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## Corporate Bond Pricing and Ownership Heterogeneity\*

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**Abstract**

We examine how heterogeneity in institutional equity ownership affects bondholders. Firms with larger short-term (long-term) institutional ownership are associated with higher (lower) future bond yield spreads. The adverse effect of short-term ownership on bond pricing is driven by issuing firms that have larger financial distress risk and larger equity volatility. The favorable effect of long-term ownership appears to be more systematic. Further, this bond pricing effect is stronger in cases where shareholder rights are relatively weak. Finally, the effect of short (long) horizons is driven by concentrated (diffused) institutional holdings.

*JEL Classification:* G12, G32, G34

*Keywords:* Agency cost of debt, Information, Institutional investors, Investment horizon

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