Search for Yield in Large International Corporate Bonds

(Calomiris, Larrain, Schmukler, Williams)

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IMF-CBC-IMFER Conference, Santiago, July 2019
Theoretical Premise

- Post 2008, cyclical and monetary policy conditions in AEs led to greater demand for EM assets
- Less specialized and inexperienced managers enter this market
- Greater reliance on indexes → greater preference for index-eligible bonds
- Spread around cutoff issuance size ($500M) increases
- Firms issue more than they need to benefit from rate reduction
- Effects greater in countries with attractive carry trades
Decline in yields starts well before GFC (QE etc.). But sharp drop for large issuance post 2008

What about 2000-2004? Role for MP cycle beyond post-GFC period
Evidence of Increased Bunching at Threshold

Panel A. Emerging Markets

Generalized shift toward larger issuances. More pronounced for middle of distribution.
Evidence of Increased Bunching at Threshold

Generalized shift toward larger issuances. More pronounced for middle of distribution.
Role of non-specialized funds

- Reasonable hypothesis that “cross-over” funds would rely more on index than specialized ones

- Finding: greater relative holdings of >$500M bonds

- But wouldn’t specialized fund fill the void (arbitrage)?

- Why not look more directly at whether in countries where cross-over funds have greater presence the spread around $500 is greater?

- Also country-specific regressions (at least for large markets)? FE take care of levels, but not trends/deltas. At least interact FE with post2008 dummy.

- Country level regressions would also be interesting to see if the effect is driven by particularly information-sensitive markets.
Relevant interest rate benchmark

- Firms from countries with a more attractive carry trade (adjusted for volatility) tend to issue more >$500M bonds

- Why should country-specific carry matter? Firms could invest the “extra” cash anywhere, including in the US

- An alternative interpretation is that local rates are the opportunity cost of not borrowing from abroad
  - If so shouldn’t we focus on the spread \((Y^*-Y)\) and look at how it evolved over time?

- Is this just picking up the cycle?
Difference in post-2008 yield coefficients for $\beta_{400}$-$\beta_{500}$ seems to come from a positive premium in $\beta_{400}$ rather than a negative one for $\beta_{500}$ (Table 3)

- Indeed, I think there would be a similar result for $\beta_{400}$-$\beta_{300}$
- What is the story here?

Placebo test (uses variable rate bonds not index-eligible): why just for issuances? Ok variable rates, but could look at how they are trading.

Was the index-eligibility threshold ever changed? If so, it would provide a nice experiment opportunity.

Does it matter what firms do with funding?
- Look at whether cash on balance sheet affects yields
Conclusions

- Very interesting and well executed paper
- Highlights importance of index eligibility at corporate level
- Critical interaction with monetary/financial conditions at center
- Opportunity for further insights by looking at more disaggregated specifications