

# The Journal of **FIXED INCOME**

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**O**ur lead article by DeRosa-Farag, Blau, Matousek, and Chandra presents Donaldson, Lufkin & Jenrette's major study of default rates on high-yield bonds. It is chock full of good information in both tabular and graphic form, some of which is new and some of which parallels other major studies in the area. Following that, Fjelstad presents a very interesting simulation of the likely performance of active fund managers in the Euroland bond market, based upon actual performance data of U.S. managers in sector rotation and duration choices.

Berkowitz's Federal Reserve study of the calculation of LIBOR rates by dealer polling contains some eye-opening results, as some of the banks report rates greatly out of line from the other banks in the survey. He compares robust estimation techniques such as the use of medians and the Huber estimator with the current trimmed means calculations and finds virtue in considering such alternative estimators of these important rates.

Inflation-indexed securities with their fine-number CPI adjustments present unique challenges in developing standardized, fungible quantities for trading securities. Grieves and Sumner show how the U.S. Department of the Treasury solved these problems in their rules for delivery and trading. They also show how fungibility is maintained after the year 2000 to a new reference period. Next, Miyazaki and Tsubaki's article presents a methodology for choosing interest rate process and credit spread models of Japanese markets, which should be very helpful in the current, riskier credit environment there, particularly with the growth of corporate bonds and credit derivatives.

Brooks and Yan use a parsimonious term structure model to compare and contrast the LIBOR swap curve with the U.S. Treasury curve. Interestingly, they find that the LIBOR curve is usually steeper, but has less curvature than the Treasury curve. Rendleman's article follows with a model of hedging with Treasury bond futures. It reconciles various differing hedging equations in textbooks, as well as provides insight into an implicit maturity mismatch problem associated with conventional hedging methods.

We conclude this issue of the *Journal* with Dolan's article,

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which examines term structures in the U.S., the U.K., Canada, France, and Australia. He uses the Nelson-Siegel model because of its parsimony and its ability to accommodate the forecasting of curvature, which is important in various global markets.

We hope you enjoy this issue of the *Journal of Fixed Income* and we appreciate your support. Thank you.

**Douglas T. Breeden**  
Editor