Time Varying Factors in the Performance of European Corporate Bonds

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We study common factors in excess returns of 18 European corporate bond indices during 2000-2014 using a threshold regime switching model. A genetic algorithm was employed to select model variables and regime thresholds. We report significant differences in time variation of the common factors across bond indices for different maturities, ratings and industries. Notably, the conditional response was particularly evident for the liquidity factor. We also shed more light to transition variables that govern regime switches.

Keywords: *Bond indices, Threshold regime switching models, Genetic algorithms*

JEL classification: *C51, G01, G12, G32*

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