Fixed Income

Corporate Bond Factors: Replication Failures and a New Framework

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We demonstrate that the literature on corporate bond factors suffers from replication failures, inconsistent methodological choices, and the lack of a common error-free dataset. Going beyond identifying this replication crisis, we create a clean database of corporate bond returns where outliers are analyzed individually and propose a robust factor construction. Using this framework, we show that most, but not all, factors fail to replicate. Further, while traditional factors are constructed from individual bonds, we create representative firm-level bonds, showing which bond signals work at the firm-level. Lastly, we show that a number of equity signals work for corporate bonds. In summary, most factors fail, but so does the CAPM for corporate bonds.

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