# Bond

A bond is a debt instrument in which an investor loans money to the issuer for a defined period of time and receives coupons paid by the issuer at fixed interest rate. The bond principal will be returned at maturity date.

Bonds are usually issued by companies, municipalities, states/provinces and countries to finance a variety of projects and activities. Over the life of a fixed rate bond, the investor will receive coupons paid by the issuer at a predetermined interest rate at specified dates before bond maturity.

Fixed rate bonds generally pay higher coupons than interest rates. An investor who wants to earn a guaranteed interest rate for a specified term can choose fixed rate bonds. The benefit of a fixed rate bond is that investors know for certain how much interest rate they will earn and for how long.

Due to the fixed coupon, the market value of a fixed rate bond is susceptible to fluctuation in interest rate and therefore has a significant interest rate risk. A fixed rate bond is usually a long-term paper.

Fixed rate bonds generally pay higher coupons than interest rates. An investor who wants to earn a guaranteed interest rate for a specified term can choose fixed rate bonds. The benefit of a fixed rate bond is that investors know for certain how much interest rate they will earn and for how long.

The long maturity schedule and fixed coupon rate offers an investor a solidified return. The real value of a fixed rate bond is also susceptible to inflation rate given its long term.

Reference:

https://finpricing.com/lib/EqLookback.html