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Portfolio managers are certainly aware of the left tail risk in the distribution of corporate bond returns, but traditional measures of this risk are unreliable as economic conditions change. We begin this issue of *The Journal of Fixed Income* with an article by Kevin Stoll that employs the credit spread, spread duration, and market share as risk variables of a corporate bond that can explain its conditional distribution of excess returns. He then uses an asymmetric conditional variance model to estimate upside and downside conditional variance parameters. The methodology generates time-varying predictions of conditional volatility that are dramatic improvements over the ratings-based approach.

In the next article, Lauren Stagnol constructs corporate bond indexes with weights that are a function of the duration times spread credit risk measure. The evidence indicates a significant increase in risk-adjusted returns relative to capitalization and equally weighted indexes. The superior results come from its defensive characteristics of lower volatility and reduced drawdown.

Bond ETFs trade at premiums and discounts. Is arbitrage in the bond market insufficient to minimize these differences from asset values? In the next article, Jon Fulkerson, Susan Jordan, and Denver Travis investigate the market factors that discourage arbitrage trading around premiums and discounts. They find that the existence of exchange barriers to arbitrage result in the persistence of premiums and discounts.

The swaption market is an important tool in risk management. Its implied volatility is the consensus expectation of future volatility. In the next article, Takahiro Hattori provides evidence that for liquid markets, the implied volatility has greater power to predict future realized volatility than GARCH processes or historical volatility estimates.

Liquidity is a risk characteristic in the bond market that needs to be quantified in portfolio selection. In the next article, Mohamed Ben Slimane and Marielle de Jong formulate liquidity scores that are not price-dependent. Their model has 17 factors, including nine group and eight individual bond features. They advocate using these scores for managing the liquidity position of fixed-income portfolios.

Attempts at a yield curve for municipal bonds have been distorted by illiquidity and callability. In our final article, Andrew Kalotay advocates a transparent optionless muni yield curve based on selected actively traded bonds.

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