

Fixed-Income Portfolio Management

CFA三级原版书课后题

讲师:

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Case: Megan Easton



- Megan Easton is a portfolio manager with Dynamo Investment Partners (Dynamo) and manages a bond portfolio that invests primarily in investment-grade corporate bonds with a limited amount of US government bonds. Easton meets with John Avelyn, a newly hired analyst, to discuss the structure and management of this investment portfolio, as well as some possible changes to the portfolio composition.

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- Easton begins the meeting by stating her belief that the credit spread is the single most important measure that investors use when selecting bonds. Among the various credit spread measures, including the G-spread, I-spread, and Z-spread, Easton prefers the G-spread.
- Easton and Avelyn next discuss credit strategy approaches. Dynamo uses a bottom-up approach that selects bonds with the best relative value from the universe of bonds with similar characteristics. Avelyn comments on the following considerations in a bottom-up approach.

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Comment 1 Callable debt has a smaller z-spread than comparable non-callable debt.

Comment 2 Benchmark corporate bond issues normally have wider spreads than older bonds of the same issuer.

Comment 3 The announcement of a new corporate bond issue often leads to an increase in the credit spread on the existing bonds.

- Dynamo is changing the bond portfolio's investment constraints so that it can invest up to 20% of the assets in high-yield corporate bonds and 20% in structured financial instruments. Easton makes the following statement about these changes:

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- Liquidity and trading issues for high-yield bonds, such as investment-grade bonds, will be a key consideration in our security selection. Although both high-yield and investment-grade bonds are quoted as spreads over benchmark government bonds, we must be aware that dealers are likely to hold larger inventories of high-yield bonds and their bid-offer spreads will be larger.
- Avelyn makes the following statements about the differences between investment-grade and high-yield bonds.

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Statement 1 When default losses are low and credit spreads are relatively tight, high-yield bonds tend to perform more like investment-grade bonds.

Statement 2 Investment-grade bonds have greater exposure to credit risk than high-yield bonds.

Statement 3 High-yield bonds have more exposure to interest rate risk than investment-grade bonds.

- Two of the structured financial instruments that Easton and Avelyn are considering for Dynamo's portfolio are collateralized debt obligations (CDOs) and covered bonds. Easton and Avelyn make the following comments about the securities.

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Easton:	If the correlation of the expected defaults on the CDO collateral of the senior and subordinated tranches is positive, the relative value of the mezzanine tranche compared with the senior and equity tranches will increase.
Avelyn:	Replacing a portion of the corporate bonds with CDOs will provide meaningful diversification to the investment portfolio.
Avelyn:	Investing in covered bonds will give us the yield increase we are seeking compared with investing in corporate bonds or asset-backed securities.

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- A benefit of Easton's preferred credit spread measure is that it:
 - A. provides a good measure of credit spread for bonds with optionality.
 - B. uses swap rates denominated in the same currency as the credit security.
 - C. reduces the potential for maturity mismatch.

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➤ Solution: C

The G-spread is the spread over an actual or interpolated benchmark (usually government) bond. A benefit of the G-spread is that when the maturity of the credit security differs from that of the benchmark bond, the yields of two government bonds can be weighted so that their weighted average maturity matches the credit security's maturity.

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- Which of the following is most likely to be used when selecting securities based on Dynamo's credit strategy approach?
- A. Macro factors
 - B. Expected excess returns
 - C. Average option-adjusted spread

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➤ **Solution: B**

Analyzing expected excess returns against the expected magnitude of the credit-related risks is key to the bottom-up approach. Once the credit universe has been divided into sectors, the investor identifies the bonds with the best relative value within each sector. If Dynamo decides that two issuers have similar credit-related risks, then it will typically compare credit spread measures and buy the bonds of the issuer with the higher spread because those bonds likely have a higher potential for excess returns. For issuers with different credit-related risk, Dynamo must decide whether the additional spread adequately compensates for the additional credit risk.

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- Which of Avelyn's comments regarding considerations in the bottom-up approach is most accurate?
- A. Comment 1
 - B. Comment 2
 - C. Comment 3

Case: Megan Easton



➤ Solution: C

When an issuer announces a new corporate bond issue, the issuer's existing bonds often decline in value and their spreads widen. This dynamic is often explained by market participants as an effect of increased supply. A related reason is that because demand is not perfectly elastic, new issues are often given a price concession to entice borrowers to buy the new bonds. This price concession may result in all of an issuer's existing bonds repricing based on the new issue's relatively wider spread. A third reason is that more debt issuance may signal an increase in an issuer's credit risk.

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- Which of Easton's statements about the liquidity and trading characteristics of high-yield and investment-grade bonds is most correct?
- A. Dealers generally hold larger inventories of high-yield bonds than investment-grade bonds.
 - B. Both high-yield and investment-grade bonds are quoted as spreads over benchmark government bonds.
 - C. The bid-offer spread of high-yield bonds is normally larger than that of investment-grade bonds with similar maturities.

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➤ Solution: C

Bid-offer spreads are larger for high-yield bonds than for investment-grade bonds of similar maturity.

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- Which of Avelyn's statements about the differences between investment-grade and high-yield bonds is accurate?
 - A. Statement 1
 - B. Statement 2
 - C. Statement 3

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- **Solution: A**

Investment-grade corporate bonds have meaningful interest rate sensitivity, and therefore, investment-grade portfolio managers usually manage their portfolio durations and yield curve exposures closely. In contrast, high-yield portfolio managers are more likely to focus on credit risk and less likely to focus on interest rate and yield curve dynamics. When default losses are low and credit spreads are relatively tight, however, high-yield bonds tend to behave more like investment-grade bonds—that is, with greater interest rate sensitivity.

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- Which comment regarding CDOs and covered bonds is accurate?
 - A. Easton's comment
 - B. Avelyn's first comment
 - C. Avelyn's second comment



➤ Solution: A

CDOs typically include some form of subordination. With subordination, a CDO has more than one bond class or tranche, including senior bond classes, mezzanine bond classes (which have credit ratings between senior and subordinated bond classes), and subordinated bond classes (often referred to as residual or equity tranches). The correlation of expected defaults on a CDO's collateral affects the relative value between the senior and subordinated tranches of the CDO. As correlations increase, the values of the mezzanine tranches usually increase relative to the values of the senior and equity tranches.

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