THE JOURNAL OF Fixed INCOME

VOLUME 28, NUMBER 4 SPRING 2019

Since the financial crisis of 2008–2009, there has been a major regulatory effort to reduce systemic risk without enough research into cause and effect. We begin this issue of *The Journal of Fixed Income* with an article by Sheen Liu, Chunchi Wu, Chung-Ying Yeh, and Woongsun Yoo that finds macroeconomic variables (economic betas, income growth and volatility, leverage, and fiscal performance) rather than financial market variables (capital flows, funding constraints, liquidity shocks, and investor behavior) have more explanatory power for changes in state credit risk spreads and their systemic risk component. Then, Antonio Díaz and Ana Escribano examine the liquidity dimensions of corporate bonds related to ratings categories. Interestingly, their results do not show the simple progressive behavior that would be expected from liquidity by credit ratings.

There is an enormous amount of attention given to Federal Open Market Committee meetings and some evidence exists of an abnormal return drift prior to these meetings. In the next article, Arik Ben Dor and Carlo Rosa examine a more recent time period and find a weakened effect after 2011 and that it is limited to equity markets. US Treasury securities, currencies, precious metals, and commodities do not exhibit a pre-announcement effect. Then, John Burke and Andreas Christofi discover that Fed funds futures are better predictors of Fed funds rates than Fed policy makers.

At the end of the day, a price must be attributed to every bond in a portfolio even though there may not have been a trade for some time. Fair value pricing is a methodology to deal with this form of illiquidity. In the next article, Bill McCoy examines the effects of market versus fair value pricing and illiquidity on corporate bonds and mortgage-backed securities. Finally, Yusho Kagraoka develops a methodology to estimate credit default swap-adjusted risk-free rates and sovereign default intensities with applications to the German and US markets.

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