

Brandeis Investment Club

Fixed Income Securities

03.26.2025

Brandeis
Investment
Club



Today's Agenda

1. **Fixed income securities**
 - a. Sovereign bonds
 - b. Corporate bonds
 - c. Municipal bonds
 - d. ABS
 - e. Derivatives
2. Researching a bond on Bloomberg
3. Resources
4. Groupwork!



Sign-up for Trading Competition:

<https://www.investopedia.com/simulator/portfolio>

Game Name: Brandeis Investment Club

Password: BrandeisIsCool



What is a fixed income security?

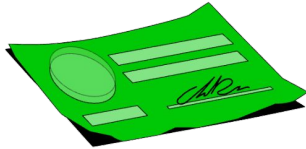
- ❖ Receive coupon + principal
- ❖ Fixed **stream of payments** through time
- ❖ Issued by **governments** (sovereign, local), **corporations**, and other **entities**
- ❖ Importance: used for high quality, less risk, high liquidity, and **diversification** to portfolio
 - Note: can vary like an EM corporate bond riskier than a G10 corporate bond
 - HY riskier than IG bonds

Example: 3 year bond payment a fixed coupon rate



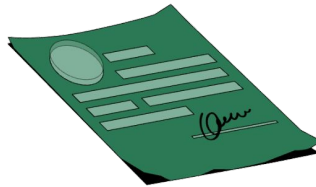
Type 1: Sovereign Bonds

- ❖ **Issued by national governments.**
- ❖ **Examples:** U.S. Treasury Bonds, U.K. Gilts, German Bunds.
- ❖ **Risk Factors:** Inflation, interest rates, creditworthiness of the government.
- ❖ U.S. Treasury Securities: T-bills (short-term), T-notes (medium-term), T-bonds (long-term), TIPS (inflation-protected).



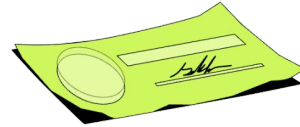
Treasury Bills

Issued in terms ranging from a few days to 52 weeks



Treasury Notes

Issued in terms of 2, 3, 5, 7, or 10 years



Treasury Bonds

Issued in terms of 20 years or 30 years



Type 2: Corporate Bonds

- ❖ Issued by **corporation** to raise capital.
- ❖ **Types:** Investment-grade vs. high-yield (speculative/junk) bonds.
- ❖ **Credit Ratings:** Assigned by Moody's, S&P, and Fitch.
- ❖ **Key Metrics:** Credit spread, default risk, covenants.

Investment
Grade

Speculative
Grade

Credit Ratings		
S&P	Moody's	Fitch
AAA	Aaa	AAA
AA	Aa	AA
A	A	A
BBB	Baa	BBB
BB	Ba	BB
B	B	B
CCC	Caa	CCC
CC	Ca	CC
C	C	C
D	D	D

Credit Risk



Type 3: Municipal Bonds

- ❖ Issued by state and local governments.
- ❖ **General Obligation Bonds:**
 - Backed by the issuer's credit and taxing power.
- ❖ **Revenue Bonds:**
 - Backed by specific project revenues (e.g., toll roads, stadiums).
- ❖ **Tax Advantage:**
 - Often tax-exempt at **federal** and sometimes **state** levels (if issued same state).



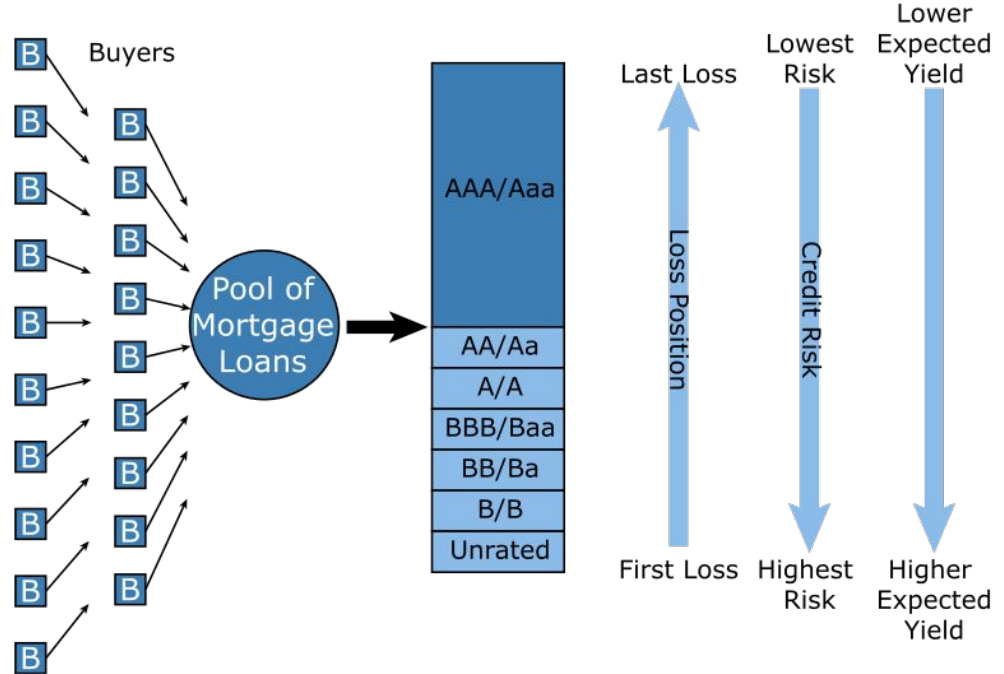
Napkin Finance



Type 4: ABS

- ❖ Pools of loans packaged into tradable securities.
- ❖ Examples:
 - Mortgage-Backed Securities (MBS)
 - CMBS
 - RMBS
 - Auto Loan ABS
 - Credit Card ABS.
- ❖ Risk Considerations:
Prepayment risk, default risk, interest rate risk.

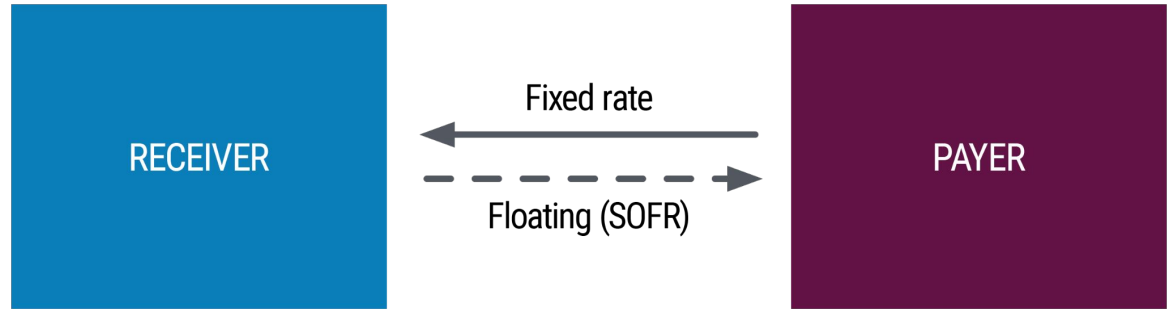
Different Risk and Return for Different Investors



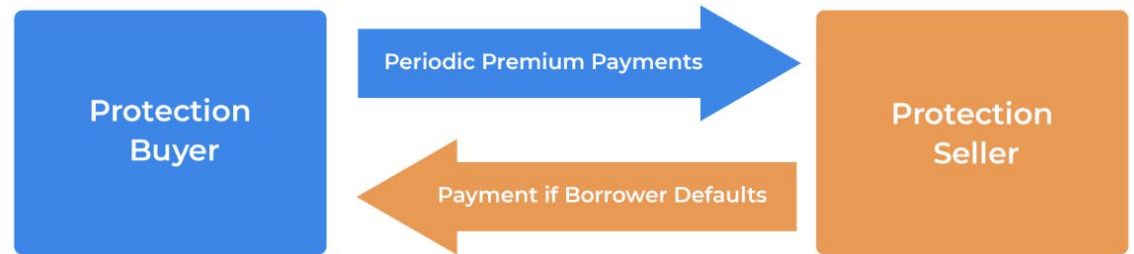
Type 5: Derivatives

- ❖ **Interest Rate Swaps:** Exchange fixed interest payments for floating rates.
- ❖ **Bond Futures:** Contracts to buy/sell bonds at a future date.
- ❖ **Credit Default Swaps (CDS):** Insurance against default risk.
- ❖ **Options on Bonds:** Calls and puts on fixed income instruments.

Interest Rate Swap (IRS)



Credit Default Swap (CDS)



Bloomberg Explore Bonds

1. **US treasury yield curve**
2. **Give me a company (ticker + Corp <GO>)**



Common Bond Functions

DES <GO>

YAS <GO>

FIW <GO>

BVAL <GO>

FIRS <GO>

GP <GO>

NI CREDIT <GO>

CRVD <GO>



Questions?



Resources

- ❖ <https://www.schwab.com/fixed-income>
- ❖ <https://corporatefinanceinstitute.com/resources/fixed-income/fixed-income-securities/>
- ❖ <https://www.merrilledge.com/investor-education/understanding-bonds>

