

The Journal of **FIXED INCOME**

VOLUME 15, NUMBER 1

JUNE 2005

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The market for asset-backed securities (ABS) has grown exponentially in the last several years. In fact, in 2004, total ABS issuance was greater than that for all U.S. corporate bonds. The major source of this growth is in the home equity loan (HEL) sector which contains a mixture of prepayment and default risks. Hence, we begin this issue of *The Journal of Fixed Income* with an article by David Heike and Akhil Mago that provides an overview of the HEL market and the key risk factors for bondholders. Next, Michelle A. Danis and Anthony Pennington-Cross examine whether delinquency has any predictive power for future performance of a subprime mortgage loan with an econometric model and loan performance data. They find that delinquency predominately leads to termination of a loan by prepayment. However, negative equity leads to termination via default.

In the next article, Frank J. Fabozzi, Lionel Martellini, and Philippe Priaulet use a series of macro factors to predict movements in the term structure of interest rates. In order to prove the economic value of this information, they provide evidence of profitability through butterfly trading strategies. Next, Ralph Sueppel presents an econometric model containing credit risk, rating, and spreads that can detect richness and cheapness among emerging market sovereign bonds. The methodology is applied out of sample to produce significant trading profits.

The remaining articles concern models of credit risk. Stuart M. Turnbull provides a thorough discussion and analysis of the current state of credit risk models and their application. Finally, Alan L. Tucker and Jason Z. Wei present pricing models for credit default swaptions (options on credit default swaps).

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

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