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Fixed-Income Portfolio Management (2)

Study Session 11 builds on the fundamentals of fixed-income portfolio management to address international and emerging market strategies and the use of derivatives to manage interest rate and credit risks.

READING ASSIGNMENTS

LEARNING OUTCOMES

READING 22. FIXED-INCOME PORTFOLIO MANAGEMENT—PART II

The candidate should be able to:

a evaluate the effect of leverage on portfolio duration and investment returns;

b discuss the use of repurchase agreements (repos) to finance bond purchases and the factors that affect the repo rate;

c critique the use of standard deviation, target semivariance, shortfall risk, and value at risk as measures of fixed-income portfolio risk;

d demonstrate the advantages of using futures instead of cash market instruments to alter portfolio risk;

e formulate and evaluate an immunization strategy based on interest rate futures;

f explain the use of interest rate swaps and options to alter portfolio cash flows and exposure to interest rate risk;

g compare default risk, credit spread risk, and downgrade risk and demonstrate the use of credit derivative instruments to address each risk in the context of a fixed-income portfolio;

h explain the potential sources of excess return for an international bond portfolio;

i evaluate 1) the change in value for a foreign bond when domestic interest rates change and 2) the bond's contribution to duration in a domestic portfolio, given the duration of the foreign bond and the country beta;

j recommend and justify whether to hedge or not hedge currency risk in an international bond investment;

k describe how breakeven spread analysis can be used to evaluate the risk in seeking yield advantages across international bond markets;

l discuss the advantages and risks of investing in emerging market debt;

m discuss the criteria for selecting a fixed-income manager.