

# STUDY SESSION

# 8

## Fixed-Income Portfolio Management (2)

**T**his study session covers yield curve and credit strategies for fixed-income portfolios. Fundamental concepts necessary for understanding yield curves and yield curve strategies are reviewed. Portfolio management strategies, which are based on the investor's expectations regarding the level, slope, and curvature of the yield curve, are presented. Strategies used to construct and manage fixed-income credit portfolios follow. Coverage includes various credit spread measures, bottom-up and top-down approaches to credit strategies, and credit-related risks.

### READING ASSIGNMENTS

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| <b>Reading 20</b> | Yield Curve Strategies<br>by Robert W. Kopprasch, PhD, CFA, and Steven V. Mann,<br>PhD              |
| <b>Reading 21</b> | Fixed-Income Active Management: Credit Strategies<br>by Campe Goodman, CFA, and Oleg Melentyev, CFA |

### LEARNING OUTCOMES

#### READING 20. YIELD CURVE STRATEGIES

The candidate should be able to:

- a** describe major types of yield curve strategies;
- b** explain how to execute a carry trade;
- c** explain why and how a fixed-income portfolio manager might choose to alter portfolio convexity;
- d** formulate a portfolio positioning strategy given forward interest rates and an interest rate view;

- e** explain how derivatives may be used to implement yield curve strategies;
- f** evaluate a portfolio's sensitivity to a change in curve slope using key rate durations of the portfolio and its benchmark;
- g** discuss inter-market curve strategies;
- h** construct a duration-neutral government bond portfolio to profit from a change in yield curve curvature;
- i** evaluate the expected return and risks of a yield curve strategy.

## **READING 21. FIXED-INCOME ACTIVE MANAGEMENT: CREDIT STRATEGIES**

The candidate should be able to:

- a** describe risk considerations in investment-grade and high-yield corporate bond portfolios;
- b** compare the use of credit spread measures in portfolio construction;
- c** discuss bottom-up approaches to credit strategies;
- d** discuss top-down approaches to credit strategies;
- e** discuss liquidity risk in credit markets and how liquidity risk can be managed in a credit portfolio;
- f** describe how to assess and manage tail risk in credit portfolios;
- g** discuss considerations in constructing and managing portfolios across international credit markets;
- h** describe the use of structured financial instruments as an alternative to corporate bonds in credit portfolios.