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## Investor Sentiment, Flight-to-Quality, and Corporate Bond Comovement

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**Investor Sentiment, Flight-to-Quality, and Corporate Bond Comovement**Sebastian Bethke<sup>a,b</sup>Monika Gehde-Trapp<sup>c,b,\*</sup>Alexander Kempf<sup>a,b</sup>

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**Abstract**

We examine the dynamics of bond correlation using a broad sample of US corporate bonds, and document that bond correlation varies heavily over time. We attribute this variation in bond correlation to variation in risk factor correlation reflecting time-varying flight-to-quality behavior of investors. We show that risk factor correlation increases when investor sentiment worsens, i.e., corporate bond investors exhibit stronger flight-to-quality when their sentiment is bad. Thus, bad investor sentiment leads to flight-to-quality behavior and, ultimately, high bond correlation. Very good sentiment, in contrast, can cause risk factor correlation and bond correlation to be negative.

*JEL classification:* G11; G12

*Keywords:* bond correlation; risk factor correlation; flight-to-quality; investor sentiment

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