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The current slowdown in the economy could be a prelude to an increase in credit risk. Therefore, we begin this issue of *The Journal of Fixed Income* with an article by Sanjiv Das, Laurence Freed, Gary Geng and Nikunj Kapadia on correlated default risk. They provide evidence on the importance of systematic time-varying default probabilities and its relationship to the business cycle. Furthermore, Prasun Baheti, Roy Mashal and Marco Naldi supply a valuation algorithm for credit default swap portfolios that generates trading opportunities for the timing of defaults.

Now that the Federal Reserve has paused after a long series of rate hikes and the yield curve is mildly inverted, the future demand for mortgage hedging and the need for effective duration estimation are prominently in the minds of MBS portfolio managers. In the next article, Anand Bhattacharya, Aryasomayajula Sekhar and Frank Fabozzi provide some very useful empirical evidence on these issues by using the changes in total outstanding dollar amount of in-the-money MBS as an indicator of hedging demand in the market.

Observed hedge fund returns often appear to be smoothed due to the illiquidity of underlying assets, managed marks and/or option writing strategies in an expost low volatility environment. This makes it difficult to estimate the inherent risks in these portfolios. In the next article, Geoff Loudon, John Okunev and Derek White provide a methodology to remove the effects of autocorrelation from reported hedge fund returns and identify the underlying risk factors for a variety of fixed income trading styles.

In the next article, Marc Henrard focuses on the cheapest to deliver option in bond futures contracts and the implications for futures risk. A pricing formula is derived for bond futures and their options. The impact on risk is thoroughly analyzed. Finally, Levon Goukasian and Igor Cialenco examine the term structure of interest rates response to changes in monetary policy. They find that the slope of the term structure reacts significantly to changes in the Federal Funds Target Rate and that their results can be used to hedge the risk of monetary policy actions.

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