

Search for Yields in Large International Corporate Bonds: Investor Behavior and Firm Responses

Charles Calomiris
Mauricio Larrain
Sergio L. Schmukler
Tomas Williams

Discussant: Isha Agarwal
University of British Columbia

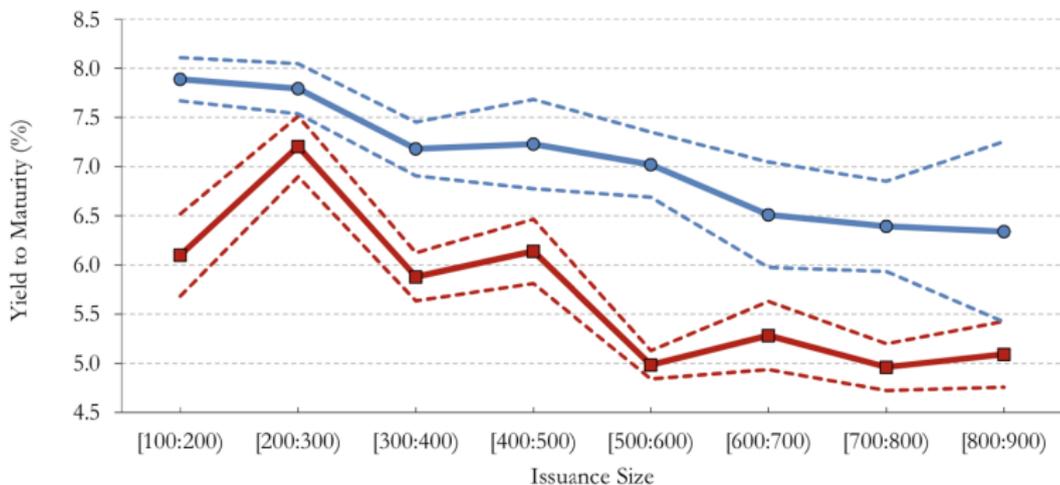
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Summary

- ▶ Low interest rates in advanced economies after the global financial crisis
- ▶ Institutional investors search for yield - turn to Emerging Market (EM) corporate bond market
 - ▶ dollar denominated corporate bonds issued by EM firms
- ▶ EM corporate debt is risky, willing to hold only index-eligible bonds
 - ▶ Enhanced liquidity
 - ▶ Reduce tracking error

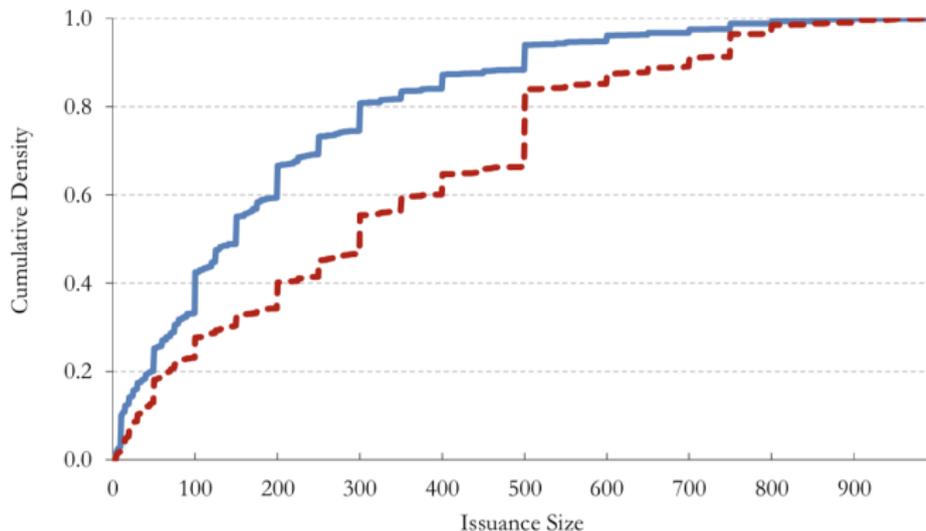
Finding 1: Reduction in yield for EM bonds \geq USD 500 Million

- ▶ Demand for EM corporate debt after the crisis was accompanied by a preference for index eligible bonds
- ▶ Size threshold for CEMBI - USD 500 Million
- ▶ Size yield discount for bonds \geq USD 500 Million



Finding 2: Firms cluster issuances at USD 500 Million

- ▶ Firms take advantage of the discount - cluster issuances at USD Million
- ▶ Smaller firms stretch to issue large bonds, hoard cash if investment opportunity set is small

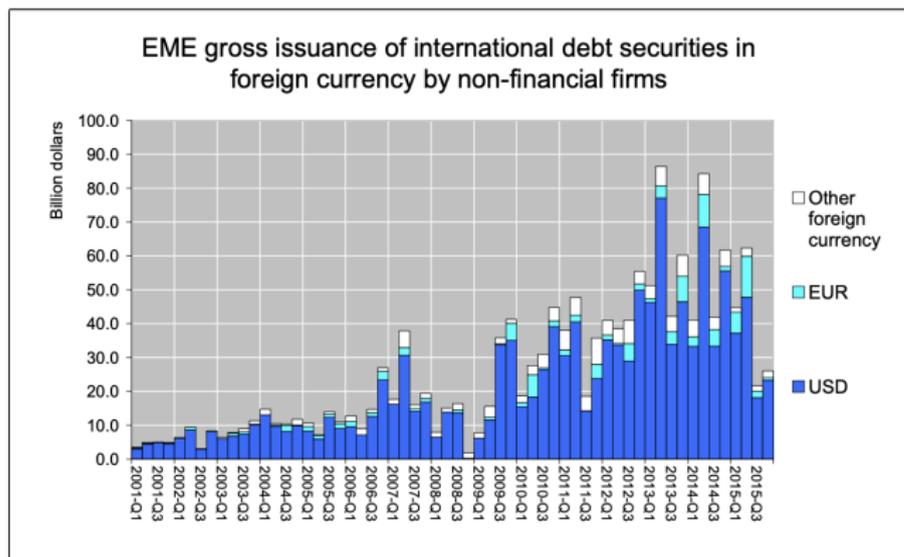


Mechanisms

- ▶ Search for yield - shift in investor composition after the GFC
- ▶ Cross-over funds - limited experience with managing EM bonds

Comments

- ▶ Large literature on surge in EM corporate debt issuance since the GFC



Source: Bruno and Shin (2018)

- ▶ The paper contributes by highlighting the role of large bonds
- ▶ Enhances our understanding of how risks could materialize in the non-financial sector

Search for Yield or Index Eligibility?

- ▶ JP Morgan CEMBI launched in the last quarter of 2007
- ▶ Should we expect to find different results if the bond index was introduced prior to 2007?
- ▶ What is the role of search for yield?
- ▶ Can address this question by looking at previous instances of either change in index eligibility thresholds or launch of a new index

Investment of Non-financial Firms

- ▶ What happened to investment following bond issuance?
- ▶ How is cash defined? (cash + short term investment?)
- ▶ Can look at just cash to make the investor demand side story stronger
- ▶ Should we worry about high inflation in EMs? How does that affect the trade-off when firms face?

Direct Evidence on Cross-over funds' Preference

- ▶ Possible to provide more direct evidence on the role of cross-over funds?
- ▶ Table 8 shows difference in means of portfolio holding but a difference-in-difference specification similar to other regressions can make the argument stronger
- ▶ Can exploit within firm heterogeneity in issuances

Conclusion

- ▶ Very interesting paper
- ▶ Nuanced description of EM corporate bond issuance after the crisis
- ▶ Further robustness to isolate channels
- ▶ Various avenues for future research