

Bond Categories

A man and a woman appear in front of a screen with charts and investment prices on it and the word Bonds in front. The following text appears at the bottom of the screen and stays there throughout the video: Bonds are sensitive to increases in interest rates. When interest rates rise, the prices of existing bonds with lower interest rates typically will fall. If bonds are sold before maturity during a period of rising rates, investors could lose money. Bonds also have credit risk, which is the possibility that the bond's issuer won't be able to pay interest when due or repay the investor's principal when the bond matures.

Woman: "Not all bonds are alike."

Man: "It's important to understand their differences in order to select the bonds that are most appropriate for your needs."

Woman: "For starters, they can be divided into four main categories."

Man: "Each with unique features, depending on the issuer."

The woman walks across the stage, and the screen shows pictures of the Capitol Building and the U.S. Treasury. The words Treasury Bonds appear at the bottom.

Woman: "Bonds issued by the United States Treasury form the foundation of the entire bond market. The Treasury is the largest issuer of bonds in the nation. And historically, it has paid off all of its bonds in full and on time since the founding of the republic."

The scene focuses on the man standing in front of screens showing pictures of a couple reviewing building plans, a family standing in front of a house with a Sold sign, and houses under construction. The words Mortgage Bonds appear at the bottom.

Man: "Mortgage bonds make up the largest broad category of bond investments. Most mortgage bonds represent the debt of individual homeowners. And many offer payments to investors that are guaranteed by federal agencies or private insurers. But unlike other common bond types, mortgage bonds can be easily called or retired ahead of schedule, which means you may need to manage them more actively."

The scene focuses on the woman standing in front of screens showing pictures of an automobile assembly line, office buildings, an automated factory, and two businesspeople shaking hands. The words Corporate Bonds appear at the bottom.

Woman: "The next largest category of bonds is corporate debt, or bonds issued by private businesses to finance their operations. Corporate debt that's rated investment grade has historically shown little risk of default but generally offers lower returns. Bonds rated as speculative or high yield offer higher returns, but they carry greater risk of loss."

Both the man and the woman appear standing in front of screens showing pictures of school buses, a classroom, a garbage truck, a fire engine, a highway interchange, and a hydroelectric dam. The words Municipal Bonds appear at the bottom.

Man: “State and local governments and their agencies make up what is known as the municipal bond sector. Interest paid on most municipal bonds is exempt from federal income tax and may be state tax exempt as well.”

Woman: “In addition to these four categories, keep in mind that there are many other types of bonds that may offer good opportunities for you.”

Man: “So make sure to evaluate your alternatives before investing.”

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