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There is an ongoing liquidity crisis in the marketplace stemming from the subprime mortgage debacle. Non-agency securitized assets, and structured products in particular, are being market down to fire sale prices. The challenge to investors is the separation of fundamental value from these market technicals. Hence, models of fundamental value are crucial. We begin this issue of the Journal of Fixed Income with an article by Yi-Kang Lin, George Jabbour and Richard Green on estimating default probabilities for commercial mortgages. They find that liquidity risk measured by debt coverage ratio rather than loan-to-value is the more informative factor in default decisions. Next, Hans Bystrom provides a method of estimating the daily dynamics of credit risk correlations via changes in the cross-sectional variations in credit spreads. Also, the analysis of CDS index market data, indicate a single global correlation parameter.

The last few years have been characterized by tight spreads and low volatility resulting from global liquidity and low risk aversion. In the next article, Katia Rocha, Roberto Siqueira, and Felipe Pinheiro analyze the determinants of sovereign spreads and the vulnerability to economic shocks. They find that macroeconomic fundamentals and governance (total government debt as a proportion of GDP and regulatory quality) explain spread levels and sensitivities for emerging economies.

The current liquidity crisis in financial markets is exemplified by the complexity of Collateralized Debt Obligations (CDOs) structured from CDOs (CDO squared). These securities are difficult to price given the increased uncertainty of future economic events and the lack of available modeling capacity to determine payoffs. In the next article, Jochen Dorn provides a model of the loss distribution for CDO squared tranches. Rating agencies are also under scrutiny during the current period of risk reevaluation and it's pricing. In the next article, Richard Cantor, Owain ap Gwilym and Stephen Thomas evaluate the use of credit ratings by plan sponsors and investment managers in the US and Europe. They find that ratings are primarily used as a governance tool by market participants.

Finally, S. Lakshmivarahan and Duane Stock analyze the relationships between the level of yields, volatility of yields and maturity. Contrary to intuition generated by a first order model, they find that using a second order model can give dramatically different relationships between price variance and the level of yields.

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