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https://www.100test.com/kao_ti2020/500/2021_2022_newo_ortun_c85_500436.htm In recent years, financial markets have become increasingly polarised between growth and security. Investors looking for a medium-to low-risk route to income in-vesting are increasingly turning to the corporate bond market as an alternative to equities and government bonds. Equities and government bonds are well suited to some investors. Younger in-vestors will benefit from equity capital growth because they are generally invest-ing for the longer term and not unduly concerned at the lack of immediate yield. Investors concerned with avoiding risk will be prepared to accept the relatively low yields now available on government bonds. But many investors fall somewhere be-tween these two extremes. Corporate bonds offer an alternative to equities and government bonds, providing some of the benefits of each. With corporate bonds, an investor can opt for a lower risk exposure than with equities but a higher income yield than with government bonds. In Singapore, for example, a govern-ment bond maturing in 2004 with a cou-pon of 3.5% will currently yield about 3.4%. This is to say, for every S$100 of face value, the bond is currently selling for S$100.50, so that the annual coupon of S$3.50 is worth about 3.4% of the actual price. By comparison, the Ford Motor Cor-poration ’s bond issued in Singapore dol-lars and therefore carrying no currency risk for a Singapore investor also matures in 2004. It carries a coupon of 4.5% but currently sells at slightly below its face value, at around S$99.50

per S$100 of nominal value. This means that the yield for an investor is a little higher than the coupon, at around 4.6% of the actual price. The difference between two yields is commonly called the ’ spread ’. At the moment, as we see, the spread between Ford and Singapore gov-ernment bonds is around 1.2%. This rep-resents the reward to the investor for ac-cepting the somewhat higher risk attached to Ford as opposed to the government of Singapore. This is a wider spread than Ford would expect to pay in the US or Europe. Ford may be willing to pay this extra at present as a means of building goodwill among Singapore investors, which it hopes will be to its benefit in later years. The main disadvantage of corporate bonds is that an investor only indirectly participates in the company ’ s success, through its credit-worthiness, but other- wise will not benefit from corporate ex-pansion in the way that equity holders will has no participation in the company ’ s suc-cess. On the other hand, absolute risk is lower than for equities because coupon payments cannot be waived and, in the event of a default, bondholders are ranked highly among creditors. However, corporate credit-worthiness is a key factor in assessing the value and risk of corporate bonds. Credit rating a-gencies play an important role in this pro-cess. The two main agencies are Moody ’ s and Standard amp. Poors uses a very similar system, starting at AAA and ending at D, which indicates an issue in distress. Liquidity is also an important factor. Investors should be generally aware that corporate bonds, even in mature markets such as the US and Britain, have fairly li-mited secondary markets. This is to say, unlike equities or government bonds, they cannot always be sold on easily to other investors. Lack of liquidity tends to be more pronounced in a less developed cor-porate bond market such as Singapore, and this is a further factor in pushing yields higher for corporates, relative both to the government and to other markets. As the Singapore corporate bond mar-ket is relatively new, these few names comprise most of the bonds currently in issue. As the market develops, investors will be offered a wider choice of risk/return combinations. This has been demonstrated in the US where a non-investment grade segment of the corporate bond market has developed, offering in-vestors riskier corporate bond investments at much higher yields. The corporate bond market in Singa-pore is likely to develop in both the va-riety of stock available and the liquidity of the secondary market. The development is expected to be strongly demand-driven, with diversified investors increasingly looking to the corporate bond market for yield. Although corporate bonds carry more risk than government bonds, that risk can be controlled to a large extent by credit analysis and other checks on the is-suer and the terms of the bond. In return investors have the opportunity to achieve a good cash income.