Effects of the 2014 J.P. Morgan index rebalancing on Colombian sovereign bond yields in local currency

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Abstract

In March 2014, J.P. Morgan announced the increase of Colombia's weight in its public debt indexes for emerging markets GBI-EM, which had significant impact in the local-currency sovereign bond market. This document evaluates the effect that this increase had on the yields of the Colombian sovereign bonds denominated in Colombian pesos (TES), applying both a difference-in-difference estimation and the synthetic control method proposed in Abadie and Gardeazabal (2003). The results show that the rebalancing might have caused a permanent reduction of between 63 and 98 basis points in the 10-year TES yields. These results could be a consequence of the higher participation of foreign investors that occurred after the change in the public debt indices and this would be the main transmission mechanism behind the decrease in local bond yields.

Fuente: https://www.banrep.gov.co/en/effects-2014-jp-morgan-index-rebalancing-colombian-sovereign-bond-yields-local-currency