Bonds

Student’s Name

University Affiliation

**Bonds**

The security bond is the bond that currently has the highest yield. Fidelity Capital and Income Fund is the company that presently has the highest yield bonds. The company emphasis on lower-quality debt securities. The leading reason why the company's bond is the highest yield is that the bond has a lower duration. Usually, the lower the period, the higher the yield f a bond (Schmidt & Tay, 2014). Fidelity Capital and Income Fund's bond pays an annual yield of 4.01 %, which is relatively higher than other company's return. In most occasions, companies that have a lower duration on their securities pay a higher yield than securities of a longer period.

**Calculation of maturity of the bonds**

Bond spread = Yield Time Maturity corporate bond - Yield Time Maturity Treasury bond

Yield to maturity (YTM) = [(Face value / Present value) 1/Time period]-1

Yield Time Maturity corporate bond = [(79 /100) 1/9]-1

Yield Time Maturity corporate bond = 0.025

Yield Time Maturity Treasury bond = [(1.32 /100) 1/10]-1

Yield Time Maturity Treasury bond = 0.028

Bond spread = 0.028 – 0.025

**Bond spread = 0.003 %**

The bond spread is used by investors to gauge the cost of a bond. In case investors realize that a certain bond is expensive, no investor can consider investing in that bond. And if the bond spread is cheap, more investor will choose to invest in the bond because it will generate relatively high yield (Schmidt & Tay, 2014). As such, investors need to consider the bond spread to know whether the bond is cheaper or expensive to invest.

Among the two bonds, the Treasury bond has the highest price. The primary reason why the bond has the highest price is that its interest value is high. Usually, the price of a bond is determined by the interest rate value (Schmidt & Tay, 2014). In case the interest rate value is high, the cost of the bond also rises. Similarly, the interest of the Treasury bond is high; thus, its price value is also rose.

Treasury bond is a government debt security that is issued to the public, and it earns interest until its maturity. The owner of Treasury bond is paid interest based on the principal amount. The yield and price of such bonds depend on the interest rates paid. Also, the price depends on the maturity of the bond (Schmidt & Tay, 2014). Typically, the lower the maturity of a bond, the higher the yield. Similarly, in this case, the Treasury bond has a higher return because its duration to maturity is lower than that of the corporate bond.

On the other hand the corporate bond has the lowest prices. In most instances, if the interest rate of a bond is low, its price also goes down (Schmidt & Tay, 2014). As such, the low price of the corporate bond indicates that its interest rate is relatively low compared to that of the Treasury bond.

Corporate bond is debt security that is issued by the corporation to investors. The yield of corporate bonds depends on the interest rates paid. Correspondingly, the price depends on the maturity of the bond. Typically, the lower the maturity of a bond, the higher the yield (Schmidt & Tay, 2014). Equally, in this case, the corporate bond has a lower return because its duration to maturity is higher than that of the Treasury bond.

References

Nguyen, T. (2012). *Investing in the high yield municipal market: How to profit from the current municipal credit crisis and earn attractive tax-exempt interest income*. Hoboken, N.J: Wiley.

Schmidt, F. H. A., & Tay, S. (2014). *A guide to Asian high yield bonds: Financing growth enterprises*.