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## Common Factors in Corporate Bond and Bond Fund Returns

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Corporate bonds are an enormous, and growing, source of financing for companies around the world. At the same time, the investor base and trading dynamics of corporate bonds has changed dramatically. Dealer inventories are decreasing, average trade size is decreasing and there is a greater presence of 'retail' investors via the increase of open ended mutual funds and ETFs targeting corporate bonds. There is, however, surprisingly little research on the cross-sectional determinants of corporate bond returns.

The authors undertake a comprehensive analysis of those cross-sectional determinants of corporate bond excess returns. They find strong evidence of positive risk-adjusted returns to measures of carry, defensive, momentum and value. These returns are diversifying with respect to both known sources of market risk and characteristic returns that have been documented in equity markets.

Investors in actively managed credit funds should be aware of the hidden beta they are exposed to, and should prefer an investment product designed to isolate exposure to well-compensated characteristics that are diversifying to market risk premium.