

# When Ratings Don't Matter

Market Segmentation and Sovereign Risk Information  
in an Age of Index Investment

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👤 Tom Minney 📅 March 3, 2011

## Fitch gives Zambia B+, clears path for Eurobond

Fitch Ratings agency ([www.fitchratings.com](http://www.fitchratings.com)) has given Zambia a “B+” rating on long-term foreign and local currency, with a stable outlook. Fitch has also assigned a Short-term rating of ‘B’ and a Country Ceiling of ‘BB-’. This could pave the way for a \$500 million Eurobond, according to Standard Bank, but the country has plenty of local deposits seeking

## Rating Action

# Moody's affirms India's Baa3 ratings; outlook stable

Singapore, August 18, 2023 -- Moody's Investors Service ("Moody's") has today affirmed the Government of India's Moody's has also affirmed India's other short-term local-currency rating at P-3. The outlook remains stable.

The affirmation and stable outlook are driven by Moody's view that India's economy is likely to continue to grow rapidly. GDP growth will contribute to gradually rising income levels and overall economic resilience. In turn, this will support the financial sector continues to strengthen, alleviating much of the economic and contingent liability risks that had previously been highlighted. However, rising interest rates highlights the risks stemming from a high debt burden and weak debt affordability, long-standing features of the Indian economy. Moody's also takes into account a curtailment of civil society and political dissent, compounded by rising domestic political risk.



Reuters

<https://www.reuters.com> › world › india › moodys-affir... ⌵

## Moody's affirms India's sovereign ratings, retains 'stable' ...

29 Sept 2025 — **Moody's Ratings** on Monday has affirmed India's long-term local and foreign-currency sovereign ratings and retained its "stable" outlook,



Moody's

<https://www.moodys.com> › region › asia-pacific › india ⌵

## India | Corporates | Reports

Update following upgrade to Baa2; outlook stable. **Moody's Ratings affirms BPCL's Baa3 rating;** outlook stable



YouTube · ET Now

300+ views · 8 months ago ⌵

## Moody's Affirms India's Baa3 Rating with Stable Outlook | IIP Steady at...



Moody's Affirms India's Baa3 Rating with Stable Outlook | IIP Steady at 4%, India's Credit Strength! Moody's has reaffirmed India's long



News On AIR

<https://newsonair.gov.in> › moodys-ratings-affirm-indias... ⌵

## Moody's Ratings Affirm India's Stable Outlook, Citing ...

**Moody's Ratings** has affirmed India's long-term local and foreign-currency issuer ratings at Baa3 with a **stable outlook**, citing improving fiscal metrics and ... [Read more](#)



The Economic Times

<https://m.economictimes.com> › ... › Indicators ⌵

## Moody's Ratings affirms India's Baa3 ratings, keeps outlook ...

# Zambia calls for domestic debt to be part of major indices

Finance minister's request highlights power of benchmark providers and follows strong demand from foreign investors



## Underestimates CRA

- IPE focuses on **rating levels**
- Misses content in **rating reports**
- Reports move markets even when ratings unchanged

## Overestimates CRA

- CRA not the only intermediary
- 80%+ of EM bond holdings are index-driven
- Indexes detach from country-specifics
- Expect heterogeneous CRA effects

# Market Factors (Segmented)

## Pull Factors

Country-specific risk:

- Macro fundamentals
- Political institutions
- Policy choices

CRA's assess and communicate pull factors

## Push Factors

Exogenous capital flows:

- US interest rates
- Global risk appetite
- **Benchmark indexes**

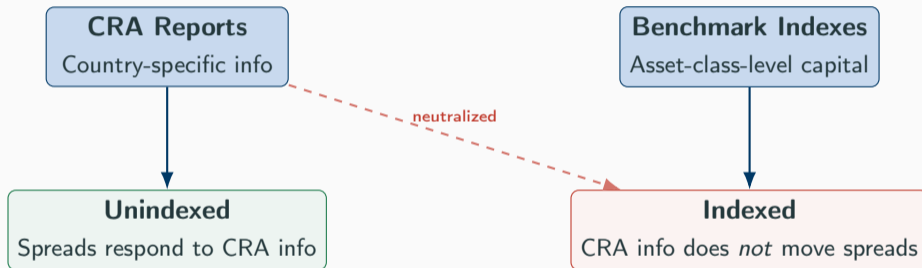
Index investment increasingly dominant

## Segmentation

Indexes bifurcate the bond market:

- **Indexed:** push dominates; CRA pull **neutralized**
- **Unindexed:** no passive capital; CRA pull **retained**

# The Mechanism



Index capital flows to indexed sovereigns regardless of country-specific risk,  
disconnecting their spreads from CRA assessments

**H1** CRA reports move spreads, independent of ratings

**H2** CRAs effect is mitigated for index-included sovereigns

# Data: Report Sentiment 1994–2024

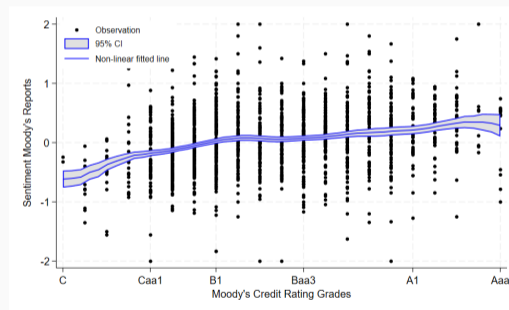
- 2,655 Moody's sovereign reports
- AFINN dictionary-based sentiment
- Continuous; normally distributed

## Within vs. between variation

	Within	Between
CRA Ratings	15.9%	84.1%
CRA Sentiment	<b>72.2%</b>	27.8%

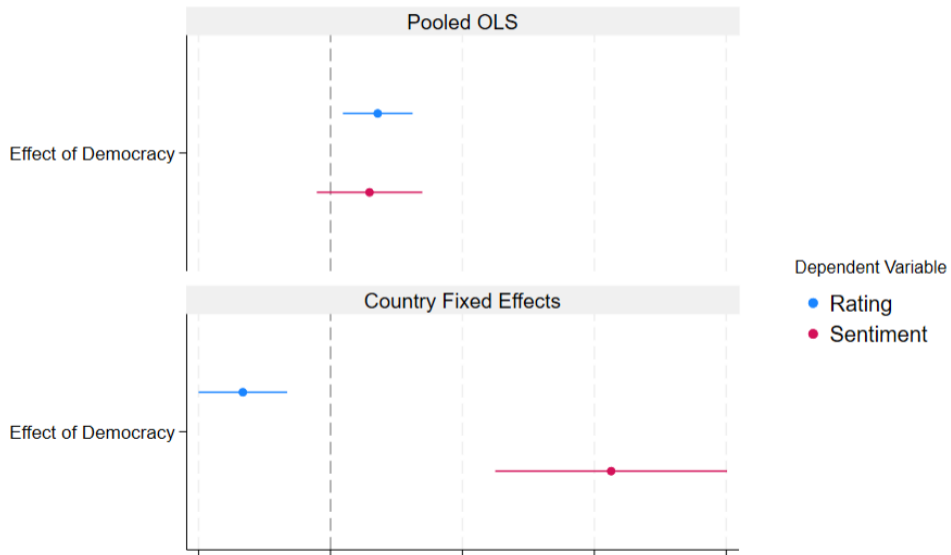
Sentiment suited for country FE estimation

**Figure 1: Sentiment and Rating Levels**



Sentiment varies across ratings levels

**Figure 2:** Democracy's Effect on Ratings and Sentiment



## Secondary market spreads

- JP Morgan EMBIG
- Only FC, indexed sovereigns

## LSEG primary market data

- 64,280 issues, 123 non-OECD countries
- Covers both LC and FC bonds
- Spread = coupon – US 10yr Treasury
- 1990–2024; country-month panel

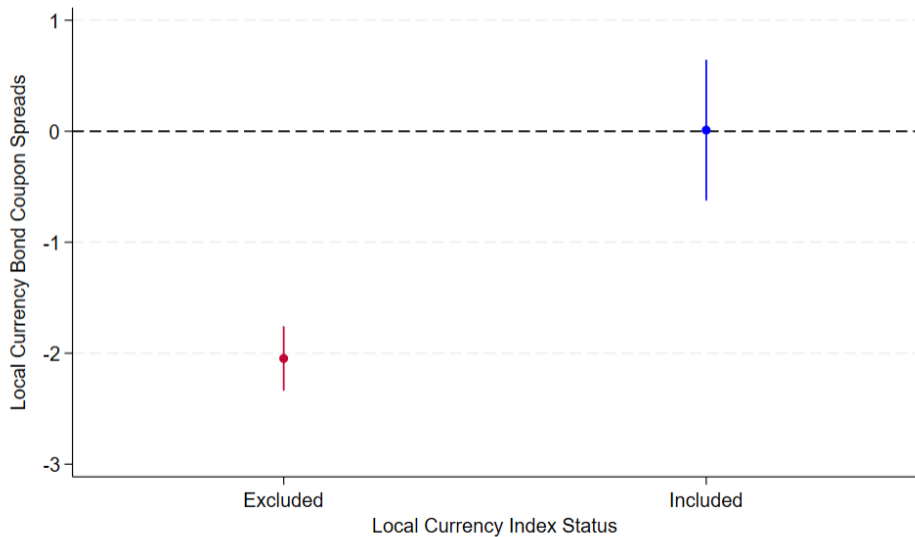
# H1: Reports Move Spreads

	Baseline	+Sentiment
CRA Sentiment	—	-1.73* (0.13)
CRA Rating	-0.38* (0.06)	-0.38* (0.06)
Controls	✓	✓
Country / Year FE	✓	✓
<i>N</i>	8,815	8,739

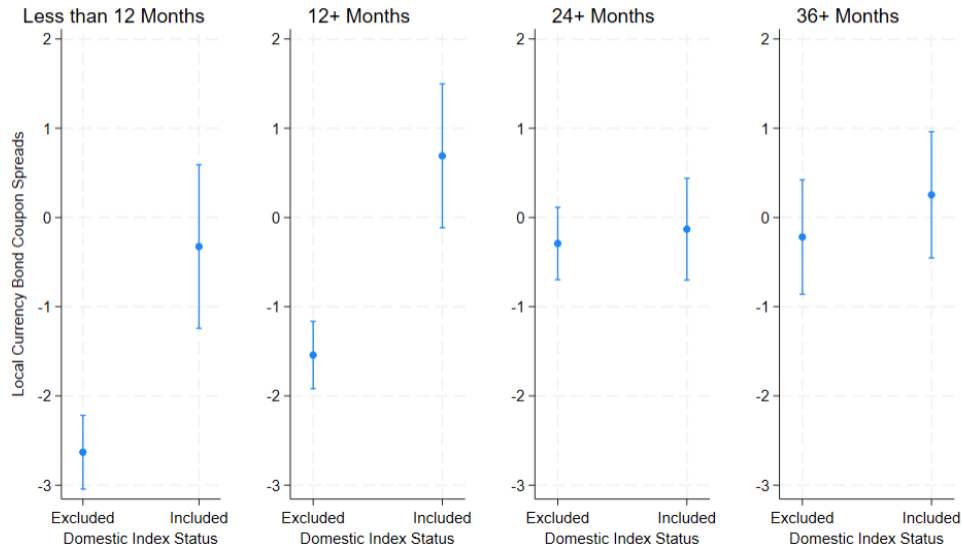
\* $p < 0.05$ . DV: LC coupon spreads.

- Sentiment **lowers spreads**
- Effect in secondary and primary markets
- Holds when ratings, outlook is stable

## H2: Index Insulation (LC)



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## H2: Foreign Currency

EMBIG auto-includes USD bonds  $\geq$ \$500m

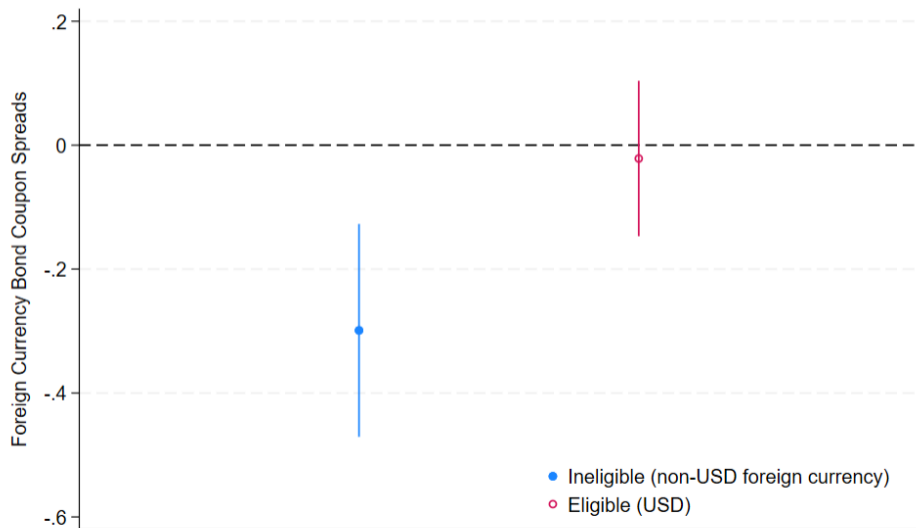
Non-USD FC bonds ( $\geq$ \$500m) are ineligible

	Eligible	Ineligible
CRA Sentiment	-0.02 (0.06)	-0.30* (0.09)
CRA Rating	0.01	-0.28*
$R^2$	0.30	0.73
$N$	2,886	808

$\chi^2 = 6.76, p = 0.009$  (SUR)

- **Same country**, same time period
- USD bonds (eligible): sentiment effect null
- Non-USD FC bonds: sentiment significant
- Holds information environment constant

## H2: Index Insulation (FC)



## For IPE of Credit Ratings

- Report content matters independently of rating levels
- CRA effects extend beyond ratings — but confined to unindexed sovereigns

## For IPE of Sovereign Debt

- Index-driven segmentation sets when governments face risk-sensitive borrowing costs
- Escape is structural (market size), not earned (policy)

# Thank You!

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Dropbox link to paper:



# Democracy and Sentiment

Within-country FE: democracy **predicts sentiment** but is *negatively* associated with rating levels.

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	Pooled OLS			Country FE		
	Ratings	Sent.	Sent.+Rat.	Ratings	Sent.	Sent.+Rat.
Democracy	0.07*	0.06	0.04	-0.13*	<b>0.43*</b>	<b>0.47*</b>
	(0.03)	(0.04)	(0.04)	(0.03)	(0.09)	(0.09)

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Sentiment captures institutional changes that sticky ratings miss.

## Information Decay

CRA effect on unindexed sovereigns by time since last report:

	<12 Mo.	12–24 Mo.	24–36 Mo.	>36 Mo.
CRA Sent. (Unindexed)	−2.52* (0.21)	−1.35* (0.20)	0.13 (0.20)	−0.19 (0.34)
Sent. × Dom. Index	1.99* (0.51)	2.16* (0.46)	−0.24 (0.35)	0.32 (0.45)
<i>N</i>	5,287	3,407	1,361	623

Significant within 24 months; null thereafter. Consistent with a genuine information channel.

## Sentiment by Index Status

Concern: if indexed countries receive systematically more positive reports, the interaction is artefactual.

- Sentiment distributions for included vs. excluded are statistically indistinguishable
- Normal distribution across all index-status groups
- Box-plot comparisons confirm no separation

Rules out the interpretation that the interaction merely captures better assessments of indexed countries.

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	Issues
Total sovereign bonds	64,280
Foreign currency	9,570 (15%)
Local currency	54,710 (85%)
Plain vanilla (analysis sample)	33,708
Countries	123
Period	1980–2024

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