Momentum in Corporate Bond Returns

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ABSTRACT

This paper finds significant price momentum in US corporate bonds. The analysis is based on 3.2 million monthly observations from 77,150 bonds from two transaction and three dealer-quote databases over the period from 1973 to 2008. Bond momentum profits are significant in the second half of the sample period, 1991 to 2008, and amount to 64 basis points per month. Momentum strategies are only profitable among non-investment grade bonds, where they yield 190 basis points per month. Similar to recent findings in equities, profits disappear after removing the worst-rated bonds – about 8% of all observations. Contrary to equities, bond momentum profits derive primarily from winners. However, losers trade more than winners, giving them a greater share in momentum profitability in trade-based data. Our findings do not support market opaqueness, illiquidity, investor under-reaction, and systematic risk as explanations of corporate bond momentum.