It is well-known to practitioners that spread directionality exists and has a significant effect on modeling the interest rate sensitivity of bonds. In this issue of *The Journal of Fixed Income* we begin with an article by Madhur Ambastha, Arik Ben Dor, Lev Dynkin, Jay Hyman, and Vadim Konstantinovsky that develops an empirical model of effective duration for corporate bonds that incorporates spread directionality. They explore model versus empirical effective durations, the uniqueness of segments of the credit markets, and hedging effectiveness for a variety of fixed income mandates and strategies.

In the next article, George Batta, George Chacko, and Bala G. Dhara provide evidence that what appear to be abnormal returns to convertible arbitrage strategies is actually compensation for greater exposure to liquidity risk. That is, the long position in illiquid convertible bonds is effectively levered up with the more liquid short equity positions. Then, Yakov Karpishpan, Ozgur Turel, and Alexander Hasha present a libor term structure model for MBS valuation that achieves a more accurate calibration to the entire volatility surface. The results produce wider OASs and longer durations without substantially effecting partial durations and vegas. In the next article, Zhiyong An uses the Economic Stimulus Act of 2008 as an event test to indirectly estimate the jumbo-conforming spread. The estimate is small and statistically insignificant, and hence, implies little benefit from the Government Sponsored Agencies.

In the next article, Andrew Ang, Vineer Bhansali and Yuhang Xing examine the subsidies in Build America Bonds. They show that, on average, the Federal government subsidy disadvantages individual U.S. taxpayers, but benefits new entrants in the municipal bond market. Finally, Nikiforos T. Laopoulos employs Engle’s Dynamic Conditional Correlation GARCH specification to investigate the interdependence of major sovereign bond yields. The time-varying nature of these correlations over the business cycle has implications for diversification and portfolio construction.

We hope you enjoy this issue of *The Journal of Fixed Income*. Your continued support of the Journal is greatly appreciated.

Stanley J. Kon
Editor