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Abstract

We show that momentum profits for corporate bonds depend on the state of the market (UP/DOWN), as already documented for equities. Momentum gains exclusively follow UP periods. In contrast, DOWN markets herald momentum losses. Importantly, this study links momentum gains to underpricing, as measured by low sentiment. In particular, the UP-market momentum gains are generated exclusively by momentum portfolios formed in periods of low sentiment. The DOWN-market reversal returns in low sentiment are even larger than the UP-market momentum gains. We also introduce a novel top-volume bond momentum strategy and show that it yields large and persistent unconditional profits.

Keywords: market states; sentiment; momentum; underpricing; corporate bonds.

JEL: G00, G12

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