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This issue of *The Journal of Fixed Income* begins with a group of articles on the yield curve and its effect on the valuation of fixed income securities. The lead article is an extension of the seminal Ho-Lee model to a multi-factor closed form binomial interest rate structure with many applications to valuing interest rate contingent claims. This model provides a simultaneous fit to both the current yield curve and volatility surface. Thomas S.Y. Ho and Sang Bin Lee have also just published the most comprehensive and accessible book on interest rate processes, the valuation of interest rate derivatives and fixed-income securities, *The Oxford Guide to Financial Modeling*, Oxford University Press, 2004. Although we do not formally do book reviews at *The Journal of Fixed Income*, I will use the Editor's Letter to strongly recommend this and other outstanding resources for both academics and practitioners of fixed income portfolio management.

In the next article, Professor Rendleman employs the yield curve interpolation technology published in the March 2004 issue of *The Journal of Fixed Income* to hedge swaps with Eurodollar futures contracts. The methodology reflects the timing differences between futures maturity and swap payment dates and the convexity bias between the financial instruments. The next article exploits the well-known risk premium in the yield curve by forming a mean-variance optimal portfolio strategy. Professors Reisman and Zohar find very large Sharpe ratios for strategies that are long six month and two year and short three month and one year bonds. It is clear that the front end of the curve provides the greatest return per unit risk. Next, Pamela Moulton provides empirical evidence on relative repo specialness in U.S. Treasuries. The evidence indicates that changes in the Fed's securities lending program, dealers' selling off inventory, concerns about future squeezes, and hedging demand are all important factors.

The remaining articles focus on credit issues. First, Moreira and Rocha develop and test an innovative two-factor structural model for pricing Brazilian sovereign risk. The model includes both economic fundamentals and the time-varying expectations of market participants. Their evidence indicates that credit spreads can be explained by macroeconomic fundamentals and that risk premiums cannot be assumed constant. Next, Professors Cathcart and El-Jahel extend the Merton structural model to accommodate multiple defaults. Clearly, correlation plays a key role in determining probabilities within a basket of bonds. Credit quality, maturity, and asset volatilities also have substantial impacts on default probabilities. These default probabilities have direct applications for credit portfolio risk management and the pricing of credit derivatives.

Finally, Professors Harding, Sirmans, and Thebpanya provide a comprehensive study of the commercial mortgage-backed securities (CMBS). They discuss the evolution of the CMBS market and present empirical evidence on the pricing of CMBS deals. Significant variables being priced by investors are average loan quality, pool diversification, property type, and prepayment protection.

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