Discussion of
“Sentiment and Corporate Bond Valuations Before and After the Onset of the Credit Crisis”

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Summary

- Sentiment is negatively related to bond yield spreads, with the impact being stronger after the onset of the recent credit crisis.

- Sentiment plays a more important role in explaining equity/bond integration after the onset of the crisis.

- The impact of sentiment on yields is stronger when fundamental risk and liquidity frictions are higher.

- Sentiment spills over to the bond market through the activity of “capital structure arbitrage”.

• Overall, to my knowledge, this is the very first paper providing a comprehensive analysis on how the sentiment impacts the corporate bond yields and returns. The results are very interesting and significantly contribute to the fast growing literature in this area.
Comments and Suggestions: Endogeneity and Robustness

- Amihud illiquidity measure is calculated from stock prices, if there exists spill-over from the bond market to equity market, then Amihud measure and bond yields (returns) are endogenous variables. This potential endogeneity can bias the coefficient estimates. A panel data regression taking into account the endogeneity effect might be needed as a robustness test.

- In the robustness test, the regression models are different from the base models (different explanatory variables), any reason for this?
• When only the indicator of high or low sentiment is considered, it seems a bit too much to argue that sentiment “significantly” predicts integration.

• It would be more convincing if the multinomial logit regression produces similar results when the indicator of high or low sentiment is replaced by the sentiment level.
Comments and Suggestions: Capital Structural Arbitrage

- In order to verify the statement that sentiment spills over to the bond market through the activity of “capital structure arbitrage”, the hedge fund returns might need to be refined to exclusively reflect the “capital structure arbitrage” activities.

- “Fixed Income Arbitrage” is a much broader category than “capital structure arbitrage”.