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Editor's Letter

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It seems reasonable that bond managers can't add value unless there are sufficient price movements. Hence, sufficient volatility along with a divergence of opinion is required to generate superior performance. Is averaging low volatility periods with high volatility periods diluting our ability to observe superior investment skill? We begin this issue of *The Journal of Fixed Income* with an article by Harsh Parikh and Frank J. Fabozzi that analyzes performance in varying interest rate volatility and directional environments over time. Their evidence indicates higher persistent outperformance as volatility increases, especially during a rising interest rate environment. This indicates investment skill when it is needed most. Next, Robert S. Goldberg and Ehud I. Ronn isolate and examine the correlation behavior of intra-market corporate spreads during and around the great recession.

While bond yields represent promised returns, expected returns that include the probability of shortfalls and recovery are what should be used for investment decisions. In the next article, Natalia A. Beliaeva, Rachel (Kyungyeon) Koh, and Sanjay K. Nawalkha provide an analytical examination of the inverse relationship between credit spreads and credit risk premiums for differing maturities, callability, convertibility, and leverage cases.

If momentum is a factor in stock returns, should it also be present in corporate bond returns? In the next article, Florian Barth, Hendrik Scholz, and Matthias Stegmeier find that employing momentum with characteristics-based adjustments has performance value for noninvestment grade bonds. Next, Tao-Hsien Dolly King, Sailu Li, and George Xiang investigate the effect of firm diversification on bond returns by comparing conglomerate versus single industry firm issuance. Conglomerate firms tend to have higher bond returns, lower volatility, and less sensitivity to market shocks.

Finally, Dexiang Wu and Desheng Dash Wu propose a conditional Value-at-Risk optimization for selecting a corporate bond portfolio from credit default swaps with constraints to improve allocation structure and insulate the portfolio from worst-case scenarios.

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

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