Volume 32 | Number 1 | Summer 2022

THE JOURNAL OF Fixed INCOME

Intuitively, current market volatility is related to unexpected government policy decisions. We begin this issue of *The Journal of Fixed Income* with an article by Xinyuan Tao, Bo Wang, Junbo Wang and Chunchi Wu that provides evidence of economic policy uncertainty as a priced risk factor with a negative risk premium in the corporate bond market. Furthermore, the sensitivity to policy uncertainty is greater for below investment grade bonds, higher earnings exposure, more dependence on external financing, lower pre-tax interest coverage and regulation-intensive businesses.

One of the great uncertainties in the current inflation cycle is the effects of Federal Reserve monetary decisions on nominal interest rates, expected inflation, and real rates. In the next article, Elli Kraizberg adds an inflation risk premium to the mix as an explanation for the negative real rates of interest we have observed over sustained periods of time.

While sustainable bond investing has acquired a lot of attention, how to effectively integrate this preference in a portfolio requires more research. Peter Diep, Lukasz Pomorski and Scott Richardson provide evidence that credit spreads and future excess returns are not significantly related to environment, societal, and governance measures. However, they do offer screens, positive tilts, and substantive reductions in carbon intensity with minimal distortions to risk-adjusted portfolio returns.

High quality mortgage prepayment modeling is essential to generating superior risk-adjusted performance for Mostgage-Backed Security (MBS) selection. In the next article, Glenn M. Schultz and Frank J. Fabozzi incorporate the servicer type and their business model into conditional prepayment forecasts. The concentration of servicing assets effects the convexity profile of MBS, and hence, the valuation of the prepayment option.

In the next article, Tao-Hsien Dolly King, Taichun Piao and Cinder Xinde Zhang examine the motives for firms to issue putable bonds where investors have some downside risk protection and issuers have lower borrowing cost. Their evidence suggests consistency with risk-shifting incentives for firms that have higher levels of financial distress and those with greater information asymmetry. Finally, Thomas Mählmann provides evidence that excess returns in the leveraged loan market can be obtained with value and momentum style investment strategies.

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