Bonds

coupon rate — coupon payments per year
principal

Ex. 4% Treasury with $1000 principal and coupon payments 2x a year
$40 in coupon payments a year $20 in June
and $20 in Dec.

yield/interest rate — the rate (compounded annually)
used to do the NPV calculation

current value of bond = NPV of future coupon
and principal payments discounted at the yield rate

typically
- coupon payments are fixed
- coupons paid 1x, 2x, or 4x a year
- maturities, 1mo, 2mo, 3mo, 6mo, 1y, 2y, 5y, 10y, 30y

yield curve

(yield)

$m, 2m, 5m$

(yield)

$m, 2m, 5m$

(yield)

$m, 2m, 5m$

yield depends on maturity (length of the loan)
- govt/corporation issuing the bond
how likely are they to bankrupt?

yield ↑ leads to bond value (or NPV) ↓

5y duration means 1% increase in yield leads to -5% value of bond