

# **Credit risk and bubble behavior of credit default swaps in the corporate energy sector**

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## **Abstract-**

**This paper analyzes the determinants of credit risk in the energy sector using CDS spreads of energy corporations as well as CDS energy sectorial indexes to assess whether credit risk can be linked to the crude oil price fundamental and to other exogenous financial variables. Applying the multiple bubble methodology proposed by Phillips Shi and Yu (2015) we associate bubble behavior in CDSs with fundamentals via a series regressions applied to time changing autoregressive coefficients. Our results show that there is bubble propagation which should be closely monitored by market participants as an early signal of deteriorating market conditions.**

**Index Terms-** CDS; CDS index; Bubble; Crude oil futures; CAPEX; Taper tantrum

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