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Editor's Letter

Stanley J. Kon

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Liquidity is considered to be an important risk factor for corporate bond investors, especially in an economically stressful environment. We begin this issue of *The Journal of Fixed Income* with an article by Scott Richardson and Diogo Palhares that exhibits some counterintuitive evidence for investors anticipating higher future excess returns for a portfolio of less-liquid bonds—no liquidity risk premium, but higher volatility for tilting a bond portfolio. However, during the stressful period associated with the 2008 financial crisis, Jeffrey Black, Seth Hoelscher, and Duane Stock use a government guarantee program to test the causal relationship of rollover risk and the liquidity-credit risk loop resulting in improved liquidity and reduced debt cost.

In the next article, Chris Dialynas makes the case that central bank intrusions have served to lower public and private debt costs, but make typical credit default inputs from rating agencies less reliable. Next, Demir Bektić employs a momentum statistic from residual equity returns to enhance the returns of corporate bond investors in the euro-denominated global investment-grade bond market.

Hedging mortgage-backed securities is essential to isolating and profiting from proprietary prepayment modeling. In the next article, Emory Ruscus, Frank Fabozzi, and Glenn Schultz provide evidence that their empirical three-factor (level, slope, and curvature) methodology is superior at reducing interest rate risk when compared to only level and slope hedging. Finally, Ren-Raw Chen, Pei-Lin Hsieh, Jeffrey Huang, and Joe Huang derive a model to calibrate swaptions and caps/floors. Furthermore, they demonstrate that the model supports multiple curves, which is a key element to overnight index swap discounting.

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

Stanley J. Kon
Editor