Abstract:

In this paper we provide the first empirical evidence on flipping activity in the corporate bond market. Analyzing insurer trades in corporate bonds during 2002–2018, we show that offerings with worse aftermarket performance are flipped less. When flipping their allocation in an offering, insurers tend to avoid selling to the offering's underwriters even though underwriters offer better prices. The sensitivity of flipping to aftermarket performance is broadly similar when flipping to underwriters than non-underwriters, which suggests that underwriters discourage flipping in both overpriced and underpriced offerings. Insurers that flip their allocation to underwriters receive less profitable allocations in these underwriters' subsequent offerings. Overall, our findings suggest that the repeated game nature of the issuance process allows underwriters to partially limit flipping by.