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Credit default swaps (CDS) are essential tools for managing risk by banks and fixed-income portfolio managers. In this issue of *The Journal of Fixed Income*, we begin with an article by Robert Jarrow that examines the difficulties in using CDS to imply default probabilities. These difficulties include the attribution of default risk, counterparty risk, market frictions, and strategic trading. In the next article, Terry Benzschawel and Andrew Assing provide a methodology and empirical evidence for market-implied probabilities of default that track market perceptions of a firms' credit risk and can be used to make relative value decisions among credits. Then, Sattar Mansi, William Maxwell, and Andrew Zhang examine relying on the firm's cost of debt as a market proxy for bankruptcy risk. While controlling for other factors, they find four models of financial distress that are significantly related to bond spreads. The reduced form and structural models perform significantly better than accounting measures of financial distress.

The financial crisis began with credit risk in the subprime mortgage-backed securities (MBS) market. Home price depreciation is clearly the source of underwater mortgages. In the next article, Lakhbir Hayre and Sudhir Chiluveru describe the home price process that is integrated with paths for prepayments, interest rates, mortgage rates, defaults, and loss severities to generate a credit-adjusted and option-adjusted spread model for non-agency MBS that can be used for risk management and relative value trading.

The success of mortgage modifications is expected to play a significant role in reducing the excess supply in the housing market. In the next article, Laurie Goodman, Roger Ashworth, Brian Landy, and Lidan Yang provide a detailed analysis of principal reductions and subsequent modifications. They find that principal modifications are more successful than any of the other alternatives.

Finally, risk management for fixed-income strategies that require inflation protection must adjust their duration measures. Frank Fabozzi and Yuewu Xu derive the formulas for the percentage changes in bond prices using higher-order duration measures. They also discuss applications to hedging (or speculating) on the inflation rate using portfolios of nominal bonds and TIPS.

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