

Fixed-income spreads

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In the bond market, when we talk about spread product, we're talking about any bonds that are not the risk-free asset. So in the taxable bond market, we're talking about any bonds that are not Treasuries or trade at an additional yield relative to Treasuries. In the municipal bond market, we're talking about any bonds that are not AAA, general obligation bonds. The primary role of spread products is adding additional yield to a portfolio.

When we look at spreads over a long period of time, if they're above their long-term average, we might refer to them as wide or cheap. And if they're more expensive than their long-term average, we might refer to them as rich or tight. So in general, we're looking for spread product or opportunities in the bond market where credit spreads are wide or cheap relative to the risks inherent in that security.

There are risks associated with fixed-income investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

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