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The current credit crisis began last summer in the subprime mortgage market. Now that home price declines are likely to exceed any time period since the great depression, forecasting defaults and projecting cash flows on subprime and AltA mortgages are key to valuation and trading profits. This is particularly difficult when there is no prior period in history with similar conditions to the current regime (e.g., underwriting fraud and the shut down of both the lending and secondary markets). Hence, we begin this issue of *The Journal of Fixed Income* with an article by Lakhbir Hayre, Manish Saraf, Robert Young, and Jiakai Chen on the modeling of mortgage defaults in the face of these extraordinary conditions.

Part of the problem with the current credit crisis is complexity and lack of transparency. Collateralized Debt Obligations (CDOs) are in the forefront of complexity. In the next article, Robert Jarrow and Donald van Deventer analyze the impact of correlation on CDO equity spreads. They demonstrate that equity is long or short correlation risk is dependent on the CDO model selected.

During this crisis, returns are often described as 10 standard deviation moves. This indicates a problem with the definition of the return generating process. An event with contagion is also clearly present. The next article considers a non-diversifiable jump-diffusion process for an index of credit default swaps, iTraxx. Ramaprasad Bhar and Peipei Wang provide evidence of Poisson-distributed jumps in Non-financial iTraxx and its sub-indices.

Interestingly, the credit crisis contagion has had much less of an effect on sovereign debt. In the next article, Eli Remolona, Michela Scatigna and Eliza Wu decompose sovereign CDS spreads into expected losses from default and the market risk premia required by investors as compensation for default risk. That is, sovereign risk is driven by country-specific fundamentals and liquidity while risk premia is determined by investors' global risk aversion.

Credit risk is most pronounced in the high-yield bond market. In the next article, Dale Domian and William Reichenstein present a returns-based style analysis of of high-yield bond funds and indices. These returns can generally be described as hybrids composed of stocks, bonds and cash. The weights are important for asset allocation.

Finally, Benson Durham provides evidence that the near-term skew of the option-implied distribution of short-term interest rates correlates with distant-horizon term premiums. Including the skew explains the variation in the term premium during both the "conundrum" and other time periods.

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