

Which Mechanism Prices the Yield Curve? Expectations Versus Risk Compensation in Emerging-Market Sovereign Yields

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Abstract—Long-term sovereign yields are routinely read as signals of monetary-policy expectations, although an observed yield cannot reveal whether its movement reflects a revision in expected future short rates or a change in the compensation demanded for bearing risk. This paper develops a focused systematic and theory-building review of the no-arbitrage term-structure literature together with adjacent evidence on monetary transmission, emerging-market credit risk, fiscal expectations, institutional credibility, market structure, political uncertainty, and the global financial cycle. Evidence is separated into two streams: a core decomposition corpus, which can testify about the components themselves, and a contextual mechanism map, which can only explain their variation. The protocol identifies 138 records and retains 44 studies, 33 in the decomposition stream and 11 in the mechanism stream. It is reported together with a documented pilot calibration: requiring a pricing-theory conjunct was found to exclude emerging-market decomposition studies whose abstracts do not use no-arbitrage vocabulary, and the string was restructured into two strands accordingly. The synthesis reframes the emerging-market term premium as broad risk compensation rather than pure duration compensation, since recent evidence separates expected short rates, a clean term premium, and sovereign credit risk. The resulting gap is one of attribution and integration rather than absence: the literature decomposes yields and explains premium variation but does not classify which component dominates a given movement, and has not asked whether a political transition changes the mechanism pricing an emerging-market local-currency curve. The paper proposes a Yield Dominance Index mapping an Adrian–Crump–Moench decomposition into expectation-dominant, premium-dominant, and contested states, followed by an attribution stage over monetary, fiscal-institutional, market-structure, and global blocks. The contribution is interpretive rather than a new estimator.

Keywords—Sovereign yield curve; term premium; affine term structure; economic attribution; political transition; fiscal expectations; emerging markets.

I. INTRODUCTION

Long-term government-bond yields are among the most closely watched macro-financial prices, yet a rise in a ten-year sovereign yield has no unique economic interpretation. It may reflect a higher expected path of short-term policy rates, greater compensation for holding long-duration bonds, or, in emerging markets, a reassessment of credit, liquidity, fiscal, currency, institutional, and global risks. The same observed movement can therefore imply sharply different diagnoses of monetary conditions, fiscal credibility, and sovereign financing costs [1]–[3].

No-arbitrage affine term-structure models provide an identification device. In the regression-based estimator of Adrian, Crump, and Moench (ACM), the yield on an n -period bond is written as the sum of a risk-neutral expectations component and a model-implied term premium [15]. Identification, however, is not economic attribution. The decomposition does not establish why one component changes, which component dominates a particular episode, or whether the residual represents duration risk, credit risk, liquidity, fiscal uncertainty, market segmentation, or global repricing.

This distinction is consequential for an emerging market around a political transition. Political information can affect expected inflation and the anticipated policy path; it can also change perceived fiscal discipline, institutional credibility, sovereign credit risk, market liquidity, and the compensation investors require to hold long-maturity local-currency debt. The question this review asks of the literature is therefore: when a sovereign curve moves, which mechanism was pricing it, and does the literature allow that question to be answered?

The paper makes three contributions. First, it separates evidence that can testify about the decomposition from evidence that can only explain it, and reports the two streams separately throughout. Second, it reframes the emerging-market term premium as a broad risk-compensation component rather than automatically as pure duration compensation. Third, it proposes a Yield Dominance Index (YDI) that converts a decomposition into an interpretable chronology of market states and a second-stage attribution exercise, with political transition treated as a regime context rather than a signed regressor. Section II sets out the

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review design; Section III reports the synthesis and the gap; Section IV develops the framework; Section V concludes.

II. REVIEW DESIGN AND EVIDENCE ARCHITECTURE

This study adopts a **focused systematic and theory-building** literature review. It follows the protocol-oriented logic of evidence-informed management review [45] and reports its stages against PRISMA 2020 [46]; it employs concept-centric synthesis rather than author-by-author description [47]; and it develops an integrative framework from established constructs, propositions, and boundary conditions [48]–[51]. It is focused because it does not seek an unrestricted census of all studies containing the word “yield”; instead it retains evidence that can directly inform decomposition or economic attribution.

A. Two evidence streams

The **core decomposition corpus** (Stream 1) contains studies that analyse sovereign yields or term structures within a no-arbitrage, affine, dynamic term-structure, survey-augmented, or comparable framework and identify expected short rates, risk-neutral yields, term premia, or separately identified sovereign-credit compensation. The **contextual mechanism map** (Stream 2) contains studies on fiscal expectations, sovereign-bank linkages, monetary-policy uncertainty, political uncertainty, institutional credibility, global risk, liquidity, issuance, and ownership that explain potential drivers of the decomposed components.

The separation is load bearing rather than cosmetic. It prevents a common inference error: treating every documented determinant of a sovereign yield as evidence about the same latent component. Stream 2 studies inform the attribution layer; they are not treated as direct validation of the baseline decomposition, and the two streams are reported separately so the distinction remains auditable.

B. Protocol and two-strand search architecture

Table I records the protocol in full: databases, execution date, the five concept blocks, their Boolean combination into two strands, the stream-specific eligibility rules, and the stage counts. Strand 1 executes **Block B AND Block C** to retrieve decomposition-capable evidence; Strand 2 executes **(Block D OR Block E) AND Block C** to retrieve mechanism evidence. A third pass covers institutional repositories and citation-chaining, because term-premium and sovereign-risk research is frequently disseminated as working papers. The three passes identified 138 records; after truncation of the Indonesia/ASEAN tail (44 not retrieved), deduplication (9), title/abstract screening (22 excluded), and full-text assessment (19 excluded), 44 studies enter the evidence map: 33 in Stream 1 and 11 in Stream 2.

Figure 1 reports the flow, with the two streams carried through separately.

C. Pilot calibration of the search string

The two-strand architecture is not the protocol's first design, and the reason is reported here rather than suppressed. An earlier version required a pricing-theory conjunct, Block A, in mandatory conjunction with the decomposition and market-context blocks. A pilot coverage test against known anchor studies showed that this design excluded precisely the literature the review was intended to locate.

The decisive case is Solís [33], which decomposes the yields of fifteen emerging markets into expected short rates, a clean term premium, and compensation for credit risk. That paper argues that conventional decompositions are unsuitable for emerging markets because they rely on a default-free assumption; its abstract therefore never uses the terms **no-arbitrage**, **affine**, **pricing kernel**, or **stochastic discount factor**. Under a mandatory Block A conjunct, the study is not retrieved. The same test excluded Nose [35] and Handler and Jankowitsch [42], whose titles and abstracts carry no decomposition vocabulary at all; of the anchor set, only Karahan and Soykök [31] survived.

Two corrections follow. Block A is demoted from a mandatory conjunct to an OR-member within Block B, so that decomposition vocabulary alone suffices for Strand 1. And Block C is widened to include **interest rate** and **monetary policy**, because Kaminska, Mumtaz, and Šustek [27] carries decomposition vocabulary but no market-context term and was initially retrieved by neither strand. Under the revised design all anchor studies are retrieved.

The episode carries an interpretive consequence for how this literature should be read. A search requiring no-arbitrage vocabulary will systematically under-retrieve emerging-market decomposition work, because that work often defines itself **against** the default-free assumption embedded in the standard apparatus. A review concluding that emerging-market decomposition evidence is sparse may therefore be reporting a property of its search design as though it were a property of the field. The calibration is reported here as a protocol step with its outcome, not as a silent revision.

D. Concept clusters

The synthesis uses five clusters: (1) no-arbitrage decomposition, expectation formation, and estimator validity; (2) term-premium mechanisms, preferred habitat, and market structure; (3) emerging-market decomposition and sovereign credit risk; (4) fiscal expectations, institutional credibility, and the global financial cycle; and (5) political uncertainty, elections, and transition-specific sovereign repricing. This architecture prevents a second inference error: treating every determinant of a sovereign yield as evidence about the same latent component.

Table I.
Review Protocol, Two-Strand Search Architecture, and Stage Counts

Element	Specification
Review type	Focused systematic and theory-building review
Databases	Scopus (title–abstract–keyword)
Execution date	30 June 2026; update pass for the mechanism strand thereafter

Element	Specification
Supplementary	BIS, Federal Reserve, IMF, NBER, and central-bank repositories; backward and forward citation-chaining
Window; language	1990–2026; English
Block A: pricing theory	no-arbitrage OR “affine term structure” OR “stochastic discount factor” OR “pricing kernel” OR “expectations hypothesis”
Block B: decomposition	“term premi*” OR “yield decomposition” OR “risk-neutral yield” OR “expected short rate” OR “expected future short-term interest rate” OR “bond risk premi*” OR decompos* OR Block A
Block C: market and asset context	“sovereign bond” OR “government bond” OR “sovereign yield” OR “bond yield” OR “yield curve” OR “term structure” OR “interest rate” OR “monetary policy” OR “emerging market” OR Indonesia OR ASEAN
Block D: fiscal, credit, institutional	“fiscal expectation*” OR “primary deficit” OR “public debt” OR “sovereign-bank” OR “central bank independence” OR “credit risk” OR “sovereign risk” OR liquidity OR “foreign ownership” OR issuance
Block E: political and electoral	“political uncertainty” OR “political transition” OR election* OR electoral OR “political risk” OR “policy uncertainty” OR “regime change”
Strand 1: core decomposition	Block B AND Block C → 19 records
Strand 2: contextual mechanism	(Block D OR Block E) AND Block C → 94 records
Strand 3: repositories, chaining	25 records (7 prior + 18 update pass)
String calibration	Pilot coverage test against eight anchor studies; Block A demoted to an OR-member of Block B and Block C widened after the pilot showed a mandatory Block A conjunct excluded emerging-market decomposition studies (Section II.C)
Stream 1 inclusion	Identifies expected short rates, risk-neutral yields, term premia, or separately identified sovereign-credit compensation within a structural decomposition framework
Stream 2 inclusion	Evidences a mechanism capable of explaining variation in a decomposed component
Exclusion	Curve-fitting without structural or mechanism interpretation; non-sovereign debt; yields used only as controls; insufficient methodological detail; superseded by a published version
Appraisal	Theoretical consistency; methodological transparency; empirical diagnostics; contextual relevance; peer-reviewed and working-paper evidence recorded separately
Stage counts	N1 = 138 → 44 not retrieved → 94 retrieved → 9 duplicates → N2 = 85 → 22 screened out → N3 = 63 → 19 full-text exclusions
Final evidence map	Stream 1 (33) + Stream 2 (11) = 44 studies
Reviewer	Single reviewer; dual independent coding not performed (disclosed limitation)

Note: Strand 2 deliberately does not require decomposition vocabulary; mechanism studies inform the attribution layer only. The update pass added 18 records through targeted retrieval and citation-chaining after the string was recalibrated (Section II.C); full-text exclusions fall from 35 under the earlier single-stream protocol to 19 because the two-stream rule admits mechanism evidence the earlier rule excluded.

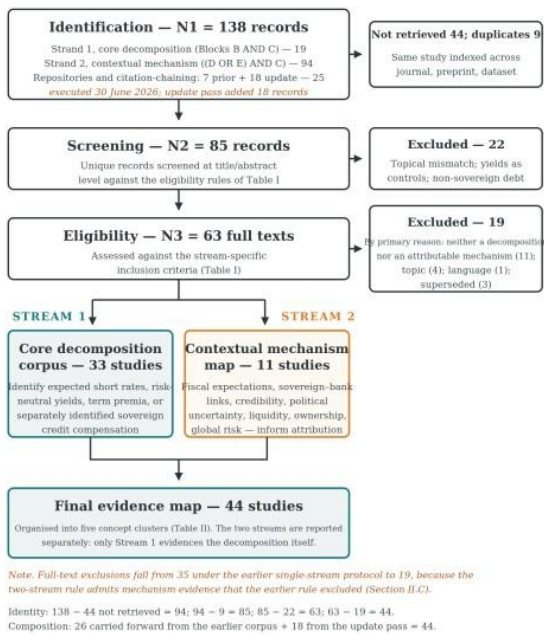


Figure. 1.
PRISMA flow of the two-strand protocol. Stream 1 and Stream 2 are carried through separately because only Stream 1 evidence the decomposition itself.

III. SYNTHESIS: FROM DECOMPOSITION TO ATTRIBUTION

A. The economic identity of the components

A decomposition is worth performing only if its parts name distinct economic objects. The expectations component represents the market-implied path of future short rates under risk-neutral valuation; economically it is linked to the anticipated monetary-policy reaction function, since expected inflation, expected activity, and the perceived policy response jointly shape the expected policy-rate path [21], [22]. The expectations hypothesis provides the benchmark under which long yields equal averages of expected short rates, but its empirical failures and the predictability of excess bond returns imply that time-varying compensation must also be priced [1]–[3].

The term premium arises because long-duration claims expose investors to systematic macro-financial risk, for which alone compensation is paid [20]. The pricing-kernel representation under no arbitrage provides the dynamic multi-factor framework through which this compensation is embedded consistently across maturities [4]–[11]. Monetary-policy event studies confirm that yield responses need not be revisions in expected short rates: distant forward rates can move through term premia [23], and central-bank communication can convey non-monetary risk-premium news [24]. Kaminska, Mumtaz, and Šustek provide the closest precedent, finding that policy surprises transmit through both expected interest rates and term premia [27].

The baseline two-component identity nevertheless requires caution in emerging markets. Solís develops a survey-augmented affine framework for fifteen emerging markets that separates expected short rates, a clean interest-rate term premium, and sovereign credit-risk compensation [33]. An emerging-market residual

therefore need not be interpreted as homogeneous duration compensation. Accordingly, in this framework TP_t denotes broad risk compensation unless additional information permits credit risk to be identified separately.

B. What the updated literature adds

Five findings organize the evidence. First, decomposition-capable models provide an economically disciplined distinction between expected rates and risk compensation, but estimator validity remains contested. Small-sample persistence bias can displace variance from the expectations component into the estimated premium [17]. Survey-augmented estimates discipline the expected-rate path [14], [18], while other work cautions that yields do not reveal all variation in expected short rates [19], [26]. Any application should therefore compare baseline estimates with bias-corrected or survey-disciplined robustness exercises where data permit.

Second, the premium is not a statistical residual without economic content. Preferred-habitat and segmented-market theories emphasise supply, demand, and constrained-arbitrage channels [30], and factor analysis establishes the common structure the estimator's exploit [12]. In an emerging-market application, Karahan and Soykök connect term-premium dynamics to credit, liquidity, ambiguity, and investor behaviour [31], while cross-country evidence documents roles for common, country-specific, and liquidity factors [32]. These results justify including gross issuance, non-resident ownership, market liquidity, and central-bank holdings alongside conventional risk proxies.

Third, emerging-market sovereign yields must be read through credit and external-vulnerability channels. Solís shows that U.S. monetary-policy shocks affect expected policy paths, clean term premia, and credit-risk compensation [33]. This is both a contribution and a methodological warning: if a sovereign spread rises around transition-related news, an increase in the ACM premium cannot automatically be called interest-rate risk alone. It should be interpreted as broad risk compensation, with credit risk tested as a separate explanatory or robustness channel.

Fourth, fiscal expectations and institutional credibility bridge political transition and yield decomposition. Nose finds that expected primary deficits raise domestic sovereign yields in emerging and developing economies, with larger effects where domestic bank exposure to government debt is high [35]. Mamani-Arpasi and Celi provide recent Latin American evidence on fiscal expectations and financing costs [36]. Alter and colleagues link central-bank independence to lower local-currency sovereign yields through risk-compensation and term-premium channels [37]. Together these imply two transition mechanisms: fiscal-policy expectations may alter expected inflation and the expected policy path, while fiscal and institutional credibility may raise broad risk compensation.

Fifth, political and global uncertainty can reprice sovereign yields through mechanisms beyond expected short rates. Handler and Jankowitsch show that political uncertainty is associated with adverse price effects, illiquidity, and selling pressure [42]. Eichler and Plaga show that election-related sovereign-bond reactions depend on incumbent fiscal and economic records [43]. Kim extends this frontier to electoral information shocks,

though it remains working-paper evidence [44]. Monetary-policy uncertainty also changes yield transmission through term-premium channels [40], [41], while global risk aversion affects emerging-market term-premium gaps [34], [38], [39]. These motivate political uncertainty as a separate attribution block, and the VIX, the broad dollar, U.S. policy surprises, and EMBI-type measures as global conditioning variables rather than domestic political controls.

C. The updated gap

The updated literature does not support the claim that emerging-market decomposition evidence is absent, and this review withdraws that claim explicitly. Decomposition has been performed in emerging markets [31]–[33]; ACM has been applied there [32]; and the premium has been related to credit, liquidity, and behavioural drivers [31]. What the corpus does not contain lies at a different level, and the gap is one of *attribution* and *integration*.

Existing work explains the *level and variation* of the premium through covariates; it does not convert the

relative contribution of $\Delta\tilde{y}$ and ΔTP into an explicit classification of *individual yield movement*. Explaining why a premium varies and stating which component dominated a given month are different objects, not different degrees of the same one. Decomposition evidence and mechanism evidence also run in parallel: Solís identifies three components but explains them through U.S. monetary surprises [33]; Nose links fiscal expectations to yields without decomposing them [35]; Handler and Jankowitsch price political uncertainty without decomposition [42]. No study joins them.

There remains, consequently, limited evidence on whether a political transition changes the relative dominance of expected policy paths and broad risk compensation in a country-specific emerging-market local-currency curve, and on whether fiscal expectations, institutional credibility, market structure, and global risk explain that change. This is the gap the proposed framework addresses.

Table II.

Concept Matrix: Evidence Streams and Five Clusters

Study	Stream	Cluster	Method and evidence base	What it identifies or explains	Role in the framework
Campbell & Shiller [1]; Fama & Bliss [2]; Cochrane & Piazzesi [3]	S1	C1	Reduced-form, United States	Failure of the expectations hypothesis; excess-return predictability	Establishes that time-varying compensation is priced
Ross [4]; Harrison & Kreps [5]; Harrison & Pliska [6]; Cochrane [7]; Hansen & Richard [8]	S1	C1	Theory	No-arbitrage; the pricing kernel	Boundary principle and kernel construct
Duffie & Kan [9]; Dai & Singleton [10]; Joslin, Singleton & Zhu [11]; Litterman & Scheinkman [12]	S1	C1, C2	Affine theory; DTSM; principal components	Affine representation and common yield factors	Identification device the estimator exploits
Adrian, Crump & Moench [15]; Abrahams et al. [16]; Duffee [13]	S1	C1	Regression-based affine; DTSM, US	Two-component decomposition of nominal and real curves	Core estimator of the identification stage
Bauer, Rudebusch & Wu [17]; Kim & Orphanides [14]; Kim & Wright [18]; Duffee [19]; Cieslak [26]	S1	C1	Bias-corrected and survey-augmented DTSM, US	Persistence bias displaces variance into the premium; surveys discipline the expected path	Estimator-validity caveat; robustness route
Sharpe [20]; Taylor [21]; Rudebusch & Wu [22]	S1	C1	Theory; macro-finance DTSM	Systematic risk is compensated; curve factors carry policy-rule content	Economic identity of each component
Hanson & Stein [23]; Cieslak & Schrimpf [24]; Cieslak & Povala [25]; Kaminska et al. [27]	S1	C1	Event study; ATSM with high-frequency identification	Surprises move distant forwards through the premium; policy shocks transmit through both components	Separability of the components; closest precedent
Bansal & Zhou [28]; Ang & Bekaert [29]	S1	C1	Regime-switching, US and international	Discrete interest-rate states carry economic content	Latent-regime robustness, not authority for thresholds
Vayanos & Vila [30]	S1	C2	Preferred-habitat theory	Supply, demand, and constrained arbitrage shape the premium	Justifies the market-structure block
Karahan & Soykök [31]	S1	C2, C3	Nelson–Siegel curve then ACM, Turkey	Premium related to credit, liquidity, ambiguity, and sentiment	Precedent for the pipeline; explains variation, not dominance

Study	Stream	Cluster	Method and evidence base	What it identifies or explains	Role in the framework
Ozbek & Talasli [32]	S1	C3	ACM, cross-country emerging markets	Common and country-specific premium drivers	ACM already applied in emerging markets
Solis [33]	S1	C3	Survey-augmented affine, 15 emerging markets	Expected short rates + clean term premium + sovereign credit risk	Why TP is read as broad risk compensation
Miranda-Agrippino & Rey [34]; Flaccadoro & Villa [38]; Ananchotikul & Zhang [39]	S2	C4	VAR and cross-country, global	Global cycle and risk aversion move emerging-market premia	Global block
Nose [35]; Mamani-Arpasi & Celi [36]; Alter et al. [37]	S2	C4	Panel, EMDEs and Latin America; cross-country	Expected primary deficits raise domestic yields, more where bank exposure is high; credibility lowers them	Fiscal and institutional block
Ying et al. [40]; Tillmann [41]	S2	C4	Government bond markets	Monetary-policy uncertainty moderates transmission	Conditioning variables
Handler & Jankowitsch [42]; Eichler & Plaga [43]; Kim [44]	S2	C5	Italian sovereign bonds; cross-country elections; working paper	Political uncertainty depresses prices and liquidity; reactions depend on the fiscal record	Political block; [44] flagged as non-peer-reviewed

**Note.* S1 = core decomposition corpus; S2 = contextual mechanism map. Stream membership is a claim about what a study can evidence, not about its quality: only S1 studies bear on the decomposition itself, while S2 studies inform the attribution layer. Clusters are C1 decomposition, expectation formation, and estimator validity; C2 term-premium mechanisms, preferred habitat, and market structure; C3 emerging-market decomposition and sovereign credit risk; C4 fiscal expectations, institutional credibility, and the global financial cycle; C5 political uncertainty, elections, and transition-specific repricing. Tranfield et al. [45], Page et al. [46], Webster and Watson [47], Bacharach [48], Whetten [49], Gregor [50], and Burton-Jones et al. [51] are review-methodology and theory-evaluation sources and lie outside both streams by construction. Row groupings must be reconciled against the final stage counts of Table I and Fig. 1 before submission.*

IV. ECONOMIC ATTRIBUTION FRAMEWORK

Moving from synthesis to model-building is a recognised review method rather than a departure from it [45], [47]. The framework treats no-arbitrage decomposition as an identification stage and economic explanation as a second stage (Fig. 2). Its constructs, propositions, and boundary conditions follow the criteria of Bacharach [48] and Whetten [49]; in Gregor's taxonomy it is a theory for explaining and predicting rather than a design theory [50]; and in the theorizing typology of Burton-Jones and colleagues it occupies the **extend** cell, taking reference-discipline theory to a phenomenon it was not built to address [51].

A. The Yield Dominance Index

Under the baseline ACM identity, monthly yield changes satisfy $\Delta y_t = \Delta \tilde{y}_t + \Delta TP_t$. For a selected maturity, the Yield Dominance Index is

Values approaching one indicate that a movement is predominantly associated with expected-rate revisions; values approaching zero indicate dominance of broad risk compensation. The absolute-contribution denominator is intentional: dividing by $|\Delta y_t|$ becomes unstable when the two components offset one another, whereas the proposed denominator remains bounded. A three-state classification is then applied only when the total movement is economically meaningful,

where E, P, and C denote expectation-dominant, premium-dominant, and contested states. The initial

conventions may set $(u^*, l^*) = (0.65, 0.35)$, but these are not structural parameters. Results must be reported across threshold pairs (0.60, 0.40), (0.65, 0.35), and (0.70, 0.30), and across plausible values of κ . A continuous-YDI or fractional-logit specification and a latent-regime robustness exercise provide complementary checks.

B. Attribution stage

The attribution stage explains the classified or continuous outcome. Let $D_t = 1$ for an expectation-dominant month and $D_t = 0$ for a premium-dominant month, excluding contested and filtered months. Then

where X_t contains four blocks. The **monetary-expectations** block uses unanticipated policy surprises or forecast errors rather than the policy-rate level, which is set partly in response to the curve and is already embedded in it. The **fiscal and institutional** block contains fiscal-expectation measures, debt and deficit news, sovereign-bank exposure proxies, and political-transition or credibility indicators [35]–[37]. The **market-structure** block contains issuance, liquidity, foreign ownership, and central-bank holdings of government securities, without which habitat and supply mechanisms cannot be tested [30], [31]. The **global** block includes the VIX, the broad dollar, U.S. policy surprises, and emerging-market risk-spread measures [34], [38]. All variables are expressed in changes or event-window surprises consistent with the outcome frequency.

Two caveats attach. First, $\tilde{y}$ and TP are estimated rather than observed and the outcome is a nonlinear function of their differences, so conventional standard errors overstate precision; inference should rest on a bootstrap resampling through the first-stage decomposition. Second, the yields are themselves fitted from a sparse, unevenly traded universe, so long-end fitting error propagates into ΔTP and is unlikely to be independent of the state being classified, i.e., plausibly largest in illiquid, stressed months, which are those the framework would classify as premium-dominant. Curve-fitting diagnostics should therefore be reported against the classified state.

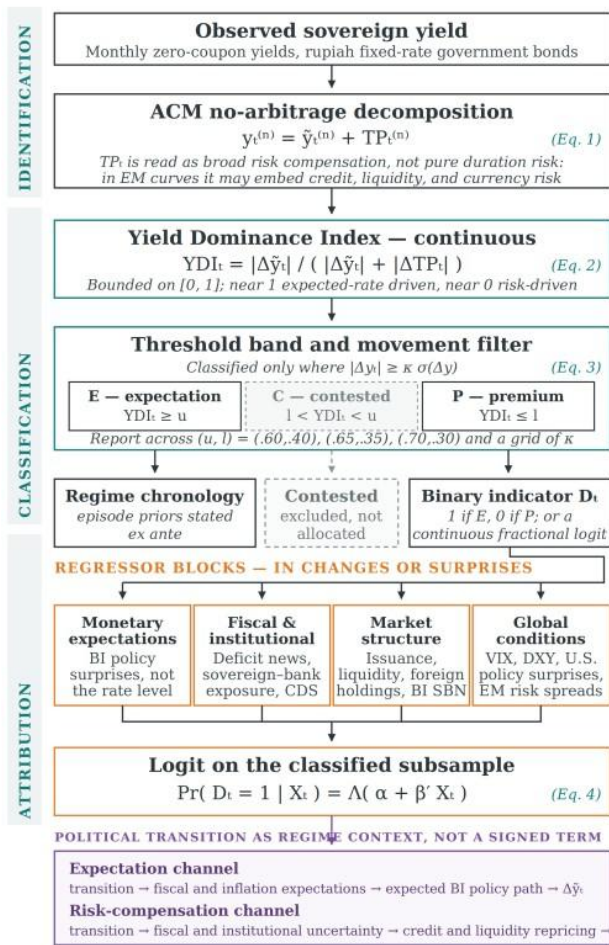


Fig. 2. The proposed economic attribution framework. The identification layer recovers the two components and reads the residual as broad risk compensation; the classification layer converts them into a bounded index and a three-valued market state; the attribution layer explains dominance over four regressor blocks.

Political transition enters as a regime context with two distinct channels rather than as a signed regressor.

C. Propositions and the transition channels

****P1:**** emerging-market sovereign yields contain economically meaningful time-varying broad risk compensation, making the ambiguity of observed yields empirically resolvable. ****P2:**** unanticipated domestic monetary tightening increases the probability that a large yield movement is expectation dominant. ****P3:**** deterioration in fiscal expectations, institutional credibility, market liquidity, or global financial conditions increases the probability that a movement is premium-dominant. P3 identifies the dominance of broad risk compensation; without an explicitly credit-adjusted model it does not by itself identify which individual risk was repriced.

Political transition is therefore a regime context, not a regressor with a predetermined sign. Its expectation channel runs from transition through fiscal and inflation expectations to the expected policy path and hence to $\Delta \tilde{y}_t$; its risk-compensation channel runs from transition through fiscal and institutional uncertainty to credit and liquidity repricing and hence to ΔTP_t . Global conditions may amplify either channel. Two boundary conditions bound the propositions: markets are assumed arbitrage-free, so where binding frictions dominate the habitat account becomes the more informative reading; and the

kernel is assumed affine, so the decomposition inherits that class's misspecification. This structure turns the empirical objective from estimating a term premium into testing whether the pricing mechanism of the curve changes across a political transition.

V. CONCLUSION

This focused systematic and theory-building review shows that sovereign-yield decomposition is necessary but insufficient for economic interpretation. No-arbitrage models identify expected-rate and risk-compensation components; recent emerging-market evidence further shows that credit risk can be separated from a clean term premium. Meanwhile fiscal expectations, sovereign-bank linkages, institutional credibility, political uncertainty, liquidity, ownership, and global risk each provide plausible explanations for changes in broad risk compensation. The updated gap is not the absence of emerging-market term-premium research, but the absence of an integrated, transition-specific attribution framework for a local-currency emerging-market sovereign curve.

The proposed framework provides a transparent sequence: estimate a no-arbitrage decomposition; classify the component that dominates material yield movements; then test the monetary, fiscal-institutional, market-structure, political, and global conditions associated with that dominance. Its first intended application is to Indonesian rupiah fixed-rate government bonds around a political transition. Three limitations are disclosed. Screening and coding were performed by a single reviewer rather than two independent coders, so residual bias cannot be ruled out. The evidence map mixes peer-reviewed and working-paper sources, recorded separately but not weighted. And the pilot calibration of Section II.C, while corrected, illustrates that search-design choices can materially shape what a review concludes about a field as a caution this review applies to itself as much as to others.

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