PROJECT BRIEF

Prediction markets and sovereign risk in Latin America

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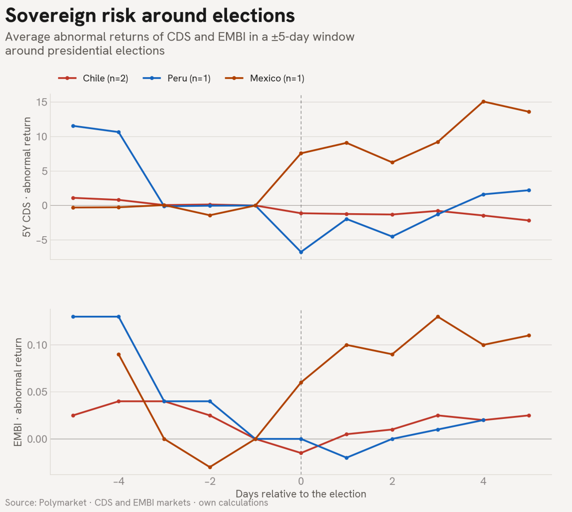
Do prediction-market prices anticipate movements in sovereign risk?

PURPOSE

Sovereign risk in the region moves with politics, but measuring those expectations in real time is hard: polls are infrequent and arrive with lag. In prediction markets, thousands of participants price the probability of concrete events with real money, around the clock. The project evaluates whether those prices lead the assets that depend on those same events, with three pieces: **(i)** a daily database of relevant markets for 5 economies; **(ii)** daily **political** and **macro** risk indices per country, built separately; and **(iii)** the econometric evaluation of their information content.



Average abnormal returns of 5-year CDS and EMBI in a ±5-day window around presidential elections. Source: Polymarket · CDS and EMBI markets · own calculations.

DATA AND CONSTRUCTION

- Polymarket metadata and daily prices (public Gamma and CLOB APIs) for Brazil, Chile, Colombia, Mexico and Peru since 2023.
- Explicit inclusion criteria: minimum volume and at least 30 trading days; each market classified into a political or macro channel according to the event it prices.
- Merged with 5-year CDS, EMBI, the exchange rate and global controls (VIX, the dollar, Treasury yields) to isolate the local signal from global risk appetite.
- Event studies in ±5-day windows, Jordà-style local projections and quantile regressions for the tails.

MAIN RESULT

In electoral windows sovereign risk moves systematically, and the priced probabilities anticipate the direction of that move with an accuracy close to **75%**. The political channel proves more informative than the macro one.

TOOLS

Python end to end: cached scrapers for the Polymarket APIs, automatic classification of markets by channel, polars and pandas for the daily panel, statsmodels and linearmodels for the event studies and local projections.

LIMITATIONS

Preliminary results: the available history of these markets is short and their liquidity varies across events and countries, so the estimates should be read with caution.

FUTURE WORK

Deepen the macro sub-channels — monetary policy and inflation expectations — and the horizons of the local projections, with the growing 2026 sample.

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