Fixed Income

Fixed-Income Issuance and Trading

Exam Focus

- Market segments
- Indexes
- Primary and secondary markets

Market Segments

Type of issuer

- Government, corporates

Types of market

- Mature, emerging

Credit quality

- S&P's or Moody's credit ratings

Original maturities

- Short term/intermediate term/long term

Credit Ratings

	S&P	Moody's
Investment grade	AAA AA+/AA/AA– A+/A/A– BBB+/BBB/BBB–	Aaa Aa1, Aa2, Aa3 A1, A2, A3 Baa1, Baa2, Baa3
High yield	BB+/BB/BB– B+/B/B– CCC+/CCC/CCC– CC+/CC/CC– C+/C/C– D	Ba1, Ba2, Ba3 B1, B2, B3 Caa1, Caa2, Caa3 Ca C

Where Do Different FI Securities Sit?

	< 1 year	1year–10 years	> 10 years
Risk free	Treasury bills	Treasury notes	Treasury bonds
Investment grade	Repo commercial paper ABCP	Unsecured corporate bonds ABS	Unsecured corporate bonds MBS
High yield		Secured corporate bonds Leveraged loans	

Source: CFA Institute. Used with permission.

Market Segments—Investor Positioning

Investor	Position
Financial intermediaries Central banks	Range of maturities Risk free
Pension funds Insurance companies	Long term Risk free/investment grade
Money market funds	Short term Risk free/investment grade
Corporate issuers	Short term Investment grade
Bond funds ETFs	Intermediate term Investment grade
Asset managers Hedge funds Distressed debt funds	Intermediate term Gradually moving from investment grade to high yield

Source: CFA Institute. Used with permission.

Fixed-Income Investors: Example

A fixed-income mutual fund that is required to invest in only investment-grade bonds would *most likely* invest in:

A. B rated bonds.

B. BB+ rated bonds.

C. BBB– rated bonds.

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Source: CFA Institute. Used with permission.

Fixed-Income Issuers: Example

A corporate issuer seeking to fund working capital needs would *most likely* issue:

A. commercial paper.

B. intermediate-term debt.

C. long-term debt.

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Source: CFA Institute. Used with permission.

Fixed-Income Indexes

Aggregate indexes

- Bloomberg Barclays Aggregate Index

Narrower focus

- JP Morgan Emerging Markets Bond Index Plus

Incorporating ESG factors

- Bloomberg Barclays MSCI Euro Corporate Sustainable SRI Index

Fixed-Income Indexes: Example

Relative to equity indexes, fixed-income indexes exhibit more turnover due to:

A. annual rebalancing.

B. the finite maturity of bonds.

C. the lower frequency of new issues.

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Source: CFA Institute. Used with permission.

Primary and Secondary Markets

Primary—newly issued bonds, public/private sales

- Underwritten offering/best-efforts offering
- Shelf registration
- Auctions (government bonds)

Secondary—previously issued bonds, some trading platforms but largely OTC

- Bid/offer prices

Fixed-Income Markets: Example

A bond issuance by a company after it has reached a more mature stage of the life cycle with more predictable cash flows would be *best* considered a:

A. private placement.

B. primary fixed-income market transaction.

C. secondary fixed-income market transaction.

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Solutions

Fixed-Income Investors: Example

A fixed-income mutual fund that is required to invest in only investment-grade bonds would *most likely* invest in:

A. B rated bonds.

B. BB+ rated bonds.

C. BBB– rated bonds.

Both B and BB+ rated bonds are considered high-yield bonds.
A BBB– rated bond is considered the lowest investment-grade bond.

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Source: CFA Institute. Used with permission.

Fixed-Income Issuers: Example

A corporate issuer seeking to fund working capital needs would *most likely* issue:

A. commercial paper.

B. intermediate-term debt.

C. long-term debt.

A corporate issuer would use commercial paper to meet its short-term or seasonal working capital needs, intermediate-term debt to cover more medium-term investments, and long-term debt or equity to match the longer useful life of capital investments.

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Source: CFA Institute. Used with permission.

Fixed-Income Indexes: Example

Relative to equity indexes, fixed-income indexes exhibit more turnover due to:

A. annual rebalancing.

B. the finite maturity of bonds.

C. the lower frequency of new issues.

The finite maturity of bonds and the higher frequency of new issuance leads to far more turnover in fixed-income indexes than in equity indexes. Bond indexes are usually rebalanced each month to both add new issues and remove those that fall below a minimum maturity.

Source: CFA Institute. Used with permission.

Fixed-Income Markets: Example

A bond issuance by a company after it has reached a more mature stage of the life cycle with more predictable cash flows would be *best* considered a:

A. private placement.

B. primary fixed-income market transaction.

C. secondary fixed-income market transaction.

Primary bond markets are markets in which an issuer sells a new bond or bonds to investors to raise capital. Secondary bond markets are markets in which existing bonds are traded among investors. Bonds can be sold via a private placement, in which only a selected investor or group of investors may buy the bonds.

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