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This issue of the Journal is a Symposium on Credit Risk and contains several useful models in this very topical area. We lead off with an important article by Bevan and Garzarelli that presents the Goldman Sachs model for corporate bond yield spreads. Consistent with expectations from Merton's classic work, the authors find that spreads increase with volatility, while decreasing with increased GDP growth. Following this, Koutmos models the volatility of short-term interest rates. He finds less of a relation of volatility to the level of interest rates than prior studies have found. However, a model that reflects information shocks has significant explanatory power, although mean reversion is not an important feature of short-term rates.

Bhanot's article evaluates out-of-sample performance of the well-known alternative interest rate models of Vasicek and Cox, Ingersoll, and Ross. Applying the models to estimation of transition densities for rates, tests based on data from Eurodollar futures and options show that the CIR model is a more robust model. These methods may be used by practitioners and academics for comparisons of alternative parametric models.

Next, Garman of Merrill Lynch models high-yield bonds from Europe and finds that the majority of variance in pricing can be quantified in a four-factor model. The explanatory power for this model for European high-yield is similar to that for the U.S., which allays fears of inscrutability of the European high-yield market.

Li studies the default correlation approach in CreditMetrics and finds that it is equivalent to using a normal copula function. He then gives numerical examples to illustrate the use of copula functions for valuing credit derivatives such as credit default swaps and first-to-default contracts. Erturk of Standard and Poor's also examines default correlation, but of investment-grade borrowers. He finds very low correlation of defaults for these high-quality borrowers and concludes that diversification can be very effective in reducing risk in portfolios of these bonds.

Clare, Oozeer, Priestley, and Thomas of the Bank of England construct a database of all the actively traded straight U.S. dollar Eurobonds, and present evidence of the systematic relationship between macroeconomic and financial sources of risk.

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They then use this information to examine the risk premiums of Eurodollar bonds.

Finally, Pagès examines movements in LIBOR rates with a single-factor affine yield model. The model fits well the behavior of one-year rates, but does not fit shorter maturities of LIBOR as precisely.

We hope you enjoy this special issue of the *Journal of Fixed Income* focused on credit risk, and we appreciate your support.

Thank you.

Sincerely yours,

Douglas T. Breeden
Editor