What is fixed income investing?

The role of fixed income securities in balanced investment portfolios

'Fixed income' is a broad asset class that includes government bonds, municipal bonds, corporate bonds, and asset-backed securities such as mortgage-backed bonds. They're called 'fixed income' because these assets provide a return in the form of fixed periodic payments.

In general terms, fixed income investing can potentially provide investors with benefits such as assets with a focus on capital preservation, income generation and diversification.

Fixed income comes in many forms

Historically investors had a limited choice of fixed income securities; most were government bonds. Over the past 20 years there has been a significant increase in the types of fixed income investments on the market.

Fixed income investments and their relative risk levels:

Type	Government
Description	Government bonds are also known as Sovereigns and Treasuries. Governments issue bonds to pay for government activities and pay off their debt obligations.
Risk Profile	Low to moderate risk, depending on term length (1 year Government bonds typically have the lowest risk)

Type	Semi Government or Agency
Description	Government agencies issue bonds to support their mandates, typically to ensure that various constituencies have access to sufficient credit at affordable rates.
Risk Profile	Moderate risk

Type	Corporate
Description	Corporate bonds are also referred to as credit. Corporations issue bonds to expand, modernise, cover expenses and finance other activities.
Risk Profile	Moderate to high risk

Type	Asset-backed
Description	Banks and other lending institutions pool assets, such as mortgages, and offer them as security to investors. This raises money so the institutions can offer more mortgages.
Risk Profile	Moderate to high risk

Type	High-yield debt
Description	High-yield debt (high-yield bonds), are fixed income securities that are described by investment ratings agencies as ‘below investment grade'. They are usually issued by corporations, and they pay higher rates of return to compensate for their higher risk.
Risk Profile	High risk

Understanding fixed income yields

The yield in any investment is the income return on that investment. In the case of fixed income it is usually the interest received from a security expressed as an annual percentage. The yield is generally higher for corporate bonds compared with government bonds. This is because the perceived risk for investing in corporate bonds is higher.

To learn more about the role fixed income investments can play in your overall portfolio, talk to your Retirewell Financial Adviser.

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