Guide to Fixed Interest Instruments (2024)

What are Fixed Interest Instruments and where do they fit?

- A Fixed Interest instrument, commonly referred to as a bond, is a loan made by an investor to a government or corporate borrower. Typically, the borrower, or Issuer, promises to pay a set amount of interest, called the coupon, on a predetermined basis until a set date

- Fixed Interest is a mainstream asset class, and conventionally considered to be appropriate as forming a significant part of all balanced portfolios

- Fixed Returns are defined as pre-determined cash-flows

- Historically, investors with lower risk investment temperament have higher levels of exposure to Fixed Interest Instruments, whereas investors with higher risk investment temperament have higher levels of exposure to equities

- The Fixed Interest universe covers a broad range of instruments, and these are available in most currencies

What are Bonds?

- **To put it simply, there are just Loans -** To Governments or Corporate entities. Following issuance, they can be traded on the market or off-market (privately) between institutional investors

- **Similar to interest only mortgages -** On rare occasions like capital & interest mortgages

- **Can be fixed rate, or floating rate, or a combination of both**

- **Some bonds are regarded as very low risk** - Offering predictable returns from pre-determined coupons

- **Some bonds can be seen as very high risk -** Unpredictable capital volatility due to high risk Issuers

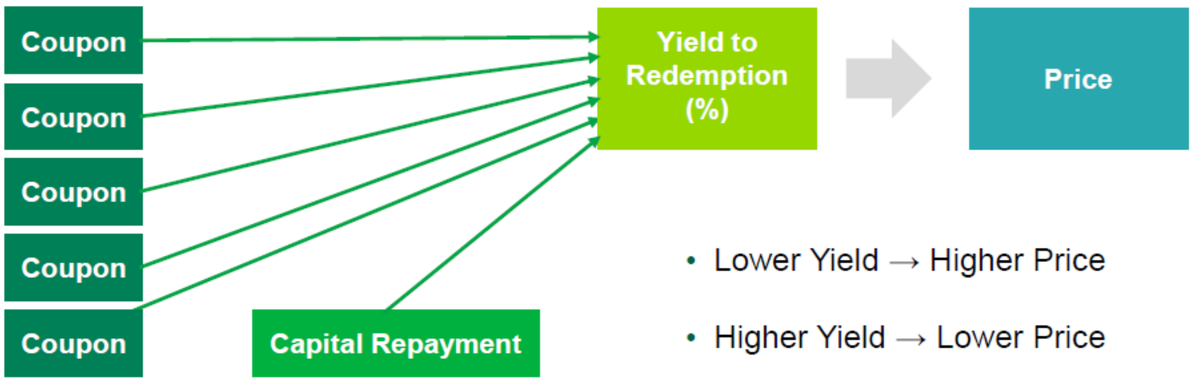
Bond basics

- A bond is a debt investment, similar to an "I.O.U"

- Consists of a series of fixed cash-flows

- The sum of the cash-flows discounted at an appropriate risk-adjusted interest rate provides the effective value of the bond

- Yield to Redemption equates cash flows to price



Who are the typical Issuers? (Borrowers)

- **Governments**
- **Corporates**
- **Financials**
- **Municipalities, States**
- **Supranationals, Development Corporations**

This is not an exhaustive list and the above are examples of the most common

Who are the typical investors? (Lenders)

- **Governments – Central Banks**
- **Charities**
- **Sovereign Wealth Funds**
- **Mutual Funds**
- **Pension Funds**
- **Hedge Funds**
- **Insurance Companies**
- **Retail**

This is not an exhaustive list and the above are examples of the most common

Yield

- Very simply this is the interest rate offered on a particular bond, also known as the income return on an investment
- Many different yield calculations and expressions:
    - Running yield (current yield)
    - Yield to Redemption (gross redemption yield)
    - Annual yield
    - Semi-annual yield
    - Discount margin

How is Yield calculated?

- The yield and price of a bond are inversely related. So, when market interest rates rise, bond prices typically fall and vice versa. Therefore, the yield to redemption could be considered to be made up of two parts: the current yield and the expected capital gain or loss: roughly the current yield plus the capital gain (negative for loss) per year until redemption

- The market price of a bond can be seen as an expression of the present value of all expected future interest and principal payments of the bond discounted at the bond's yield to redemption, or rate of return. This relationship defines the yield to redemption on the bond, which represents the current market interest rate for bonds with similar characteristics

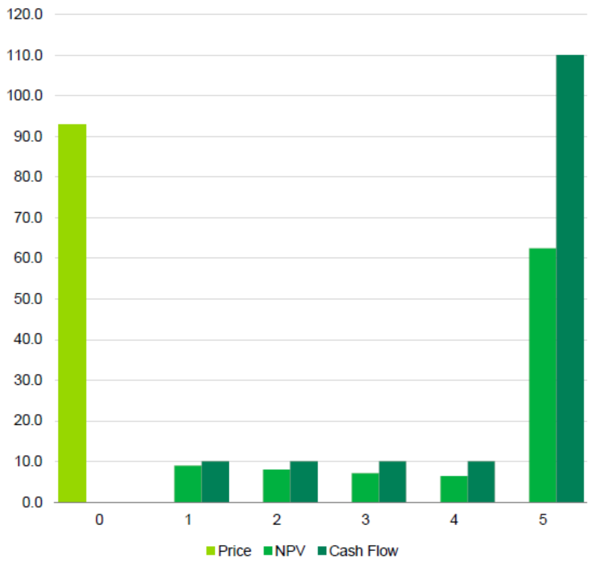
What / Who determines the Yield?

- Buyers and sellers of bonds constantly trading can change the price
- The change in the price directly impacts the yield
- Conventionally, the longer the date on the bonds, the higher the yield
- When this relationship between date and yield is graphically represented, this creates the so-called Yield Curve

Bond Pricing

Bond paying a 10% coupon for 5 years to 2028 **YTR = 12%** **Price = 92.79**

Year	Coupons and Redemption	Present Values at 12%		
1	10	$^{10}/_{(1.12)^1}$	=	8.93
2	10	$^{10}/_{(1.12)^2}$	=	7.97
3	10	$^{10}/_{(1.12)^3}$	=	7.12
4	10	$^{10}/_{(1.12)^4}$	=	6.36
5	110	$^{110}/_{(1.12)^5}$	=	62.42
Sum of Present Values				**92.79**



Used for illustrative purposes only, not based on a particular bond

Duration -V- Maturity

Both of these metrics may sound very similar, but they are very different. They are both used by bond investors to evaluate interest-rate risk, but duration is the more complex of the two

Maturity is very straightforward, namely a bond's maturity is the length of time until the principal must be paid back. For example, a 10-year bond will pay interest for 10 years from the date it is issued. At the end of that period the bond's principal is repaid to investors and interest payments cease

Duration is a more abstract concept that is mostly used to evaluate interest-rate sensitivity. Bond investors often consider the movements of the relative benchmark interest rate because any movement, up or down in such rates, has the opposite effect for bond prices. In essence, an increase in benchmark interest rates makes an existing bond less attractive to investors, while a drop in rates increases the bond's attractiveness

- The metric can be applied to both individual bonds and portfolios of bonds

- There are different applications of this risk metric investors can use to evaluate individual bonds or bond portfolios, e.g.

    - How to potentially hedge liabilities arising at a future date

    - How to estimate potential capital gains or losses from yield changes

    - How to estimate potential capital gains or losses from spread changes

Bond coupon of 10% for 5 years to 2028
YTR = 12% Price = 92.79

Bond coupon of 10% for 10 years to 2033
YTR = 12% Price = 88.70

If the interest rate returns expected by the markets increase by 1%

Bond coupon of 10% for 5 years to 2028
YTR = 13% Price = 89.44

Bond coupon of 10% for 10 years to 2033
YTR = 13% Price = 83.70

Typically, the longer investors have to wait for their cash, the higher the duration to compensate investors for taking on added interest-rate risk.

Also, the less investors get paid whilst they wait - the higher the duration.

Types of Duration

There are three most widely used variants of duration, namely, **Macaulay**, **Modified**, and **Effective**. The bond calculators available on the Reuters and Bloomberg terminals provide all these metrics

- Macaulay duration, developed in 1938, provides a weighted average at the bond’s current price, expressed in years, of the time it would take to repay the principal to investors including all interest (coupon) payments due

- Modified duration is a more complicated metric that takes into account the effects of interest-rate movements

- Effective duration is another, even more complicated metric used to assess interest-rate sensitivity when evaluating callable bonds, those that may be redeemed by their issuers before maturity

Average effective duration is an asset-weighted measure of the effective duration of securities held in a collective fund and is particularly useful as a guide to how interest-rate movements will affect the value of the underlying holdings of a particular bond fund. Bonds with longer durations are more sensitive to changes in benchmark interest rates than those with shorter durations. Investors who expect interest rates to decline will look to buy bonds with longer durations or maturities in order to increase potential exposure to falling rates, where investors expecting rates to go up would prefer shorter durations or maturities in order to limit their exposure to the higher rates

Not a perfect world

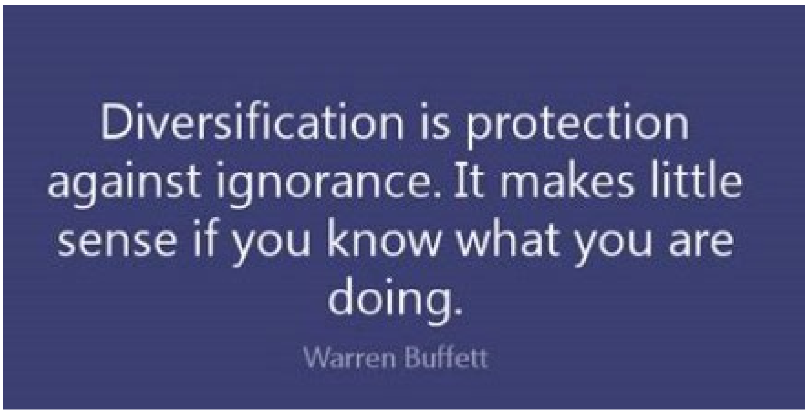
Duration is a very useful metric in evaluating the benchmark interest rate sensitivity of a bond, but it is far from the answer to life and the universe for fixed interest investors. Duration is most useful in measuring benchmark interest rate sensitivity for bonds, usually at the investment grade end of the markets, that closely correlate to sovereign bonds. However, for those bonds that do not correlate, usually at the High Yield end of the markets, duration might be more useful in evaluating the relative benchmark interest rate sensitivity between investment grade and High Yield bonds, rather than sovereign bonds. The moves of High Yield bonds are often uncorrelated to sovereign bonds and two bonds with the same average effective duration, could react differently to benchmark interest-rate changes if their market ratings or type (senior, subordinated, unsecured, secured, PIK, convertible, loss-absorbing, etc) are different

What are some of the risks associated with investing in Bonds?

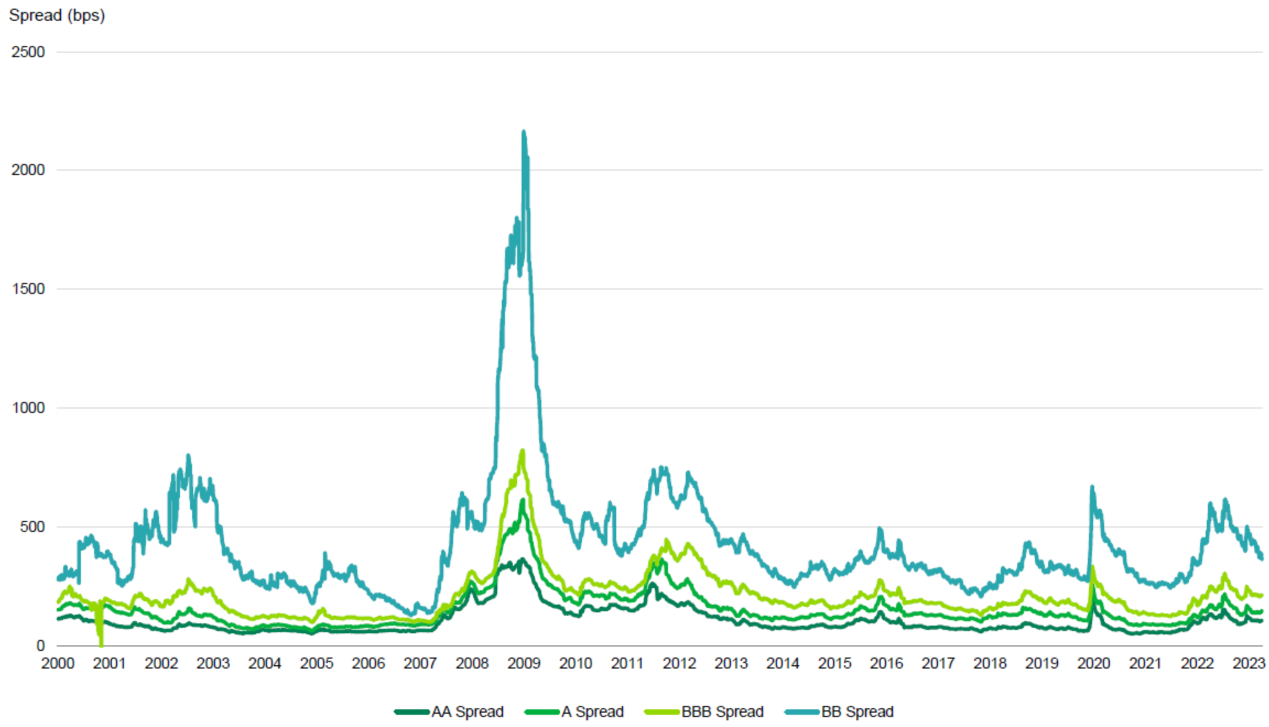
Diversification may help mitigate the risks

- If investors only hold one bond, then theoretically the biggest risk that the bond Issuer may default
- In a diversified bond portfolio, credit risk can be mitigated through diversification and aggregate interest rate risk becomes more important
- Duration is an effective mechanism for measuring interest rate risk

However, Warren Buffet argues the diversification can also significantly erode the overall returns of a portfolio



Historical Index Spread Levels



Source: ICE 3 July 2023

Credit Quality and Rating Agencies

- To assist investors in assessing credit quality, many of the bonds traded in the markets are rated by rating agencies
- The three major global rating agencies are Standard & Poor, Moody's, and Fitch
- The highest quality bonds are rated AAA
- Issuers in default are rated D
- Investment Grade bonds are rated from AAA to BBB- (AAA, AA, AA, AA-, A+, A, A-, BBB+, BBB, BBB-)*
- High Yield (are also emotively known as *junk bonds*) start at BB+ and end at C-*
- The rating of a bond can have a material impact on its demand and therefore price. As a result, the rating agencies wield tremendous power in the capital markets. However, rating actions may also offer opportunities to those investors that take a more 'real world' approach and above all do their homework and due diligence

*Although the agencies adopt different rating scales, there is equivalence across the scales which facilitates comparison such that a Baa1 rating (for example) from Moody's is equivalent to a BBB+ rating from S&P and BBB+ from Fitch.

Primary Markets: New Issues

- Launching a new bond deal
- Issuer engages a lead manager / book-runner to place bonds into the market
- Often deals are underwritten
- Typically begins with a road-show
- Lead managers and the Issuer gauge investor feedback and announce price guidance
- Syndicate is formed
- Investors are invited to place their orders
- Order book is scaled to the issue size
- Bond is priced at a fixed price re-offer mechanism
- Investors receive their allocations
- Bond is then free to trade on the secondary market

Secondary Markets: Trading

- Unlike equities, fixed Interest Instruments trade largely on the OTC (over-the-counter) market
- Liquid trading of bonds is often facilitated through market makers who quote indicative bid and offer prices but are not obliged to trade at those levels
- There is no guaranteed liquidity, however, due to the large number of participants the markets are generally highly liquid and facilitate huge daily volumes
- Trading is typically highly specialised, e.g. rates driven, or credit driven, then sub-divided further

What are Eurobonds?

They are debt securities denominated in a variety of currencies, namely, Sterling, Euro, US Dollar, Swiss franc, Yen, etc, which pay interest on a regular predetermined basis, annually, semi-annually, or quarterly, mostly without deduction of withholding tax.

In what form do they exist?

They exist mostly in bearer form, held by Euroclear or ClearStream (the two international central securities depositaries) in minimum denominations of 50,000, 100,000, or 200,000 and trade in multiples of their minimum amount. A very small number of Eurobonds can also be held in registered form. The vast majority of Eurobonds are listed and trading on recognised and/or regulated stock exchanges in many jurisdictions around the world.

How do dealings take place?

As for gilts and sovereign bonds, two-way indicative prices are quoted exclusive of accrued interest, usually calculated on a daily basis of a 365 or 360-day year and Eurobonds do not go ex-dividend. Settlement takes place on a T+2 basis, namely two business days after the date of the transaction. There are many execution venues and market-makers in Eurobonds although they do not all make a market in all the bonds in issue. The overall size of the Eurobond market is in excess of $100 trillion.

How can prices be monitored?

There are many execution venues and bond trading websites on the internet that list two-way prices and real time indicative prices are available on a number of screen-based information providers such as Reuters and Bloomberg.

How safe are Eurobonds?

The vast majority of bonds are unsecured obligations and payment of interest and principal are dependent upon the creditworthiness of the specific issuer. The particular details covering interest deferral or default events are set out in the trust deed or prospectus of each respective bond. A large percentage of Eurobonds are rated by Moody's, Standard & Poor's, Fitch and other rating agencies.

How significant is the Eurobond market?

It is the dominant global market for non-sovereign bond issuance and dwarfs the domestic UK bond markets in both total outstanding and new issues. There is a broad range of issuers with many names easily recognisable by investors.

What maturities are available?

Maturities range from a few months to over 100 years, or even perpetual. However, bonds with very short durations (under 2 years) may be more difficult to trade freely and are not always available.

How are Eurobonds taxed?

The vast majority of Eurobonds are Qualifying Corporate Bonds and therefore exempt from capital gains tax, if held by individuals or trusts. However, the interest received is assessed for income tax in the normal way.

What are Retail Bonds?

Retail Bonds are domestic bonds issued by companies and other bodies incorporated in the UK allowing them to tap into a pool of capital outside the traditional wholesale markets available only to professional investors. They are listed on electronic bond order books established by the London Stock Exchange and enable private investors to buy and sell bonds as easily as they would trade equities. The issue sizes have ranged from £20 million to £300million and Issuers have two options when looking to admit retail bonds to London Stock Exchange's markets – the **ORB** (Order Book for Retail Bonds) and the **OFIS** (Order Book for Fixed Income Securities). Raising capital through retail bonds has the key benefit of diversification of funding and typically, retail issues are supported by around 100 wealth and institutional fund managers, representing the interests of several thousand individual investors.

What are the markets?

- **ORB -** Introduced by the LSE in 2010 this order-driven trading platform offering access to a variety of gilts, supra-national and corporate bonds, and was developed in response to strong demand from retail investors for access to an on-screen secondary market in fixed income securities. The ORB provides Issuers with the opportunity to raise capital and have their retail bonds trade on a transparent and regulated market.

- **OFIS -** Issuers also have the option of admitting retail bonds onto this option, suitable for retail bonds with more complex issuance structures. OFIS provides issuers with the same electronic trading capabilities and offers the full suite of flexibility for issuance options.

In what form do they exist?

They exist in registered form, commonly having a minimum denomination of £1,000 or £2,000 and multiples of this minimum amount can be registered and traded.

How do dealings take place?

As for gilts, two-way clean prices are quoted as a percentage of their principal amount exclusive of accrued interest. Settlement usually takes place on a T+2 basis, namely two business days after the trade date.

How can prices be monitored?

There are many execution venues and bond trading websites on the internet that list two-way prices and real time indicative prices are available on a number of screen-based information providers such as Reuters and Bloomberg.

How safe are they?

The majority of retail bonds are unsecured obligations and payment of interest and principal are dependent upon the creditworthiness of the specific issuer. The particular details covering interest deferral or default events are set out in the trust deed or prospectus of each respective bond. Some retail bonds are secured on a variety of assets, and they are usually regarded as 'safer' than unsecured bonds. However, the 'safety spectrum' can be wide and for bonds trading above par, or close to par, security of income may be of greater importance.

How are they issued?

Listing debt securities on LSE involves preparing either admission or listing particulars, or a prospectus compliant with the appropriate rules. As part of the prospectus Issuers will need to provide, among other things, detailed financial statements as well as the terms and conditions relating to the security and information on recent developments. Appointing an experienced team of professionals helps deliver a complete listing document.

How significant is the market?

The domestic fixed interest retail markets are relatively small in comparison to the global Eurobond markets in terms of new issuance, turnover, and size. However, they remain a source of funds for domestically focused companies and the retail bond markets include issues from sectors such as social housing, charities, higher education, and infrastructure projects.

What maturities are there?

The maturities of dated retail bonds range from a few years to over 40 years. There are also perpetual bonds that have no final maturity date.

How are they taxed?

The vast majority of these securities qualify for exemption from capital gains tax. Interest received by UK investors is gross and assessed for income tax in the normal way.

What are Debenture and Loan Stocks?

Debenture and loan stocks are domestic bonds issued in the UK by companies and other bodies incorporated in the UK and are listed on the London Stock Exchange. The listing agreement requires that the term debenture be only applied to secured debt securities. Market convention, therefore, accepts a debenture as a bond where investors have a charge over assets and a loan stock as a bond where no such charge or security exists.

In what form do they exist?

They exist in registered form, commonly having a minimum denomination of £1 and multiples of this minimum amount can be registered and traded.

How do dealings take place?

As for gilts, two-way clean prices are quoted as a percentage of their principal amount exclusive of accrued interest. Settlement usually takes place on a T+2 basis, namely two business days after the trade date.

How can prices be monitored?

There are many execution venues and bond trading websites on the internet that list two-way prices and real time indicative prices are available on a number of screen-based information providers such as Reuters and Bloomberg.

How safe are they?

Due to their secured nature, debentures are usually regarded as 'safer' than unsecured loan stocks. Likewise, since bondholders are creditors, unsecured loans are generally more secure than preference shares or equities. The safety spectrum is extremely wide, varying from debentures issued by investment trusts where capital cover can exceed obligations by many multiples to bank subordinated loan stocks. For stocks trading above par, or close to par, security of income is of greater importance. Income cover can also vary widely.

How are they issued?

Under the traditional issuing procedure, a manager is appointed and takes responsibility for negotiating the terms (e.g. coupon, price etc.) of the new issue. Most issues have been announced early in the day and subsequently placed with investors and brokers following the official London Stock Exchange announcement at a price that is fixed later in the day with reference to a yield premium over relevant benchmark gilts.

How significant is the market?

The domestic fixed interest market has been overtaken by the Eurobond market in terms of new issuance, turnover and size. However, it remains a source of funds for small UK companies. The market includes issues from sectors such as social housing, higher education and infrastructure projects. This type of issuance is a direct consequence of governments' policies to encourage private sector funding where appropriate.

What maturities are there?

The maturities of dated stocks range from a few weeks to over 40 years. There are also perpetual stocks that have no final maturity date.

How are they taxed?

The vast majority of these securities qualify for exemption from capital gains tax. Interest received by UK investors is gross and assessed for income tax in the normal way.

What are PIBS?

They are permanent interest-bearing irredeemable shares of building societies, which pay interest (usually fixed but, less commonly, floating) semi-annually in arrears.

In what form do they exist?

They exist in registered form, with minimum denominations ranging from 1,000 to 50,000 depending upon the issue. Only exact multiples of these amounts can be traded. All PIBS are listed on the London Stock Exchange.

How do dealings take place?

Like gilts, two-way prices are quoted as a percentage of their principal amount exclusive of accrued interest that is calculated on a daily basis, i.e. actual days in each month and 365 or 360 days in each year. They settle on a T+2 basis, namely two business days after the date of the transaction. PIBS go ex-dividend 21 days before the payment date.

How can prices be monitored?

There are many execution venues and bond trading websites on the internet that list two-way prices and real time indicative prices are available on a number of screen-based information providers such as Reuters and Bloomberg.

How safe are PIBS?

They are perpetual in that building societies are under no obligation to repay the principal. Investors can only realise their investment by selling at the price prevailing in the market at any given time. This price may be lower than the original price paid. If payment of interest on the PIBS were to jeopardise the financial health of the building society in question, it can be passed without default and building societies are not obliged to make good any such passed interest (i.e. the interest is non-cumulative). Notwithstanding the subordinated and perpetual nature of these assets, they are backed by some of the largest building societies in the UK and the risks are usually compensated by a higher yield premium, or spread, to gilts.

How are PIBS issued?

Under the traditional issuing procedure, a manager is appointed and takes responsibility for negotiating the terms (e.g. coupon, price etc.) of the new issue. Most new PIBS issues are announced early in the day and subsequently placed with institutions and brokers following the official Stock Exchange announcement at a price that is fixed later in the day with reference to a yield premium over the relevant benchmark gilt.

How significant is the PIBS market?

With just under £1bn of PIBS outstanding, it is the smallest sector within the sterling fixed interest market. Traditionally this was the only way for building societies to raise core capital and this provided investors with some of the highest yielding securities from well-recognised names.

How are PIBS taxed?

PIBS usually qualify for exemption from capital gains tax, if held by individuals are trusts. Interest is paid gross and assessed for income tax in the normal way.

Glossary of Terms

Accrued Interest - The amount of interest accumulated but not paid between the most recent interest payment and the settlement date of a transaction. For most types of bonds, gross accrued interest is added to the consideration, in which case the price is said to be 'clean'. When a bond is traded ex dividend and settlement is prior to the interest date, a rebate for negative accrued interest may be deducted from the consideration. Accrued interest is not added to the consideration of Preference shares or domestic convertibles and, in this case, the price is said to be 'dirty'.

Asset Cover - The ratio of assets covering a specific class of debt to the nominal value of that debt.

Basis Point - One one-hundredth of one percent of yield. This is the smallest unit used in measuring yields on bonds. 100 basis points are equivalent to 1%.

Bearer Bond - A bond whose benefits accrue to anyone with physical possession, i.e. Euroclear or ClearStream, as opposed to a bond registered in the owner's name.

Benchmark Bond - A bond used for comparative purposes, usually a gilt, in order to compare with non-gilts having similar features, but also to compare subsequent issues by the same issuer.

Bond - A long-term debt security with a stated interest rate and fixed dates for payment.

Bullet - A term for a bond with no call or put options. All outstanding stock is repayable on a single known maturity date.

Call Option - A feature of a bond, which gives the issuer the right to redeem the bond at a pre-determined price.

Clean Price - A price of a bond which does not include accrued interest

ClearStream – Based in Luxembourg and owned by Deutsche Börse, ClearStream is one of the two European international central securities depositaries providing post-trade services, settlement, custody as well as other related services for securities across all asset classes.

Convertibles - Bonds or preference shares which may be exchanged for another class of security, usually equity, on pre-determined terms.

Corporate Bond - Commonly used to describe a bond issued by a corporation (company). For UK tax purposes, a bond must meet certain criteria to be designated a corporate bond.

Coupon - Literally, the coupons which are detachable from bearer bonds and against which interest payments are made. The term is commonly used to refer to the rate of interest paid on a bond.

Covenant - An undertaking by an issuer contained in a trust deed constituting a bond.

Credit Rating - An assessment by an independent rating agency of the capacity of an issuer to make timely payments of interest and capital on a bond. The rating is based on an evaluation of the issuer's financial strength and stability as well as existing debt and payment history. Most Eurobonds are rated, although most domestic issues are not.

Credit Watch - A situation where a rating agency is monitoring an issuer's activities particularly closely, in the light of a recent event, which could lead to a change in the credit rating (up or down) of that issuer's securities.

Current Coupon - A coupon rate that is close to current market rates.

Current Yield - Annual interest on a bond divided by its market value, excluding accrued interest. This is the actual income rate of return as opposed to the coupon rate. Also known as Flat Yield, Running Yield and Income Yield.

Custodian - An agent, such as a broker or a bank that undertakes safekeeping of its customers' investments.

Default risk – This is defined by a bond issuer's potential inability to pay the contractual interest or principal on the bond in a timely manner or at all.

Debenture - Commonly used to describe a bond against which assets have been charged as security. Legally, it is any acknowledgment in writing of a debt due by a company.

Dirty Price - A description of a price which includes accrued interest.

Discount - The difference between a bond's redemption value and its price, where the latter is lower.

Euroclear – Based in Brussels and owned by over 20 financial institutions, Euroclear is one of the two European international central securities depositaries providing post-trade services, settlement, custody as well as other related services for securities across all asset classes.

EURIBOR - This is short for Euro Interbank Offered Rate and the Euribor rates are based on the average interest rates at which a large panel of European banks borrow funds from one another. There are different maturities ranging from one week to one year and these rates are considered to be the most important reference rates in European money markets providing the basis for pricing and interest calculation of a wide range of financial instruments.

Eurobond - A bond issued and traded in the international marketplace.

Event of Default - A circumstance in which a borrower fails to comply with an agreement on a borrowing, thereby enabling investors to call in the loan. Events may include non-payment, non-compliance with a covenant (such as a negative pledge), a cross default, insolvency or liquidation.

Ex-Dividend - Literally, "Without dividend". Signifies that a buyer of a security, ex dividend, is not entitled to the dividend or interest payment that has been declared or is due, but which has not yet been paid.

Fixed Charge - A bondholder's secured charge over specific assets of the issuing company or group.

Flat Yield - another name for current yield

Floating Charge - A bondholder's secured charge over all the assets of the issuing company or group.

Floating Rate Bonds – Bonds that pay interest at regular periods at a rate, which fluctuates in line with a specified benchmark.

Gilts - Bonds issued and guaranteed by the UK Government.

Gross Yield - A yield which has been calculated assuming no deduction for taxes due on interest or capital gains.

Income Cover – The ratio of pre-interest profits or income to the interest payable on a specific class of debt.

Index-Linked Bonds - Bonds whose interest payments and/or maturity value are linked to an index.

Inflation risk - If a bond pays a fixed coupon and inflation increases, the bondholder should expect a lower real return as the relative value of each coupon payment received is worth less.

Interest - The amount of money paid, expressed as a percentage rate per given period.

Interest Deferral – The event when an issuer chooses to defer the payment of bond interest. The trust deed contains details of the procedure for such an event.

Interest Rate Risk - Generally, there is an inverse relationship between interest rates and bond prices. As interest rates fall, bond prices tend to rise. Conversely, when interest rates rise, bond prices tend to decline.

Interest Rate Swap - An exchange between two parties of interest rate exposures, from floating to fixed rate or vice versa.

Inverted Yield Curve - A yield curve depicting short-term interest rates higher than long-term rates. Also called a negative yield curve.

LIBOR – This is short for London Interbank Offer Rate and the Libor rates are calculated by the Intercontinental Exchange and published by Refinitiv (Reuters). Libor is currently calculated for five currencies - USD, GBP, EUR, CHF and JPY - and for seven tenors in respect of each currency, Overnight/Spot Next, One Week, One Month, Two Months, Three Months, Six Months and 12 Months. Libor measures the cost of funds to large global banks operating in London financial markets or with London-based counterparties.

Liquidity risk – If bondholders intend to trade their bonds before maturity, market liquidity is an important factor if bonds are to be bought or sold quickly without affecting the price. At times of high market volatility some bonds may become difficult to trade or even illiquid and this may have an adverse effect on prices and the ability to trade freely on the public markets.

Long Bond - A common reference to the US 30-year benchmark Treasury issue.

Long Coupon - The first coupon on a newly issued bond which is payable at the end of a period longer than the interval between the remaining coupons.

Maturity - The date when the principal amount of a bond becomes due. Also referred to as the redemption date.

Negative Pledge - A guarantee given by an issuer of a bond that it will not give security for certain other issues unless it provides matching security for that bond.

Net Yield - A yield that has been calculated after taking account of income and/or capital taxes at chosen rates.

Nominal - The face value of a security.

Not Rated (NR) - An indication that a recognised rating agency has not rated a particular security.

Par - One hundred percent of the principal amount of a debt instrument.

Pari Passu - On an equal footing. The phrase particularly describes securities or debt obligations, which rank equally with each other, without preference.

Perpetual Bonds - Bonds with no final maturity date. The issuer may have the right to call such bonds.

PIBS - Permanent Interest-Bearing Shares. These are Building Society shares, listed and traded on the Stock Exchange, paying interest at regular intervals, normally in perpetuity.

Point - Used to quote securities prices. For a bond, one point equals £1 per £100 nominal. For a preference share, one point equals one penny.

Premium - The difference between a bond's redemption value and its price where the latter is higher.

Principal - Another name for Par, or Face value.

Put Option - For bonds, this refers to a feature which gives the holder the right to demand repayment before maturity at a pre-determined price.

Qualifying Corporate Bond - For tax purposes, a corporate bond which qualifies for exemption from Capital Gains Tax.

Real Interest Rate - An interest rate, which has been adjusted for inflation.

Real Return - A return that has been adjusted for inflation.

Redemption - Repayment of a debt security or preference share, at or before maturity.

Redemption Yield - A measure which facilitates comparison of bonds with different coupons and/or redemption dates. Technically, it is that rate of interest at which the total discounted values of all future payments equate to the current market value, and it takes into account both interest income and any capital gain or loss to the anticipated maturity date. When a security has split redemption dates or a call feature, if is conventional to calculate the yield to the worst case - i.e. to the first date if the bond is trading above its redemption value and to the final date if below. Also known as Yield to Maturity and may be calculated Gross or Net.

Registered Bond - A bond registered in the name of the owner or their nominee and payable only to that owner, as opposed to a bearer bond that is held by Euroclear or ClearStream.

Retail Bond - These bonds are specifically issued to comply with FCA regulatory parameters set for retail investors. They are denominated in sterling and can usually be traded in relatively small increments, typically 1,000. As with conventional bonds, retail bonds may be issued by a wide variety of issuers, are listed on the London Stock Exchange's Order Book for Retail Bonds (ORB) and can be traded during normal London Stock Exchange opening hours.

Reverse Yield Gap - The difference between the yield on long-dated gilts and the average dividend yield on UK equities.

Running Yield - another name for current yield

Secured Loan - A loan with collateral pledged in exchange for the funds.

Senior Debt – Debt which takes priority over junior or subordinated debt from the same issuer.

Settlement Date - The day on which securities must be delivered and paid for to settle a transaction.

Short Bond - A bond with less than 5 years to maturity.

SONIA - Sterling Overnight Index Average is an important interest rate benchmark administered by the Bank of England and is a risk-free rate.

Sovereign - A government issuer of bonds.

Spread - The difference between the bid and offer price (Bid-Offer spread) or the difference in yields between a bond and the relevant benchmark bond (Yield spread).

Stepped Coupon - A coupon, which increases periodically to pre-determined levels.

Straight - A fixed income security that cannot be converted into other securities.

Subordinated - A security with lower priority than other securities in the event of payment of interest or a winding-up and subsequent distribution of assets.

Supranational - An entity, which does not have one particular national identity - e.g. The European Investment Bank.

Tick - One thirty-second of a percentage point of the price of a bond. Usually, the smallest fraction used in bond trading, although short bonds may be priced in sixty-fourths of a point (half a tick) denoted by a "+" after the tick price.

Trust Deed - A formal detailed agreement between an issuer and a trustee for bondholders. It covers such items as the amount of issue, protective covenants, deferrals of interest, redemption rights, etc, and this is normally published at the time of issue.

Unsecured Loan Stock - A bond, which is not secured by a charge on assets. In practice, this term is usually used only for domestic bonds.

Value Date - The date used for calculating the accrued interest element of a transaction. This normally coincides with the settlement date.

Volatility - A measure of a bond's price movements over a given period of time, usually expressed on an annualised basis.

Yield Curve - A graph which shows the relationship between the maturities and yields of bonds of the same issuer or with similar credit ratings. An upward trend, with short-term rates lower than long-term rates, is called a positive yield curve while a downtrend is a negative or inverted yield curve.

Yield Spread – the difference in yield between a bond and its relevant benchmark bond.

Yield to Call - The yield calculated by substituting a bond's call date for final maturity.

Yield to Maturity - another name for Redemption Yield

Zero Coupon Bond - A non-interest-bearing redeemable security issued at a discount to its redemption value.

End.