PENHALLOW ASSOCIATES LIMITED

A Financial Knowledge Company

# F.I. in a QE World

**Virtual Learning: Duration 6 Hours, 2 Periods over 2 Days,**

**Course Price: £580**

***22.6.21 (13:00-16:00), 23.6.21 (9:00:12:00)***

**Location: (UK) Virtual Learning Live Environment via Video Communication.**

***To book, or, require more information. Please contact Alan Penhallow;e-mail:alan@tflonline.co.uk***

***Mobile: +44 (0) 7712086934***

***This programme may be of interest to your colleagues.***

***www.penassco.co.uk***

**Course overview**

Knowledge of the fixed income or bond markets is essential to understanding financial markets. This course delivers a comprehensive and practical introduction to the bond markets, from the basics of what a bond is to some trading strategies. It is focused throughout on current market practice with many actual and recent examples in the material and exercises.

**Existing knowledge**

None required.

**Key learning objectives**

To understand:

- The key features of a 'straight' bond
- Who issues and who buys bonds and why
- How yield is calculated
- How investors determine yield levels by trying to gauge their riskiness
- How yield curves are created and interpreted
- The different methods by which bonds are priced and issued
- What the repo market is and why it is so important
- What duration is, PV01 as a key metric and its applications
- Convexity and its applications
- The range of bond types and their respective risks – Floating Rate Notes, inflation-linked etc

## Agenda

**Session One - Fundamentals**

- The size and importance of the bond markets
- What is a bond? The main ways of classifying bonds – structure (e.g. straights), issuer type (government or not), market type (domestic or Eurobond/International)
- The key features of 'straights'
- What are the main issuer and investor types? How do their motivations and preferences vary?
- The main government bond markets and why they are benchmarks for the financial markets
- How return is measured: yield and two ways of calculating it and the resulting price-yield relationship, estimating yield from price and coupon
- How the market tries to estimate the fair yield of a given bond: what risks are involved and how significant are they? Are developed world government bonds really 'risk-free'? Key metrics of government credit-worthiness. The distinction between the Eurozone countries and own-currency governments.
- How yield curves are constructed, their various shapes and what they may mean, how they change slope and level and why, the importance of the Central bank base rate and changes to it, benchmark and off-the-run issues and some trading strategies: carry, curve and on v off the run
- Semi-annual and annual yield conventions, when it is necessary to convert between them and how

**Session Two – Primary and secondary markets**

- The differences between domestic and Eurobond/International bond markets, Globals and Foreign bonds, private placements and global issues, Medium Term Note programmes (MTNs) and multi-tranche issues
- How the two main issuance methods work: government bond auctions and syndicated issues and their risks
- Credit ratings and the various methods of pricing non-government bonds – against governments, swaps (asset swaps – in outline), CDSs (in brief)
- Some key covenants of non-government bonds and their efficacy, eg Change of Control

**Session Three – Some technical matters**

- Accrued interest, clean and dirty prices, and the different day count conventions
- What repo is and its main applications
- The Central Bank's target interest rate and how it uses repo to manage it
- Quantifying interest rate risk: duration – what PV01/PVBP is, how it varies with maturity and coupon etc
- Duration applications: hedging
- The limitations of duration: convexity, why and for whom is it positive or negative and its applications
- *Optional: zero coupon bond valuation – the limitations of yield to maturity, how and why zero coupon valuation is done*

**Session Four – Other bond types**

- The various other bond types, their pros and cons for investors and issuers (in brief):
  - High Yield bonds
  - Floating Rate Notes (FRNs)
  - Inflation-linked bonds and the break-even inflation rate
  - AT1, Subordinated and Hybrid capital bonds for banks, insurers and corporates
  - Covered bonds
  - Asset-Backed Securities (ABS), eg Residential Mortgage-Backed Securities (RMBS)
  - Convertibles
  - Structured bonds – bonds with non-vanilla return profiles such as stock market-linked bonds
  - Islamic - sharia-compliant issues

## Trainer Profile

### Mike Stafferton

Mike has over eight years' in-house experience in Derivatives and Origination with what was a top Japanese Securities house and over 16 years' experience as an independent consultant in the capital markets and related areas. He has a particular focus on Securitisation and Basel/CRD. He is also an Associate of Moody's.