CALAMOS INVESTMENTS

A Market of Bonds

Transcript of a video recorded 10/17/19

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Investors make a mistake in thinking that there is one unified bond market throughout the world. That is not the case. We have low interest rates, we have different inflation expectations here in the United States than the rest of the world, and there are different risks—credit risks and pre-payment risks—that affect different securities.

So, the first thing that I want to point out is that it isn't one bond market. It is a market of individual bonds that will perform differently in different economic environments.

What does that mean? You've got interest rate risk, though on very high-quality obligations. You know you're going to get paid back, but there is sensitivity to changing interest rates. In general, the longer the maturity, the longer the duration—or sensitivity to rates—the higher the income, but the greater the price volatility. So, that's one dynamic in the market.

The next is credit risk. You can go from very high-quality, triple-A rated investments all the way down to below investment grade, to high yield, to junk, where you're taking a lot more company-specific risk.

The good news is they don't have very much in the way of interest rate sensitivity; the bad news is they may not pay you back. You've got different currencies and you've got different structures in terms of inflation protection.

So, when you think about the bond market, realize that it really is a market of bonds that will behave differently and where there will be active opportunities depending where you are in the cycle.

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