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The market for individual and baskets of credit default swaps has grown enormously in the last five years. Accompanying this growth is the question of the stability of financial markets in the event of a financial crisis. Hence, we begin this issue of *The Journal of Fixed Income* with an article by Roy Mashal and Marco Naldi on pricing default swaps with counterparty risk. Their results include the intuitive effect on spreads being greater for the possibility of default of the protection seller than the protection buyer. In the next article, Lei Meng and Owain ap Gwilym provide an evaluation of the empirical literature on credit default swaps. An important input into pricing models of corporate bonds with default is the recovery rate. In the next article, Praveen Varma and Richard Cantor explore the determinants of recovery rates on defaulted loans and bonds from 1983–2003. Their evidence indicates that seniority, security, debt cusion, leverage and asset tangibility are the main determinants of recovery.

While structural models for pricing corporate bonds are now quite common, the application to emerging market bonds has been minimal. However, in the next article, Katia Rocha and Francisco A. Alcaraz Garcia do employ a structural model that generates a term structure of sovereign spreads consistent with market data.

There has been considerable debate on the effect of mortgage hedgers on interest rate volatility. At least two recent articles in *The Journal of Fixed Income* have provided useful evidence on the impact. In the next article of this issue, Yan Chang, Douglas McManus, and Buchi Ramagopal continue the investigation with a wider range of derivatives and the isolation of two outlier events (the fall of 1998 and the 9/11 tragedy). They conclude that no simple relationship between hedging and rate volatility exists.

Finally, the interest rate process assumed in fixed income option valuation models is crucial to both risk managers and relative value investors. Matthias Muck and Markus Rudolf provide a useful extension to the empirically descriptive, and hence, popular Hull and White two-factor model.

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