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# Cross-Border Asset Holdings and Comovements in Sovereign Bond Markets<sup>\*</sup>

Hossein Asgharian, Lu Liu and Marcus Larsson<sup>§</sup>

## Abstract

We analyze the importance of different asset holdings for the interdependence of the yield curves in the Euro area using a spatial VAR model. We find that the cross-border holdings of long-term debt and bank lending are important for the interdependence. We also find that comovement in the Euro area declines after 2008. We show that this decline is not related to the difference among countries in reacting to shocks from the US during the financial crisis. Rather, it largely reflects the segmentation between GIIPS and non-GIIPS countries. Our analysis of dispersion in sovereign-CDS-spread term structure shows that the differential in sovereign creditworthiness in the Euro area is a main driver of the yield-curve divergence after 2008.

**Keywords:** yield-curve factors, cross-border asset holding, spatial dependence, Euro bond markets, sovereign credit default swap

**JEL codes:** E43, G15, C31

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