A

Accrued interest

The interest received from a bond's last interest payment date up to the current or settlement date. It is paid by the buyer of the bond to the seller of the bond.

Agency/GSE

Agency bonds are issued by official US government bodies, while government sponsored entity (GSE) bonds are offered by lenders created by the US government such as Fannie Mae and Freddie Mac.

Asset backed bond

Bonds backed by assets, such as credit card receivables, auto loans, manufactured-housing contracts and home-equity loans.

B

Basis point

One one-hundredth (1/100 or 0.01) of one percent and used to express the yield of a bond.

Bid price

The price a buyer or market maker of a bond is willing to pay to purchase a bond.

Bloomberg

Bloomberg is a financial software, data, and media company that provides 24-hour financial news, information, and price data.

Bond rating

Bond ratings refer to the assessment from a credit rating agency such as Standard & Poor's (S&P) and Moody's Investors Service, on the credit risk of a bond. Only the top few tiers are considered investment-grade bonds, and the rest are known as junk bonds.

C

Call feature

A feature of a bond that specifies if and when it can be redeemed before the maturity date.

Callable bond

A bond that may be redeemed by the issuer before the scheduled maturity date.

Convertible bond

A bond that allows the holder to exchange the bond for a specified number of shares of a different security, which is usually an equity, and typically issued by the same company that issued the bond.

Convexity

Convexity measures the sensitivity of the bond's duration to change it's yield. Mathematically, convexity is the second derivative of the formula for change in bond prices with a change in interest rates and a first derivative of the duration equation.

Corporate bond

A debt security issued by a private corporation or company.

Coupon rate

The interest rate a bond's issuer promises to pay to the bond investor until maturity, generally expressed as an annual percentage of the bond's par value. For example, a bond with an 8% coupon will pay $80 per $1,000 of the bond's par value per year.

Coupon frequency

The frequency with which a bond pays interest (e.g. quarterly, semi-annually, yearly).

Credit quality

An assessment the creditworthiness, or risk of default, of a bond. It is usually given as a rating provided by one of the credit ratings agencies.

Credit risk

The risk that the issuer of a bond may not be able to make a regularly scheduled coupon payment or repay the par value at maturity.

Credit spread

The spread between government bonds and non-government bonds that are the same in all respects except for credit rating.

Current yield

The return on a bond, calculated by dividing the annual interest on the bond by the amount paid for the bond.

CUSIP

The nine-character alphanumeric identifier used to identify a US or Canadian bond.

D

Default

If a bond issuer fails to make a coupon payment or par value repayment on its bonds as they come due, that bond is said to be in default. Credit ratings agencies such as Moody's and S&P rate bonds to indicate the issuer's credit quality.

Discount

The amount below the par value when a bond is traded. If a bond's par value is $1,000 and it sells for $950, it was sold at a discount of $50.

D

Discount factor

A decimal number that when multiplied by a future cash flow value discounts that future cash flow back to it's present value.

Downgrade

A downgrade by a rating agency lowers the credit rating of that bond, signalling a perceived increase in credit risk.

Duration

A measure of the sensitivity of the price of a bond to a change in interest rates.

DV01

Stands for Dollar Value of a basis point and measures how much the price of a bond will change by for a 1 basis point (0.01%) change in yield.

E

Exchangeable bond

A bond that can be redeemed for cash or for the shares of a company other than the issuer.

F

Face value

The stated value of a bond at maturity.

Floating rate note (FRN)

A bond whose coupon rate is tied to an interest rate benchmark rate such as LIBOR. This means the coupon rate on an FRN is variable. It is quoted as a fixed spread above the current reference rate e.g. LIBOR + 125 basis points.

G

Government bond

A debt security issued by a government. Amongst the largest issuers are the United States (Treasuries), Japan (JGBs), United Kingdom (Gilts), Germany (Bunds) and France (OATs).

H

High yield bonds

Bonds with a credit rating lower than 'BBB -' (using Fitch and S&P ratings) or 'Baa3' (using Moody's ratings) are classified as high yield bonds. High yield bonds have a relatively high credit risk but compensate investors with higher returns. They are also sometimes called junk bonds.

I

Indenture

A contract that explains the various terms and conditions of a bond.

Index linked bond

A bond whose par value and coupon is linked to an inflation index. The index is typically either the Consumers Price Index (CPI) or Retail Price Index (RPI). Inflation risk can be a major risk of a bond due to the fact some bonds are long term investments (e.g. 50 years). If inflation is high over the life of the bond, the value of the bond and it's coupons increases.

Interest

The amount paid by the issuer of a bond to the investor of a bond in return for borrowing the amount represented by the bond.

Investment grade bond

Bonds with a credit rating of at least 'BBB -' (using Fitch and S&P ratings) or 'Baa3' (using Moody's ratings) are classed as investment grade bonds. These bonds have relatively low credit risk but tend to offer investors lower returns as a consequence.

Issue price

The price paid for bonds purchased directly from the issuer in the primary market.

Issuer

A government, corporation, supranational, municipality, or agency that has issued a bond in order to raise debt capital.

J

Junk bond

A slang term for high yield bonds.

K

-

L

London Interbank Offered Rate (LIBOR)

LIBOR refers to the interest rate that UK banks charge other financial institutions for lending a range of different currencies. LIBOR is commonly used as a benchmark rate for prices of securities such as floating rate notes (FRNs) and interest rate swaps.

M

Macaulay Duration

The Macaulay Duration calculates the weighted average time before a bond investor would receive the bond's future cash flows.

M

Maturity date

The date on which the par value of a bond is scheduled to be repaid to the bond investor, along with the final coupon payment.

Moody's

An independent credit rating agency that assesses credit risk and assigns credit ratings to debt instruments to help investors assess credit risk.

N

N Note

A medium-term bond normally with an maturity of between 2 and 10 years.

O

Offer price

The price at which a seller of a bond is willing to accept to sell their bond.

Over-the-counter (OTC)

Over-the-counter (OTC) is the trading of securities such as bonds between two counterparties executed outside of formal exchanges and without the supervision of an exchange regulator. This is done via market makers or dealer networks.

P

Par value

The value of a bond at maturity.

Payment schedule

The frequency with which a bond pays coupons, usually either monthly, quarterly, semi-annually, or annually.

Pension funds

A large institutional investor manages pension funds for the investment of an employee's retirement savings. Pension funds are major fixed income investors.

Premium

The amount above the par value when a bond is traded. For example, if a bond's face value is $1,000 and it sells for $1,050, it was sold at a premium of $50.

Pricing date

For a newly issued bond, the date on which the price was set. This may be above or below the par value based on the demand for the bond.

Puttable bond

Gives the holder the right but not the obligation to enforce that an issuer to repurchase the bond from them, typically on pre-determined dates. The investor will exercise their right in order to purchase a higher coupon bond with the proceeds received from the puttable bond.

Q

-

R

Reinvestment risk

The risk that coupons or the par value received from a bond will have to be reinvested at a subsequently lower rate.

S

Secondary market

A market where bonds (and other securities) are traded between investors after they have been issued in the primary market. Secondary market activity generally takes place on a major exchange, such as the NYSE, or on electronic communications networks (ECNs).

Sector

Refers to the part of the economy from which a corporate bond issuer primarily operates in. Examples are the oil and gas, financial or industrial sector. Within each sector are industry groups. For example, insurance would be an industry group within the financial sector.

Settlement date

The date on which a bond has to be delivered by the seller to the buyer in exchange for funds. This differs for different types of bonds. For US Treasuries settlement is Trade date + 1 day, or T+1, while settlement for US corporates is T+3.

Sovereign debt

Another name for government bonds.

Sovereign Wealth Fund

Sovereign Wealth Funds have become very large investors in the bond markets over recent years and are state-owned investment funds used to benefit the country's economy and citizens.

Standard and Poor's Corporation

A company well known for issuing credit ratings, but also involved in the publication of indices, investment research and risk evaluations and solutions.

Strip

The process of removing coupons from a bond and then selling them separately as a zero-coupon bond.

S

Supranational

International organizations or groups that operate beyond national boundaries and whose membership is made up of a multi country base. The International Bank for Reconstruction and Development (the World Bank) is a supranational. Supranational issue bonds as a way to finance their objectives.

T

Time value of money

The time value of money is the concept that money today is worth more than an equivalent amount in the future, because you can invest it to make more money. Time value of money is dependent on the time interval being the present and receiving the future cash flow, and the discount rate used in calculating current or future values.

Treasuries

Bonds issued by the US government, issued regularly and with various maturities. Since Treasury bonds are backed by the full faith and credit of the US government, they are considered to be free from credit risk, and therefore offer investors relatively low returns. The various types of Treasuries are bills, notes, bonds, Floating Rate Notes (FRNs), and Treasury Inflation-Protected Securities (TIPS).

Treasury auctions

The US Treasury sells bills, notes, bonds, Floating Rate Notes (FRNs), and Treasury Inflation-Protected Securities (TIPS) to institutional and individual investors through public auctions. Treasury auctions occur regularly and have a set schedule. There are three steps to an auction: announcement of the auction, bidding, and issuance of the purchased securities.

Treasury Bills (T-bills)

Zero coupon bonds issued by the US government with a maturity of one year or less.

Treasury Inflation Protected Securities (TIPS)

An inflation linked bond issued by the US government. The inflation component, affecting principal, is based on the Consumer Price Index (CPI), adjusting it upwards for inflation or downwards for deflation.

U

-

V

Volatility

A measure of the variability in the returns of a security, such as a bond or equity.

W

Workout date

The date a callable bond will mature if it is not called.

X

-

Y

Yield

The return, expressed as an annual percentage rate, an investor receives. It can be based either on the amount originally invested or on the current market value of the bond. There are a number of different yield measures used in the fixed income markets.

Yield curves

A graphical representation of the interest rates for a type of bond for a range of maturities. It shows the yield an investor is expecting to earn if they lend money by investing in bonds for a given period of time. The graph displays a bond's yield to maturity on the vertical axis and the time to maturity across the horizontal axis. The curve may take different shapes at different points in the economic cycle, but it is typically upward sloping - this is referred to as a normal yield curve.

Yield to call

The expected yield to maturity of a callable bond if it is called on a pre-determined call date.

Yield to maturity (YTM)

The rate of return an investor receives if a bond is purchased at its current market price and is held to the maturity date.

Yield to worst

The lowest potential yield that can be received on a bond, without considering the situation where the bond issuer actually defaults. The yield to worst therefore enables investors to manage risks and ensure that specific income requirements will still be met even in the worst scenarios.

Z

Zero coupon bond

A bond that is issued at a discount and that has no coupon payments, and is redeemed at the bond's par value.