.

3.2 ARCH and GARCH Framework

The modeling follows a two-stage approach. First, parameters are estimated to capture mean return and volatility patterns through univariate specifications. Second, these parameters serve as inputs for the DCC employed in the baseline model.

3.2.1 Mean and variance equations

Daily variations of equity indices and CDS are assumed to follow a conditional mean process $R_{it} = \mu_{it} + \epsilon_{it}$. To remove linear temporal dependence and capture volatility clustering, we specify a GARCH (1,1) framework:

$$R_{i,t} = \phi_0 + \phi_1 R_{i,t-1} + \phi_2 CDS_{i,t} + \epsilon_{i,t} \quad (1)$$

$$h_{i,t} = \omega + \alpha_1 \epsilon_{i,t-1}^2 + \beta_1 h_{i,t-1} \quad (2)$$

Eq. 1 estimates the conditional mean where residuals ($\epsilon_{i,t}$) represent market shocks. Eq. 2 models conditional variance ($h_{i,t}$), where ω is the long-term intercept. The ARCH term (α_1) quantifies the impact of recent unexpected shocks (short-term memory), while the GARCH term (β_1) measures the persistence of past volatility (long-term memory). This stage provides the standardized residuals required for the multivariate stage.

3.2.2 Multivariate GARCH (DCC-GARCH)

To capture the dynamic relationship between equity markets and uncertainty, we employ Engle's (2002) DCC-GARCH model. This approach allows the estimation of separate conditional volatilities while modeling the dynamic evolution of correlations. The conditional covariance matrix is defined as $H_t = D_t R_t D_t$, where D_t is a diagonal matrix of standard deviations:

$$D_t = \text{diag}\left(\sqrt{h_{11,t}}, \ldots, \sqrt{h_{nn,t}}\right) \quad (3)$$

The dynamic correlation matrix R_t is specified as:

$$R_t = Q_t^{*-1} Q_t Q_t^{*-1} \quad (4)$$

where Q_t follows a mean-reverting process:

$$Q_t = (1 - \lambda_1 - \lambda_2)\bar{Q} + \lambda_1(\zeta_{t-1}\zeta'_{t-1}) + \lambda_2 Q_{t-1} \quad (5)$$

The DCC ($\rho_{12,t}$) between CDS and equity indices is extracted as:

$$\rho_{12,t} = \frac{q_{12,t}}{\sqrt{q_{11,t}\, q_{22,t}}} \quad (6)$$

Parameters λ_1 and λ_2 represent the impact of recent shocks and the persistence of the correlation, respectively. A sum of λ_1 and λ_2 close to 1 indicates that shocks to the uncertainty-equity relationship dissipate slowly over time.

3.3 Baseline Model

The primary advantage of the DCC-GARCH model is the generation of a time-series correlation rather than a single point of association. These estimated correlations are then utilized in a baseline regression to identify how political shocks affect the magnitude and direction of co-movement:

$$\rho_{DCC_{i,t}} = \gamma_0 + \gamma_1 \rho_{DCC_{i,t-1}} + \sum_{k=1}^{n} \theta_k D_{k,t} + \delta_1 EXC_{t-1} + \delta_2 SP500_{t-1} + \delta_3 STOXX_{t-1} + \eta_t \quad (7)$$

where $D_{k,t}$ represents the vector of political time dummies events for each country (Table 1). To isolate domestic effects from global contamination, we control for global risk (S&P 500 and STOXX Europe 600) and regional liquidity shocks (local exchange rate, EXC). Model robustness is substantiated by diagnostic tests. Stationarity was confirmed via augmented Dickey-Fuller (ADF) tests. To address potential endogeneity in the baseline regressions, we verified instrument validity through the absence of overidentifying restrictions via Hansen's J test and an endogeneity test. Residual autocorrelation was vetted using Ljung-Box statistics across multiple lags.

Table 1

Dates of elections (first and second rounds) and political episodes

	Year	1st Round	Before	After	2nd Round	Before	After
Brazil	2014 E1	Oct 5	Oct 2, 3	Oct 6, 7	Oct 26	Oct 23, 24	Oct 27, 28
	2018 E2	Oct 7	Oct 4, 5	Oct 8, 9	Oct 28	Oct 25, 26	Oct 29, 30
	2022 E3	Oct 2	Sep 29, 30	Oct 3, 4	Oct 30	Oct 27, 28	Oct 31, Nov 1
	Episodes of political tensions						
	2015 E4	Impeachment proceedings (Dec 2)					Dec 3, 4
	2016 E4	Vote in the Chamber of Deputies (Apr 17)					Apr 18, 19
	2016 E4	Vote in the Senate (Apr 12)					May 12, 13
Chile	2013 E1	Nov 17	Nov 14, 15	Nov 18, 19	Dec 15	Dec 12, 13	Dec 16, 17
	2017 E2	Nov 19	Nov 16, 17	Nov 20, 21	Dec 17	Dec 14, 16	Dec 18, 19
	2021 E3	Nov 21	Nov 18, 19	Nov 22, 23	Dec 19	Dec 16, 17	Dec 20, 21
	Episodes of political tensions						
	2019	Estallido social (Oct 18, 2019)					Oct 18, 21
	2019	Political agreement (Nov 15, 2019)					Nov 15, 18
Argentina	2023	Oct 22	Oct 19, 20	Oct 23, 24	Nov 19	Nov 16, 17	Nov 21, 22
	Episodes of political tensions						
	2023	Chainsaw Plan (Dec 20, 2023)					Dec 20, 21
	2024	National strike (Jan 24, 2024)					Jan 24, 25

Notes: *Compiled by the authors based on electoral body reports and official news agency archives. In Argentina, November 20 is a holiday (Día de la Soberanía Nacional). Time dummies related to elections are grouped as E1, E2, and E3. Dates related to episodes of political tension are grouped as E4. The windows for elections in the baseline model (3.3) considered two trading days before (t-1 and t-2) and 2 days after (t+1 and t+2) for both the first and second rounds.*

Source: *Prepared by the authors.*

Newspaper reports (e.g., Reuters, Bloomberg) were utilized exclusively for qualitative context and the characterization of political shocks, rather than econometric inference. All statistical conclusions regarding market co-movement derive solely from DCC-GARCH coefficients and correlation tests.

The framework described in this section operationalizes the three research hypotheses developed in the theoretical review. H_1 captures the structural orientation of the uncertainty-equity relationship and is addressed by the sign and persistence of the DCC-GARCH parameters. Evidence for H_1 requires a structural negative correlation between CDS returns and equity indices sustained across the full sample period for Brazil, Chile, and Argentina. H_2 is tested through the regression coefficients on the political event dummies ($D_{k,t}$) in the baseline model. Statistically significant shifts in the conditional correlation on event dates constitute evidence that electoral episodes and political turmoil alter the dynamics of the uncertainty-equity relationship. H_3 is examined by comparing the magnitude, direction, and statistical significance of those coefficients across the three markets, where divergent responses to comparable events reflect the conditioning role of each country's institutional framework and macroeconomic environment.

4. DATA ANALYSIS

4.1 Descriptives

Table 2 summarizes the descriptive statistics and preliminary diagnostics for the daily series. A critical caveat concerns the Argentine sample, which is shorter (n = 517) than those for Brazil and Chile (n = 3,922) due to data limitations. Building on this, comparisons involving Argentina reflect a specific high-volatility regime and should be interpreted with caution.

Table 2
Descriptive statistics

Countries	Mean	SD	Min.	Max.	Norm.	ADF	ARCH
Brazil	0.018760	1.46500	-15.9930	13.0220	13.144***	-44.42***	1400.5***
Chile	0.023230	1.09400	-15.2150	9.25000	14.556***	-40.91***	963.1***
Argentina	0.281060	3.11800	-13.2810	20.5740	5.987***	-14.65***	89.9***
Brazil^{cds}	-0.002030	3.17700	-29.9440	26.7000	14.103***	-41.65***	1038.0***
Chile^{cds}	-0.000424	3.55900	-36.9120	25.9650	13.886***	-44.60***	606.9***
Argentina^{cds}	-0.330850	3.32400	-19.3250	24.3100	10.303***	-15.69***	63.50***

Notes: *This table reports descriptive statistics for daily equity returns and credit default swap (CDS) fluctuations expressed in percentages. The sample period ranges from January 4, 2010 to October 24, 2025 for Brazil and Chile (n = 3,922) and from July 24, 2023 to August 29, 2025 for Argentina (n = 517).*
ADF = augmented Dickey-Fuller; ARCH = autoregressive conditional heteroscedasticity; SD = standard deviation.
****, ** and * indicate significance of 1%, 5% and 10%, respectively.*
Source: *Prepared by the authors.*

The equity returns exhibit positive means consistent with risk premia, while CDS fluctuations show negative means, which suggests a trend of compression of credit risk premiums during the period. An idiosyncratic pattern emerges in Chile, where the CDS series presents the highest

volatility (3.559), which aligns with its susceptibility to sharp sociopolitical shocks. Normality is overwhelmingly rejected for all series. This leptokurtic behavior, typical of high-frequency data, justifies the use of quasi-maximum likelihood estimation and robust standard errors to ensure consistent inference. Stationarity is confirmed by ADF tests1% significant 1%), while ARCH-Lagrange multiplier (LM) tests reveal significant volatility clustering. These diagnostics justify the use of GARCH-type modeling.

4.2 Unconditional Correlations

Table 3 presents the unconditional correlations between equity indices, the 5-year CDS, and the EPU index. A consistent negative correlation between stock returns and CDS is observed across all countries: Brazil (-0.519***), Chile (-0.330***), and Argentina (-0.152**). This adverse co-movement aligns with the theoretical premise that sovereign risk and policy uncertainty act as discount factors, penalizing equity valuations (Pástor & Veronesi, 2013).

Table 3
Unconditional correlations

Pairing	Brazil	Chile	Argentina
(1) CDS × equity (daily)	-0.519***	-0.330***	-0.152***
p-value	(0.000)	(0.000)	(0.001)
(2) CDS × equity (monthly)	-0.668***	-0.419***	-0.013
p-value	(0.000)	(0.000)	(0.949)
ADFs	(-8.354*** | -9.347***)	(-8.177*** | -7.811***)	(-4.731*** | -3.422**)
n (month)	189	189	27
(3) EPU (m) × equity	-0.061	0.001	-
p-value	(0.406)	(0.993)	-
ADF	-14.43***	-11.11***	-
n (month)	189	175	-

Notes: *This table reports Pearson correlation coefficients. The monthly economic policy uncertainty (EPU) index is expressed as logarithmic differences* $EPU_t = ln(EPU_t) - ln(EPU_{t-1})$ *to ensure stationarity.*
ADF = augmented Dickey-Fuller; CDS = credit default swaps.
****, **, and * indicate significance of 1%, 5%, and 10%, respectively.*
Source: *Prepared by the authors.*

The statistical superiority of the CDS as a high-frequency proxy is evidenced by its stronger correlation with equity markets compared to the EPU index (-0.519, -0.330, and -0.152 for Argentina). While the monthly EPU captures broad structural shifts, the daily CDS quotations reflect sensitive market patterns throughout time. This justifies the use of the CDS to estimate time-varying correlations (DCC) in the subsequent sections, as it provides granular fluctuations that can be pivotal for capturing shifts triggered by the specific electoral dates and political episodes described in Table 1.

4.3 Conditional Mean and Variance Analysis

This subsection examines the joint dynamics of returns and volatility within the GARCH(1,1) framework to estimate market sensitivity to sovereign risk and the persistence of volatility shocks (Table 4). The autoregressive term (γ_1) reveals distinct market microstructures: Brazil exhibits negative serial correlation (-0.073***), suggesting a pattern of short-term overreactions followed by corrective movements. Conversely, Chile and Argentina display positive persistence (0.15*** and 0.14***, respectively), indicating a slower rate of information diffusion and gradual assimilation of shocks.

Table 4
Mean and variance equation

	Brazil	**Chile**	**Argentina**
Mean equation			
γ_0	0.000374*	0.000311**	0.001580
	(0.000171)	(0.000118)	(0.001340)
γ_1	-0.073442***	0.151507***	0.145010***
	(0.013880)	(0.016526)	(0.048812)
γ_2	-0.293894***	-0.092814***	-0.102242
	(0.014747)	(0.009742)	(0.063496)
Variance equation			
ω	0.000003	0.000002	0.000028
	(0.000006)	(0.000010)	(0.000015)
α_1	0.067145***	0.121987	0.057338**
	(0.016120)	(0.165088)	(0.025318)
β_1	0.909284***	0.866063***	0.911250***
	(0.029024)	(0.171205)	(0.029177)
Q (90d)	78.386	102.100	65.354
p-value	0.8039	0.1804	0.9765
Q^2 (90d)	88.568	90.579	48.663
p-value	0.5229	0.4631	0.9999
ARCH-LM	93.612	84.323	42.844
p-value	0.3763	0.6489	0.9999
Persistence	0.9764	0.9880	0.9686
N	3,922	3,922	517

Notes: *This table reports the results from the autoregressive (AR)(1)-GARCH (1,1) estimations via quasi-maximum likelihood estimation. γ_0 denotes the intercept, γ_1 captures the AR(1) component of equity returns, γ_2 reflects the marginal effect of daily credit default swap spreads, ω represents the constant term, α_1 corresponds to the autoregressive conditional heteroscedasticity (ARCH) term (short-term shock impact), and β_1 captures the generalized GARCH term (volatility persistence). LM = Lagrange multiplier.*
****, **, and * indicate significance of 1%, 5%, and 10%, respectively.*
Source: *Prepared by the authors.*

The marginal effect of EPU, captured by γ_2, confirms that sovereign risk spikes exert immediate downward pressure on equity valuations in Brazil and Chile. Quantifying the economic

significance, a one-standard-deviation shock to CDS spreads implies a mean daily equity decline of 0.93% in Brazil and 0.33% in Chile. These magnitudes highlight acute sensitivity and rapid asset repricing in response to policy-related uncertainty.

Regarding conditional variance, the persistence parameter ($\alpha_1 + \beta_1$) is close to unity for all countries, consistent with long-memory volatility clustering. While Brazil's volatility is driven by both immediate shocks (α_1 = 6.7%) and strong inertia (β_1 = 90.9%), Chile's dynamics are predominantly inertial, as the ARCH term is statistically insignificant. Diagnostic tests (Ljung-Box Q and ARCH-LM) confirm that the residuals are free from serial correlation and remaining ARCH effects.

4.4 DCCs Analysis

Table 5 expands the analysis by presenting the bivariate DCC-GARCH parameters. The results reveal a dichotomy between the functioning of stable emerging markets and that of markets under severe distress.

Table 5
Estimation of bivariate DCC-GARCH models

	Brazil	**Chile**	**Argentina**
Equity equations			
$ARCH_{t-1}$	0.06871***	0.12713***	0.06061**
	(0.01058)	(0.02626)	(0.02392)
$GARCH_{t-1}$	0.90274***	0.85881***	0.90612***
	(0.01353)	(0.02780)	(0.02746)
Constant	0.00043**	0.00034***	0.00210*
	(0.00020)	(0.00013)	(0.00126)
CDS equations			
$ARCH_{t-1}$	0.15266***	0.09384***	0.22487***
	(0.02993)	(0.01680)	(0.08257)
$GARCH_{t-1}$	0.75727***	0.87508***	-0.05570**
	(0.04763)	(0.02714)	(0.02405)
Constant	-0.00071*	-0.00078	-0.00240*
	(0.00043)	(0.00049)	(0.00143)
DCC parameters			
DCC (ρ)	-0.47163***	-0.35051***	-0.16792**
	(0.03082)	(0.02747)	(0.06786)
DCC (95%CI)	-0.53; -0.41	-0.40; -0.30	-0.30; -0.03
λ_1 (shocks)	0.00704**	0.00557**	0.02737
	(0.00305)	(0.00264)	(0.06881)
λ_2 (persistence)	0.98139***	0.98222***	0.17842
	(0.00400)	(0.00324)	(0.14150)
N	3,922	3,922	517

Notes: *This table presents autoregressive conditional heteroscedasticity (ARCH) and generalized ARCH (GARCH) estimated with one lag, similar to subsection 4.3. Standard errors are robust to heteroskedasticity and autocorrelation and are reported in parentheses. Dynamic conditional correlation (DCC)-GARCH describes the DCC between daily returns of local market benchmarks*

and 5-year credit default swap (CDS), which are proxies for equity market returns and economic policy uncertainty, respectively.
****, **, and * indicate significance of 1%, 5% and, 10%, respectively.*
Source: *Prepared by the authors.*

For Brazil and Chile, the model performs consistently with theoretical expectations. The univariate variance equations confirm the presence of volatility clustering, with GARCH terms β_1 statistically significant and close to unity (0.90 and 0.86, respectively). Furthermore, the DCC parameters (λ_1 and λ_2) are significant. The decay parameters (λ_2) are close to 1 (0.98139 for Brazil; 0.9822 for Chile), which show that the correlation between CDS and equity markets has long memory. Once a co-movement trend is established, it dissipates slowly. This dynamic persistence mirrors the volatility inertia (β_1) observed in the univariate analysis (subsection 4.3), which indicates that the structural memory inherent in individual markets is transmitted to their nexus. The significance of the shock parameters (λ_1) confirms that daily news regarding policy uncertainty can exert an immediate impact on this relationship.

In contrast, Argentina exhibits a distinct and idiosyncratic pattern. The univariate CDS equation presents a negative GARCH coefficient, and the DCC parameters (λ_1 and λ_2) lack statistical significance. These statistical anomalies are not mere artifacts but reflect the structural instability of the Argentine sovereign debt market. The sample period captures a regime of chronic financial distress, characterized by recurrent sovereign issues, severe foreign exchange constraints, and depleted international reserves (Calvo et al., 2003). Under such extreme conditions, the standard transmission mechanism of volatility breaks down, and the market operates in a regime of erratic shocks rather than predictable volatility clustering. As a consequence, while the model detects correlation, the evidence for a stable time-varying structure in Argentina is weaker than that in Brazil and Chile.

Despite these differences in dynamic adjustment, the structural correlation (ρ DCC) remains consistently negative and significant across all sampled countries, as it ranges from -0.17** in Argentina to -0.49*** in Brazil. This provides robust cross-country evidence that, regardless of the volatility regime, CDS spreads function as a transmission channel for economic stress, which supports that rising in policy uncertainty exerts downward pressure on equity valuations. The persistent negative DCC parameter, significant across all three countries, supports H_1.

Figure 1 illustrates the trajectory of these correlations over time. Unlike prior studies employing monthly data (e.g., Antonakakis et al. [2013], Xiong et al. [2018], and Yang and Jiang [2016]), which often report correlations oscillating into positive territory during crises, daily-frequency analysis reveals a robust negative correlation that remains below 0,00 throughout the sample period.

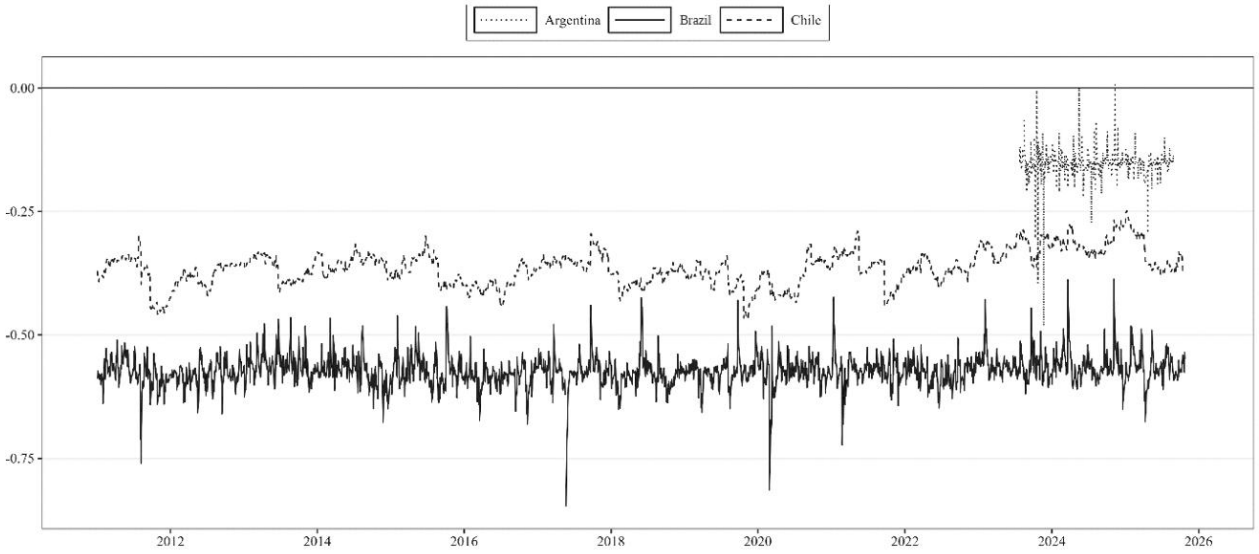

Figure 1 *The horizontal axis indicates the annual identification of the series, while the vertical axis shows the dynamic correlations observed. The DCC pattern is negative across all samples.*
Source: *Prepared by the authors.*

While the intensity of the negative linkage may weaken during specific periods, the persistence of this inverse relationship suggests that the "flight-to-quality" mechanism is a structural feature of these markets. This evidence is coherent with previous studies considering South American countries (Cho et al., 2016; Soylu & Güloğlu, 2019) and with the Brazilian Central Bank analysis (Banco Central do Brasil, 2009). Further, consistently, EPU is priced as a detriment to equity performance.

4.5 DCC-GARCH Country Regressions

Table 6 summarizes the impact of electoral outcomes (dummies E1, E2, and E3) and major political episodes affecting the presidency (E4 for Brazil, Chile, and Argentina) on the country samples.

Table 6
DCCs regressions for political episodes

Variables	Brazil	Fisher z	Chile	Fisher z	Argentina	Fisher z
ρDCC_{t-1}	0.9871***	-	0.9776***	-	0.3942**	-
EXC_{t-1}	-0.0724*	-	-0.0432	-	-0.0236	-
$SP500_{t-1}$	-0.0434*	-	-0.0058	-	-0.3562**	-
$STOXX_{t-1}$	0.0757***	-	-0.0124	-	0.2065	-
E1: first and second round dummies (2014 for Brazil and 2013 for Chile)						
D_{t-2}	0.0024***	-0.560	0.0055***	-0.511	-	-
D_{t-1}	0.0007*	-0.158	0.0011***	0.089	-	-
D_{t+1}	0.0013***	-0.406	0.0027***	0.304	-	-
D_{t+2}	-0.0275***	4.466***	-0.0006**	0.335	-	-

D_{t-2}	-0.0000	-0.471	0.0215***	0.022	-	-
D_{t-1}	-0.0019***	0.068	-0.0001	-0.296	-	-
D_{t+1}	-0.0058***	0.527	-0.0128***	1.652*	-	-
D_{t+2}	-0.0021**	0.074	0.0014***	-0.098	-	-
E2: first and second round dummies (2018 for Brazil and 2017 for Chile)						
D_{t-2}	-0.0094***	0.217	0.0030***	0.169	-	-
D_{t-1}	-0.0015***	-0.808	0.0029***	0.317	-	-
D_{t+1}	0.0025***	-0.954	0.0147***	-1.713*	-	-
D_{t+2}	-0.0174***	1.875*	-0.0004	-1.171	-	-
D_{t-2}	-0.0015***	-0.052	0.0010***	0.309	-	-
D_{t-1}	-0.0023***	-0.064	-0.0009*	0.027	-	-
D_{t+1}	-0.0024***	-0.371	-0.0019***	-0.245	-	-
D_{t+2}	0.0010	-0.120	0.0050***	0.641	-	-
E3: first and second round dummies (2022 for Brazil, 2021 for Chile and 2023 for Argentina)						
D_{t-2}	0.0051***	-0.031	0.0036***	-0.599	-0.0172	1.015
D_{t-1}	-0.0036***	0.622	-0.0021***	-0.024	0.0224	0.992
D_{t+1}	0.0035**	-0.697	0.0038***	-0.151	0.0287***	-0.297
D_{t+2}	-0.0259***	4.066***	-0.0033***	0.659	-0.2575***	4.646***
D_{t-2}	-0.0018***	0.335	-0.0003	0.055	0.0091***	-0.155
D_{t-1}	0.0027***	-0.293	-0.0036***	-0.057	0.0552***	-0.830
D_{t+1}	-0.0003	-0.080	0.0056***	0.027	-0.0261***	1.388
D_{t+2}	-0.0019**	0.248	0.0082***	-0.245	-0.3181***	5.247***
E4: dummies major political episodes (2015/2016 for Brazil, 2019 for Chile, and 2023/2024 for Argentina)						
D_{t+1}	0.0009	-0.217	-0.0054***	0.045	-0.0045	-0.071
D_{t+2}	0.0239***	-1.964**	0.0007	-0.137	0.0031*	0.006
D_{t+1}	0.0091***	-1.432	-0.0045***	-0.346	-0.0053**	0.098
D_{t+2}	-0.0013	0.028	0.0034***	-0.769	-0.0457***	0.830
D_{t+1}	0.0077***	-1.771*	-	-		-
D_{t+2}	0.0014***	-0.437	-	-		-
Intercept	-0.0065***	-	-0.0073***	-	-0.0913***	-
N	3,922	-	3922	-	517	-
R-square	0.9850	-	0.9605	-	0.3930	-
Wald χ^2	< 0.01	-	<0.01	-	< 0.01	-
AR (30)	0.4871	-	0.9594	-	0.8570	-
Hansen J	0.0934	-	0.4192	-	0.3313	-
Endo. Test	0.1865	-	0.5113	-	0.3279	-

Notes: *This table presents estimations based on dynamic conditional correlation–generalized autoregressive conditional heteroskedasticity (DCC-GARCH) regressions under two-stage least squares estimation. Variable descriptions are detailed in Section 3. The independent variable is the same for both models (DCC-GARCH$_{t-1}$), and both models were instrumented using four lags of this variable. Regression coefficients prior to election dates are identified as D_{t-2} and D_{t-1}, and those after elections as D_{t+1} and D_{t+2}.*

****, **, and * indicate significance of 1%, 5%, and 10%, respectively.*
Source: *Prepared by the authors.*

In Brazil, 25 of 30 coefficients are significant, with effects shifting between positive and negative co-movement. Four specific episodes triggered shifts in the correlation trajectory, suggesting forces that alternately intensify or mitigate the negative co-movement. The 2014 election represents a phase where the incumbent government campaigned on an expansionary fiscal agenda. Opposition nominees, including a right-leaning candidate advocating fiscal restraint, reached the runoff with 33.55% against 41.59% for the incumbent. The first trading day after the first round yielded a significant positive coefficient (0.0013/0.0004; t = 3.25***), which suggests a temporary easing of the negative correlation. Yet, equity drawdowns and risk surges on that day produced an irrelevant change in correlation (z = -0.406). Two previous days (D_{t-2} and D_{t-1}) also present positive coefficients, however, with no shift in dynamic correlation (-0.560 and -0.158). The next day, the correlation plunged to -0.5888 (z = 4.466***), paired with a negative coefficient (-0.0275/0.0007; t = -39.29***). This movement reflects market concern over the improbability of overturning the incumbent lead. The incumbent was reelected with 51.64%. Post-runoff days returned negative coefficients (-0.0058/0.0004; t = -14.50*** and -0.0021/0.0009; t = -2.33**), but correlation changes failed to reach significance (z = 0.527 and z = 0.074), indicating that these estimates do not suggest a newly induced shift in correlation dynamics. Two trading days before the election also did not exhibit significant changes in correlations (-0.471 and 0.068).

After reelection, the administration pursued measures at odds with campaign promises regarding public spending (Bloomberg, 2015; Boadle & Soto, 2015). Corruption scandals and legislative fragmentation eroded political capital. This process led to a presidential impeachment (S&P Global Ratings, 2015; Winter, 2014). The acceptance of proceedings (2015 E4) yielded a non-significant coefficient (0.0009/0.0008; t = 1.13). The next day produced a significant positive coefficient (0.02385/0.00078; t = 29.88***) and a reduction in the negative correlation (z = -1.964**). Markets interpreted the initiation as a signal of leadership change. The initial Chamber of Deputies vote (2016 E4) indicated a positive coefficient (0.0091/0.00092; t = 10.11***), though immediate correlation shifts did not reach significance. Final Senate votes also yielded positive coefficients (0.0077/0.0004; t = 19.25*** and 0.0014/0.0004; t = 3.50***), consistent with a temporary easing of uncertainty. This stage of impeachment proceedings produced a reduction (from -0.5601 to -0.5319) in the negative correlation (z = -1.771*). Unlike claims of limited market response in other studies (Batista et al., 2018), this high-frequency analysis reveals that key votes triggered shifts in dynamic correlation.

In 2018, public discontent, high inflation (2015-2017), and gross domestic product contraction primed the electorate for change (Oxford Analytica, 2017). A right-leaning contender led expectations, but the results forced a runoff (46.03% versus 29.28%). Similar to the 2014 election, during the two trading days immediately preceding the election, there were no significant changes in correlations. The first round's aftermath showed a positive coefficient (0.0025/0.0009; t = 2.75***) with non-significant correlation movement (z = -0.954). The following day registered a reversal (-0.0174/0.0009; t = -29.00) with the correlation changing at the 10% level (z = 1.875*), indicating market apprehension. The second round, won by the candidate with 55.13%, elicited no relevant correlation variation.

Although the 2 days prior to the first-round election had presented positive and negative coefficients (0.0051*** and -0.0036***) with the absence of spikes in correlations coefficients (Fisher z = -0.031 and 0.622), the 2022 results triggered optimism. This could be considered a positive sign, since it reflected confidence in a market-oriented candidate. Nevertheless, this was

short-lived, as the following day produced a negative coefficient (-0.0259/0.0007; t = -35.00***) and an abrupt negative correlation jump from -0.4899 to -0.5566 (z = 4.066***). This signaled renewed uncertainty over economic prospects. The second-round outcome triggered muted responses. The election day showed no significant coefficient (-0.0003/0.0004; t = 0.75), and the subsequent day showed a modest negative adjustment (-0.0019/0.0008; t = -2.35**), suggesting stabilization under lingering doubts about the administration's policy path.

The Chilean context, involving 28 electoral and political episodes (E1, E2, E3, and four dates in 2019), indicates that while most coefficients are significant, they lack the capacity to trigger persistent shifts in the correlation trajectory. Table 6 shows that Fisher z tests failed to reach significance in 26 of 28 cases. This supports the observed structural stability of Chile's sovereign credit risk, characterized by near-zero mean and low volatility in CDS returns.

In 2013, the center-left coalition campaigned on institutional reforms. The first-round victory yielded a positive coefficient (0.00266/0.00028; t = 9.50***), suggesting temporary market relief regarding radical interventionism. Yet, the runoff result led to a negative reaction (-0.01276/0.00044; t = -29.00***) and a significant increase in negative correlation (from -0.3235 to -0.3551; z = 1.652*), although at the 10% level. This shift reflects concerns over reform implementation amidst economic deceleration (The Guardian, 2013; Ulmer & O'Brien, 2013). By 2017, the center-right candidate, focused on investment and fiscal discipline, led the first round (Reuters, 2016). This outcome produced a positive coefficient (0.01466/0.00030; t = 48.87***). The runoff victory elicited investor support (Bloomberg, 2013), evidenced by asset revaluations and a significant positive shift in correlation (z = -1.713*) following a modest initial adjustment (0.00318/0.00044; t = 7.22***).

The 2019 "Estallido social" introduced uncertainty (Ledur & Levine, 2019), marked by negative coefficients at the eruption of protests (-0.00543/0.00063; t = -8.61***) and during the subsequent political agreement for constitutional reform (-0.00451/0.00061; t = -7.39***). However, neither episode triggered a significant change in the correlation level (z = 0.509 and z = 0.222). In 2021, the election was characterized as a contest between ideological extremes (The Economist, 2021). The first-round lead of a right-wing candidate produced positive reactions (0.00494/0.00096; t = 5.14***), which were reversed by uncertainty as the race tightened. The following day yielded a negative coefficient (-0.002100/0.00085; t = 2.70 **) with a jump in dynamic correlation from -0.3470 to -0.3957, however with no Fischer z significance. (z = -0.243).

The eventual victory of the left-leaning candidate resulted in positive post-election coefficients (0.00558/0.00085; t = 6.56*** and 0.00823/0.00085; t = 9.68***). This divergence from the 2013 reaction can be attributed to the president-elect's emphasis on fiscal responsibility and gradual institutional change (Cambero, 2021). These signals mitigated market concerns, although the shifts in correlation were non-significant (Bartlett, 2022).

Chile's predictable sovereign risk profile and institutional framework constrain significant changes in the temporal dependence structure. Unlike the volatility-driven shifts in Brazil, Chilean correlations return to their baseline level. This return indicates that political shocks do not alter the structural relationship between equity markets and policy uncertainty. No other shifts in conditional correlations were observed on the remaining event dates, reinforcing the distinct dynamics between the Chilean equity market and EPU.

As noted earlier, available information for Argentina's proxy for EPU covers only the 2023 electoral cycle. In line with the approach adopted for Brazil and Chile, additional dates reflecting episodes of presidential turbulence were also considered. In the Argentine sample, Table 6 displays 12 electoral and political dummies, nine of which are statistically significant. Prior economic policy decisions had driven inflation to approximately 100% per year, depleted international reserves, and

led the economy into stagflation. At that time, the most significant external debt was owed to the International Monetary Fund (Do Rosario, 2023).

The 2023 elections took place in a context of disparate policy agendas. The incumbent contender was regarded as center-left and expected to continue the existing policy course. The right-leaning bloc, by contrast, presented two nominees: one a moderate aligned with a traditional platform, and the other, a frontrunner who embraced a radical right-wing agenda. For instance, that agenda included proposals to abolish the Central Bank of Argentina, shrink the state apparatus, and dissolve ministries.

The outcome of the first round produced unexpected developments. The incumbent candidate led with 36.7% of the votes, suggesting that a segment of the electorate still preferred continuity. The main challenger secured 29.9%, triggering a runoff (Heath, 2023). In the days following the first-round result, market responses proved ambiguous at first but decisive in direction. Table 6 reports an initial positive coefficient (0.0287/0.0032; t = 8.97***) indicating a temporary easing of the negative dynamic correlation. Yet the change in correlation from -0.1343075 to -0.1152624 remained statistically insignificant (z = -0.2970). The following day, however, registered a sharp reversal. The coefficient turned significantly negative (-0.2575/0.0056; t = -45.98***) while the negative correlation deepened from -0.1152624 to -0.395943 (z = 4.646***), suggesting a pronounced surge in market uncertainty. This outcome suggests that although reelection remained an option, demands for structural transformation carried greater weight. At that moment, uncertainty over future economic policy appeared to drive expectations that Argentine assets would remain volatile until the runoff was resolved (Reuters, 2023).

In the second round, the hard-right-wing candidate won with 55.7% against 44.3%. Despite being described as market-oriented, his platform raised significant doubts about the effectiveness and credibility of the proposed economic reforms. On November 21, 2023, equity markets surged by over 20% (Bloomberg, 2023), and the country's CDS tightened significantly: from 5,994.63 to 5,255.82 basis points on November 21, 2023 and to 5,152.99 on November 22, 2023 (Refinitiv, 2025), which on the surface constituted favorable news. However, it seemed that skepticism quickly emerged regarding the newly elected president's capacity to secure a governing coalition and implement radical reforms within a short time frame. The markets appeared to register those doubts since on the next trading day a stronger negative correlation emerged (-0.0261***; t = -14.5), followed by a deeper effect (-0.3181/0.0047; t = –67.68***) with the correlation plunging to -0.4814 (z = 5.247***). The victory, secured in 21 of 24 country provinces, announced a sharp shift in economic policy orientation. Statements such as "There is no room for gradualism, half-heartedness or half measures [...]" triggered uncertainty among various social groups (Genoux & Montoya, 2023). The parameter estimates support the view that, at the moment of victory, market sentiment exhibited more uncertainty than optimism.

The elected president assumed office in early December 2023. On December 20, his administration issued a sweeping decree, later dubbed the "chainsaw plan." Focused on economic policy, the decree prompted the following measures: (i) to eliminating export limits and deregulating foreign trade; (ii) repealing dozens of sector-specific laws, including rent controls, price regulations, supply management statutes, market regulations and consumer-protection legislation; (iii) deregulating labor markets by reducing worker protections, lowering severance payments and altering contractual rules; and (iv) privatizing public corporations and refraining from renewing thousands of public-sector contracts (Buenos Aires Herald, 2023). In response, investors and market participants reacted with caution, while sizable street protests erupted (Otaola & Elliott, 2023). As Table 6 shows, however, coefficient estimates did indicate marginal significance (10%).

On January 24–25, 2024, Argentina witnessed a nationwide general strike and mass protests directed against the recent decree. Organized by labor unions and social movements, the strike interrupted major public services and drew extensive mobilization in Buenos Aires. International media described the episode as the first comprehensive test of the new administration's resilience to social and political opposition (Bloomberg, 2024; Misculin, 2024). For those days, coefficient estimates (-0.00565/0.002216; t = -2.54**; and -0.04589***; t = -34.8048) suggest a further intensification of the negative correlation, though the dynamic correlation jump (from -0.1519393 to -0.1981872) did not reach statistical significance.

Equity markets and policy uncertainty were not unmoved by these episodes. The estimated coefficients indicate a further intensification of the negative dynamic correlation during both events. The absence of a significant turning point in the correlation trajectory, however, suggests that the social opposition to the decree did not constitute, in the eyes of market participants, a credible reversal of the policy direction endorsed at the ballot. The trajectory set in motion by the electoral outcome remained intact.

Across Brazil, Chile, and Argentina, the evidence points to two mechanisms through which political episodes shape market-uncertainty co-movements.

First, several circumstances precipitate statistically significant coefficients, indicating short-horizon shifts – positive or negative – in daily dynamic correlations. Second, a smaller subset of these circumstances is associated with abrupt changes in correlation levels – confirmed through Fisher-difference tests – signaling the emergence of genuine abnormal spikes in correlation trajectories rather than market precipitations of change. Cross-country analysis also manifested heterogeneity; similar political episodes, for instance, the first and second rounds of universal suffrage in direct elections in countries with presidential mandates, trigger different correlation responses, reflecting distinct institutional designs, party systems, and policy-execution capacities. The evidence suggests that political junctures carry weight; nonetheless, their market-uncertainty impact depends on the country's time-dependent demand for economic policy, respecting the country-level design of political institutions and its framework for supporting improvements in what is considered a priority for economic progress.

The evidence from all three markets is consistent with H_2, as statistically significant coefficients concentrate on electoral and political dates across the full sample. The nature of this support, however, varies across countries. In Brazil, electoral and political episodes produced measurable displacements in the level of dynamic correlation, confirmed by Fisher z tests in four distinct events. In Argentina, the same mechanism operated with considerable intensity, with the largest Fisher z values in the entire sample concentrated in the 2023 electoral cycle. In Chile, significant coefficients are pervasive, but correlation-level displacements are rare, indicating that political shocks perturb the correlation in the short horizon without altering its structural level. This variation in the pattern of responses across countries is itself a substantive finding, and directly motivates the cross-country heterogeneity examined under H_3.

5. CONCLUDING REMARKS

This study examined the dynamic relationship between EPU and equity markets in Brazil, Chile, and Argentina, with a focus on periods of presidential elections and political commotions. This shift of analytical lens from traditional low-frequency indices to daily CDS fluctuations allowed the research to address a gap in the literature regarding the equity market's immediate sensitivity to political shocks. The empirical evidence, supported by multivariate GARCH and two-stage least squares estimation to address endogeneity, confirms a persistent negative co-movement

between policy uncertainty and equity returns. The central contribution of this work is the identification of abrupt shifts in correlation dynamics during political episodes that remain undetected by conventional monthly proxies. The findings suggest that while this negative interplay is a regional characteristic, the intensity and persistence of these shifts are country-specific, reflecting the distinct institutional landscapes and levels of political stability within each sampled country.

The evidence from all three markets is consistent with H_1, as the negative co-movement between CDS returns and equity indices remained sustained across the full sample period. Regarding H_2, statistically significant coefficients concentrate on electoral and political dates across the three countries, though measurable displacements in correlation levels are more pronounced in Brazil and Argentina than in Chile. The divergent pattern of responses across the three markets, where comparable political events produce distinct correlation trajectories, is consistent with H_3 and reflects the conditioning role of each country's institutional framework and macroeconomic environment. From a practical standpoint, this research offers a mechanism for risk management in emerging markets. The validation of CDS fluctuations as a high-frequency gauge of political risk provides investors and regulators with a more responsive tool to monitor sovereign uncertainty in real time. This supports more informed capital allocation and regulatory oversight in markets where political instability can trigger rapid capital outflows.

Despite these contributions, the study has limitations. The analysis focused on a specific timeframe and a limited sample of South American countries. Future research could expand this framework to other emerging regions or incorporate different types of political events. Considering that CDS instruments also exist for corporations, future investigations could explore this informational content at the firm level, enabling a simultaneous analysis of corporate equity valuation and firm-specific credit risk.

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Investigation: equal;
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CONFLICT OF INTEREST

The authors declare no conflict of interest.

DATA AVAILABILITY STATEMENT

The entire dataset supporting the results of this study can be made available upon request to the authors.

GENERATIVE AI DISCLOSURE

The authors declare that generative artificial intelligence was used in the following stages of the production of this manuscript:

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The authors declare that, regardless of the use of the tools mentioned above, all generated content was supervised, verified, and critically validated by humans. The authors assume full and exclusive responsibility for the accuracy of the data, the integrity of mathematical/statistical formulas, the originality of the text, and the conclusions presented in the published article.

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