

The Determinants of Yankee Bond Pricing

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Abstract

Yankee bonds provide a unique arena to analyze corporate debt issuance due to the fact issuers from a variety of countries are selling bonds within the same market. Previous studies use Yankee bonds to analyze the impact of differing levels of investor protection across countries on the yields and design of corporate debt. This study provides the first attempt to disentangle the impacts of sovereign credit and liquidity risks on Yankee bond yields, and to assess the influence of trading activity of institutional investors on these yields. Based on a sample of 405 Yankee bonds issued between 2002 and 2014 by corporations from 16 countries, sovereign credit risk plays a major determinant of Yankee bond yields. In addition, liquidity risk has a significant impact on Yankee debt yields when sovereign credit risk is high. Institutional trading activity offers additional power of the pricing of these bonds.

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