

Corporate Bond Refinancing Under Capital Supply Uncertainty

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Abstract

Corporate bond refinancing, which replaces existing debt with new issuances, unlike issuance for new financing needs, faces a fixed maturity deadline. This deadline makes the firm's bond refinance decision take different responses to capital supply uncertainty. In this paper, I examine the effect of capital supply uncertainty – measured as the average flow volatility of mutual fund investors holding the bond – on firms' refinancing decisions on the bond. My main finding is that the capital supply uncertainty has a positive and significant impact on high-yield bond refinancing, and a positive but statistically insignificant effect on investment-grade bond refinancing. These results highlight a novel fact that capital supply uncertainty can make firms' refinancing decisions sooner rather than later.

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