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During substantial market declines, we have observed correlations among investments increase dramatically. Clearly, systematic risk is dominating asset returns and reducing the benefit of diversification. We begin this issue of *The Journal of Fixed Income* with an article by Siamak Javadi, Seoyoung Kim, Tim Krehbiel, and Ali Nejadmalayeri that provides a measure of time-varying correlation of default risk based on information extracted from credit default swap spreads. Their evidence indicates that this measure is also associated with the incidence of bankruptcy filings and market illiquidity.

To value bonds with embedded options that are a function of future interest rate paths, a process for generating those paths and the correlation among rates must be assumed. In the next article, Vincenzo Russo and Frank J. Fabozzi derive the volatility of a coupon bond from the stochastic durations under the two-factor Hull-White interest rate model. The parameters of the Hull-White model then are calibrated using an option-pricing model with swaption quotes. Next, Ren-Raw Chen, Pei-Lin Hsieh, and Jeffrey Huang provide a more efficient solution for the LIBOR market model. Their approach, consistent with empirical evidence, has the flexibility to shift from a normal probability distribution in a low-rate environment to a log-normal probability distribution in a high-rate environment.

In 2014, the Treasury introduced floating rate notes in order to lower its borrowing cost and attract a new clientele to add to its funding base. In the next article, Karan Bhanot and Liang Guo examine the risk and return characteristics of this market and conclude that the U.S. Treasury generally achieved its objectives.

Optimal risk transfer in the insurance market is essential for welfare maximization. In our final article, Denis-Alexandre Trottier and Van Son Lai clearly show that a combination of using reinsurance contracts for small losses and catastrophe bonds for large losses is the optimal hedging strategy. That is, the optimal mix affects capacity and leads to the desired coverage at the least cost.

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