EUROPEAN CENTRAL BANK

EUROSYSTEM

Discussion of Boyarchenko and Elias, “The Global Credit Cycle”

QCGBF Conference, London

The views expressed are personal and not necessarily shared by the ECB.

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Two contributions

- Credit spread data for a panel of countries
  - Monthly 1998-2022 for 22 countries, building on Boyarchenko and Elias (2003), corporate bond yields
  - Merge firm and bond information
  - Correct for sovereign yield (parent company), currency, duration, firm rating, firm effects (maybe over-correcting?)
  - Duration-consistent USD based credit spreads
  - Show that credit spreads predict EDF at firm level

- Local projections regressions of corporate bond returns, capital flows and unemployment growth on local and US credit spreads
  - LHS: corporate bond returns, USD minus 1-month T-bill
  - RHS: Non-linear (cubic) specification with VIX and credit spreads (local and global)

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Key results

- US credit spread significant predictor of corporate bond returns across countries – on top of VIX
- Significant non-linearity, also for the VIX
  - VIX less significant post crisis (see also other recent literature, e.g. Scheubel et al. 2024), but US credit spread more significant for EME returns (while local spreads become less significant)

- US credit spread also significant for flows, unemployment growth

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Some comments

- Interesting, nicely executed paper – leverages on the authors' deep knowledge of global corporate bond data
- A few comments mainly of presentation and interpretation
  - How to interpret the regressions
  - Position in the literature?
  - Some comments on structure and presentation

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Time to jettison the VIX?

- Based on the results of this paper, yes maybe, use the US credit spread as GFCy

- But what is the interpretation of the authors' regressions?

- Not very clear from the draft – it seems a risk-return relationship, but why not measuring risk premia directly?

- Also, not very surprising that corporate bond spreads matter for corporate bond returns, but how about financing conditions more widely?
  - E.g. in countries where corporate bonds are not very important, e.g. in Europe
  - Asset class rather the GFCy?
  - How about loans, etc.?

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Position in the literature

- Better describe difference from the excess bond premium of Gilchrist and Zakrajsek (2012) (GZ)
  - Authors themselves show high correlation with GZ
  - Include the table in the paper and discuss

- Superficially, their US credit spread measure does not look very different
  - Why not also include GZ alongside the VIX in the regressions?
  - Regress US credit spread on other measures of GFCy – is there independent information value?

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How to interpret the non-linearity?

- Economic significance and interpretation of their non-linearity results would be interesting

- Intuition? Occasionally binding constraint – should they lead to convexity?

- One such possible theory: bonds tend to be in "on and off" state (investors are either inattentive to risk or panicking) differently from equities (VIX) – could this be relevant?
  - See Adair Turner's book *Between Debt and the Devil*
  - Maybe however more relevant for sovereign, rather than corporate bonds

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Other comments and suggestions

- The paper could be more structured at times, with speaking titles etc.; sometimes not clear why authors are doing something
  - Add a summary table with details on data
  - Tables too small, unreadable – easy to fix!
- Assumption on parent company not innocuous – see discussion on "trapped" liquidity and capital in international banks (maybe specific to banks?)
- I wish the authors much success in revising and publishing the paper!

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