

# Cross-border flights to safe assets in bond markets: evidence from emerging market economies

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## Abstract

This paper investigates cross-border flights to safety (FTS) in sovereign bond markets from the perspective of emerging market economies (EMEs). Accurate identification of such events provides us with a detailed picture of sharp changes in prices of international assets and potential sources of EMEs' financial fragility. We construct new measures of FTS occurrence and magnitude by focusing on extreme movements in long-term bond markets vis-à-vis the U.S. for a diverse group of 21 EMEs. An adaptable time-series anomaly detection algorithm is used to recognize patterns in daily data on bond return for the period from 2002 to 2021. The FTS episodes in the entire sample of EMEs turn out to be short-lived and map well into periods of international financial and economic downturns. We show that the relative importance of the U.S. dollar fluctuations in driving FTS increases after the Global Financial Crisis. This lends support to the notion of the dollar exchange rate being a major source of risk for EMEs. Moreover, the results from panel data models indicate that a range of country-specific economic, financial, and political factors does matter for FTS occurrence but even more so for their magnitude. The role of domestic drivers of FTS, however, is limited and further subsides post-2010, suggesting that flights from bond markets are mostly triggered by shocks originating outside of EMEs. As a by-product, we present a database on FTS episodes in bond markets.

*Keywords:* emerging market economies; flight to safety; safe assets; bond markets; foreign-exchange markets; global risk

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