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L iquidity risk continues to be a major risk factor long after its dramatic rise during the financial crisis of 2008. Separating the fundamental valuation from a liquidity discount is essential for investment decisions. The extreme lack of liquidity is most evident without any history of observable prices. We begin this issue of *The Journal of Fixed Income* with an article by Frédéric Blanc-Brude and Majid Hasan that develops a structural model for the valuation of risky debt that can accommodate path-dependent cash flow data in the presence of a multitude of covenants. The model is illustrated with reasonable results to infrastructure projects.

How does the market treat bonds based on their environmental, social, and governance ratings? In the next article, Simon Polbennikov, Albert Desclée, Lev Dynkin, and Anando Maitra provide some answers. Adjusting for differential risk factors, they find that corporate bonds with high ratings have lower spreads but outperform bonds with lower ratings.

An astonishing aspect of the financial crisis was the unexpected risk associated with highly rated, especially AAA, debt. In the next article, Daniel Rösch and Harald Scheule provide evidence that credit ratings are not sufficient indicators of systematic credit risk. Securitizatons have a larger degree of systematic credit risk than corporate bonds after controlling for ratings and other risk factors. Clearly, market prices are more informative with respect to systematic risk.

Decomposing yields into risk components is essential for obtaining a high information ratio—that is, taking on those risks that provide sufficient compensation and minimizing or eliminating those that are not rewarded. In the next article, Luis Ceballos and Damian Romero decompose the nominal 10-year interest rate into the expected short-term rates and term premiums for 22 countries to examine the effects of different monetary policy regimes and to measure the linkages to the United States. Their evidence indicates that developed country long-term rates are affected by both components, but developing countries are affected by the term premium transmission only.

In the next article, David Sun, Shih-Chuan Tsai, and Chun-Da Chen investigate the properties of corporate bond idiosyncratic risks in an international context. They show that diversification is significantly improved by the addition of a global risk benchmark.

Valuing interest-rate-dependent claims requires a process for the evolution of rates. An intuitively appealing framework is that of Heath, Jarrow, and Morton. However, it can be computationally onerous in practice. In the final article of this issue, Hung Do and Michael J. Tomas III provide a methodology that significantly reduces the number of nodes in the mesh without sacrificing accuracy.

We hope you enjoy this issue of *The Journal of Fixed Income*. Your continued support is greatly appreciated.

Stanley J. Kon
Editor