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The current financial crisis began in the subprime mortgage market. The evolution of the crisis contains flight to quality, flight to liquidity and fundamental dimensions. In this issue of the Journal of Fixed Income we begin with an article by Joseph Prendergast that empirically models these dimensions and determines their relative contributions to the returns of the various credit tranches of the ABX indexes. He also provides a trading strategy for profiting from the resolution of the flight to quality component. In the next article, Xiaoling Pu employs various measures of liquidity to determine the commonality across the corporate bond and credit default swap markets as well as their ability to explain credit spread changes.

Structured credit and their ratings have also been prominent during the current recession. In the next article, David Hamilton and Yukyung Choi compare the performance of Moody's corporate ratings and CDS-implied ratings. The CDS-implied tranche ratings provide valuable information as indicators of downgrades and default detection. These high frequency point-in-time ratings are useful tools for monitoring and hedging portfolio risks. In the next article, Stephan Morkoetter and Simone Westerfeld show that multiple ratings for CDO tranches provides additional information, reduces information asymmetries between issuers and investors, increases transparency, lowers risk premia and results in lower credit spreads.

The horizon of an investor is an important input to portfolio construction. Hence, any persistence or mean reversion in yield spreads must be included in this construction. In the next article, Joseph McCarthy, Coleen Pantalone and H.C. Li find significant evidence of the presence of long memory in corporate bond spreads and discuss their implications.

Finally, Ren-Raw Chen, Hann-Shing Ju and Shih-Kuo yeh derive the values of the quality and end-of-month delivery options in Treasury bond futures. They provide a thorough examination of alternative methodologies to valuation and resulting pricing errors.

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