"(In)frequently traded corporate bonds"

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Abstract:

In over-the-counter markets, assets trade infrequently. We use the U.S. corporate bond data to show that trading frequencies of bonds: 1) are not uniformly distributed through time but rather arrive in long-lasting bulks, and 2) follow a regime-switching model with few states for most bonds. We find that a relatively small portion of the variation in trading frequencies is explained by bond characteristics known ex-ante such as amount outstanding, time from issuance/to maturity, and credit quality. The remaining unexplained variation in trading frequencies is mostly bond-specific, and we find no substantial evidence of synchronous market-wide changes in trading frequencies across bonds. Big and time-varying idiosyncratic (il)liquidity has implications for optimal corporate policy and debt issuance.