The already experienced turbulence in the global financial system has focused the attentions of the market participants to especially sovereign risk; its major determinants, systematic nature as well as its contagion potential. In this study, the direction of the analysis of the sovereign risk is within the framework of the credit default swap (cds) transactions. The sovereign risk can also be elaborated by using the bond spreads of the sovereign but the latter is also driven by factors other than the sovereign risk such as the interest rate movements, supply conditions, liquidity etc.

The already available economical and financial data provides invaluable opportunity to analyze the sovereign risk anticipation of the financial markets as it incorporates the valuation of cds in real crisis times of 2008 and 2009 and 2011-first half of 2012 as well as the before and after economic and financial data of the selected countries namely Brazil, Turkey, Russia, Korea, Greece and Spain.

The attitude of the investors towards risk as reflected in the financial market conditions affect the cds spreads of the sovereigns and this creates commonality which can be measured by the correlation between the individual sovereign cds spreads. In order to explain the co-movements in the cds spreads of the selected countries into a smaller number of common factors, principal component analysis was performed and it is seen that the first principal component captures nearly 62 percent and the first three component captures nearly 90 percent of the correlation matrix.

In this Study, in order to capture the relationships between the cds spreads and the country-specific and the global financial and economic factors, regression analysis has been performed. The country specific factors are determined as foreign exchange rate, foreign currency reserves, local stock market returns, external debt, and current account balance as a percentage of gross domestic products. The global financial and economic factors added to the model as independent variables are indexes about US Stock Market Return, US Treasury yields, US corporate yields and Emerging
market yields, as well as indicators of equity, term and volatility premium and bond and equity flows.

The relationship between the global financial variables and cds spreads reveals the fact that the risk appetite in the global financial market affects the credit risk perception and consequently the cds spreads regardless of the employed indicator of the risk appetite. Specifically, it is also determined that domestic economic situation has significant effects on cds spreads (excluding Greece who experienced considerable turmoil in its economic and financial position), the local variables explain more than 75 percent of the cds spread level and this ratio increases to more than 80 percent when four emerging market countries are referred.

**Keywords:** Credit Default Swaps, Sovereign Risk, Global Financial Indicators, Risk Appetite, Financial Crisis.