Discussion on
“Forecasting Corporate Bond Returns: A Regressed Combination Approach”

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In the paper, the authors study the predictability of corporate bond returns.

More individual predictors are considered in the paper than previous literature.

A methodological contribution, the *regressed combination approach*, is developed in the paper.

Using the more comprehensive data and the novel regression method, the authors find that there exists higher predictability in corporate bond returns than previously documented.
The authors also show the strong forecasting power of the predictor is due to its ability to predict future economic conditions.

Overall, this is a well-written empirical paper on corporate bond market that provides new and compelling results on predictability of the returns.
Comment 1

- A suggestion for equation (4) in the paper:

\[ r_{t+1}^* = (1 - \delta)\bar{r} + \delta \hat{r}_t^c. \]

- It is mentioned in the empirical analysis, the above regression provides higher in-sample \( R^2 \)s than

\[ r_{t+1}^* = \alpha + \beta \hat{r}_t^c. \]

- However, if \( \bar{r} \) is a constant in sample, then equation (4) should not be better than the latter, as it is a constrained version of the latter. So I guess \( \bar{r} \) is time varying (rolling average over time) even in sample, in this case, it is clearer to give \( \bar{r} \) a time subscript as well.
Comment 2

- A suggestion for presenting the economic significance.
- Using Campell and Thompson (2008)’s realized utility gains to measure the economic significance is rigorous and standard. However, it will look more compelling if intuitive and graphical results can be shown. For example, consider trading a portfolio using a trading rule based on the forecasting equation, then report the performance of the trades: Sharpe ratio, accumulative return dynamic plots, so on.
Comment 3

- Provide some deeper insights. How to infer asset pricing implications from this strong predictability?

- Looking at the relation between the predictor and SDF will be an interesting direction. A recent JF paper Andrian, Etula, and Muir (2014) look at a single factor derived from leverage data of financial intermediaries, and link it to the SDF, then provide interesting insights on how the marginal value of wealth of financial intermediaries provide a more informative SDF than a representative consumer.

- Their structure is very similar to the paper here. But only they look at panel of individual returns, which is also feasible for the paper here.