

Corporate Bond Portfolio Management using a Global Factor Approach (Sep 2015)

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Abstract

The purpose of this study is to extract the global factor from individual credit spreads of major Japanese corporate bonds using state-space modeling and examine the application to risk management of corporate bond portfolio. Especially the methods of hedging corporate bond portfolio is demonstrated using the estimated global factors. The results indicate estimated global factors are important drivers of individual credit spreads. Investment strategy with hedging global factors carry out superior performance to non-hedge strategy. This study makes a contribution to new risk management tool for bond portfolio.

JELCodes: C13,C32,G11

Keywords: Term Structure Model; Credit Spreads; State-Space Model; Hedging Interest Rates