HARVARD | BUSINESS | SCHOOL

FACULTY & RESEARCH

Other Unpublished Work | 2002

The Maturity of Debt Issues and Predictable Variation in Bond Returns

by Malcolm Baker, Robin Greenwood and Jeffrey Wurgler

Abstract

The maturity of new debt issues predicts excess bond returns. When the share of long term debt issues in total debt issues is high, future excess bond returns are low. This predictive power comes in two parts. First, inflation, the real short-term rate, and the term spread predict excess bond returns. Second, these same variables explain the long-term share, and together account for much of its own ability to predict excess bond returns. The results are consistent with survey evidence that firms use debt market conditions in an effort to determine the lowest-cost maturity at which to borrow.

Keywords: Borrowing and Debt; Bonds; Investment Return; Financial Markets; Forecasting and Prediction;

Language: English Format: Print Read Now

Citation:

Baker, Malcolm, Robin Greenwood, and Jeffrey Wurgler. "The Maturity of Debt Issues and Predictable Variation in Bond Returns." 2002. (First draft in 2001.)

About the Authors

Malcolm P. Baker
Robert G. Kirby Professor of Business Administration (Leave of Absence)
Finance

Robin Greenwood
George Gund Professor of Finance and Banking
Unit Head, Finance
Finance