STUDY SESSION

6

Fixed-Income Portfolio Management (2)

This 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

Reading 13	Yield Curve Strategies by Robert W. Kopprasch, PhD, CFA, and Steven V. Mann, PhD
Reading 14	Fixed-Income Active Management: Credit Strategies by Campe Goodman, CFA, and Oleg Melentyev, CFA

LEARNING OUTCOMES

READING 13. YIELD CURVE STRATEGIES

The candidate should be able to:

a describe the factors affecting fixed-income portfolio returns due to a change in benchmark yields;

b formulate a portfolio positioning strategy given forward interest rates and an interest rate view that coincides with the market view;

c formulate a portfolio positioning strategy given forward interest rates and an interest rate view that diverges from the market view in terms of rate level, slope, and shape;

d formulate a portfolio positioning strategy based upon expected changes in interest rate volatility;

e evaluate a portfolio's sensitivity using key rate durations of the portfolio and its benchmark;

f discuss yield curve strategies across currencies;

g evaluate the expected return and risks of a yield curve strategy.

READING 14. FIXED-INCOME ACTIVE MANAGEMENT: CREDIT STRATEGIES

The candidate should be able to:

a describe risk considerations for spread-based fixed-income portfolios;

b discuss the advantages and disadvantages of credit spread measures for spread-based fixed-income portfolios, and explain why option-adjusted spread is considered the most appropriate measure;

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 the use of credit default swap strategies in active fixed-income portfolio management;

h discuss various portfolio positioning strategies that managers can use to implement a specific credit spread view;

i discuss considerations in constructing and managing portfolios across international credit markets;

j describe the use of structured financial instruments as an alternative to corporate bonds in credit portfolios;

k describe key inputs, outputs, and considerations in using analytical tools to manage fixed-income portfolios.