

# Woman to woman

Investing in a world of higher interest rates



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# Editorial



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Over the past year, geopolitics has returned as a key driver of the global economy. The confrontation between the West and Russia over Ukraine has triggered an energy crisis as well as soaring food prices. Far from normalizing, international commerce has reorganized according to political alliances, creating a more multipolar world.

This has resulted in a new economic reality with elevated inflation and a monetary policy regime prioritizing price stability over growth. As a result, interest rates are at their highest level in years and economic growth is slowing.

As a female investment professional at Credit Suisse, I feel it is essential to sensitize women about the necessity to re-assess their investment plans, bearing in mind the needs and constraints that are sometimes dictated by lifecycle changes. This publication aims to provide women with useful guidance when it comes to reviewing their portfolios as well as provide broader context such as a comparison of non-financial with financial assets for those women who are considering adding direct real estate or collectibles as part of their investments. We also discuss the impact of cryptocurrencies in portfolios, which may be on the minds of some more risk-tolerant women investors.

The key takeaways from this report are:

- While the return on cash is now better than in recent years, it does not constitute a long-term store of value due to inflation.

- Women should therefore only hold the liquidity necessary to manage their investment portfolios and provide for emergency cases or special-purpose savings, and invest any excess liquidity.
- Investing in financial assets is a flexible way of maintaining purchasing power and ensuring financial safety and independence.
- While portfolio mixes will depend on women's individual life situations, investment objectives and risk tolerances, fixed income assets now offer opportunities to capture attractive yields to maturity. For other investments, women do not need to rush, but can gradually accumulate assets as opportunities arise. To this extent, the Credit Suisse House View provides timely updates.

A good financial plan covers investor-specific circumstances and I hope that women will draw useful information from this report for this purpose.



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General disclaimer/important information

# Inflation, purchasing power and the role of cash

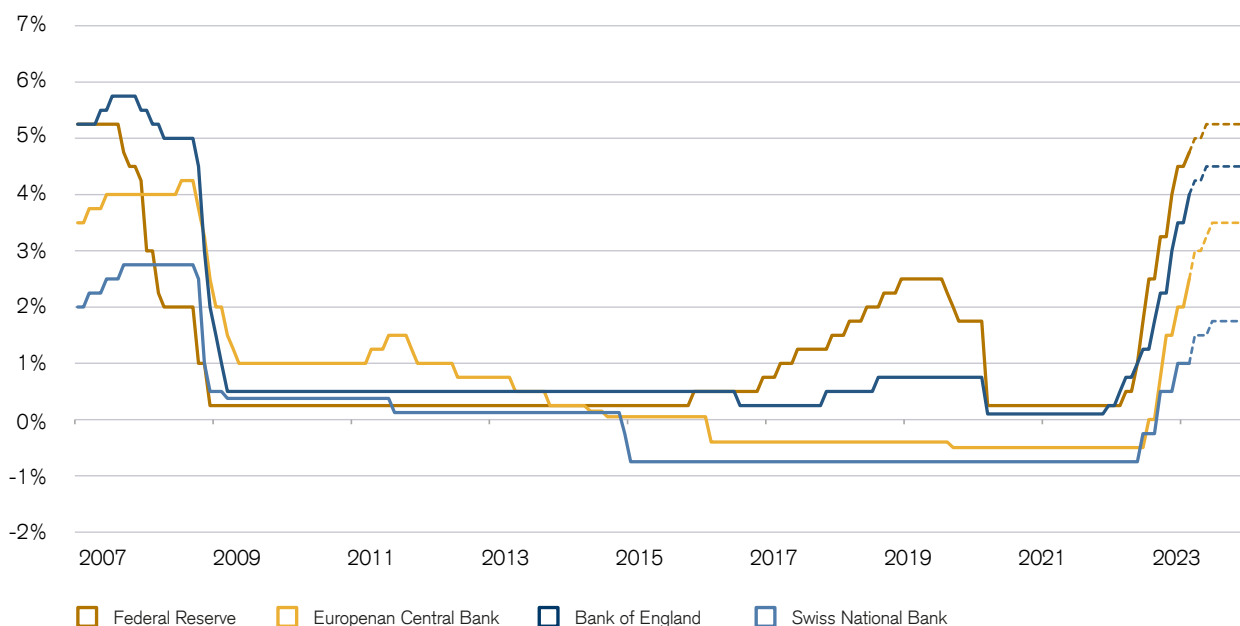
Inflation has made an impressive comeback in 2022, leading to higher interest rates. While this gives investors an opportunity to receive better remuneration on the financial liquidity they need to hold, we need to remember that cash is still not a long-term store of value.

## Rising interest rates

Inflation has made a marked comeback in 2022 and is not expected to revert to pre-COVID levels before 2024. For 2023, we expect an average approximate inflation rate of 5% globally. This compares to average global inflation rates of 3%–3.5% prior to the pandemic. In the USA, 2023 is likely to see inflation at 3.6%. In the EU and the UK, we expect 2023 inflation rates to be 5.8% and 6.8%, respectively.

To combat inflation in their countries, central banks have significantly increased interest rates (see Figure 1). By the end of March 2023, the US Fed Funds rate will probably stand at 5% and we expect the Bank of England to have increased central bank rates to 4.5% by summer 2023. The European Central Bank could reach 3.5% and even the Swiss National Bank is headed toward 1.75%. These levels have not been seen since before the Great Financial Crisis in 2008–09.

Figure 1: Selected central bank rates and forecasts



Source: Refinitiv, Datastream, Credit Suisse

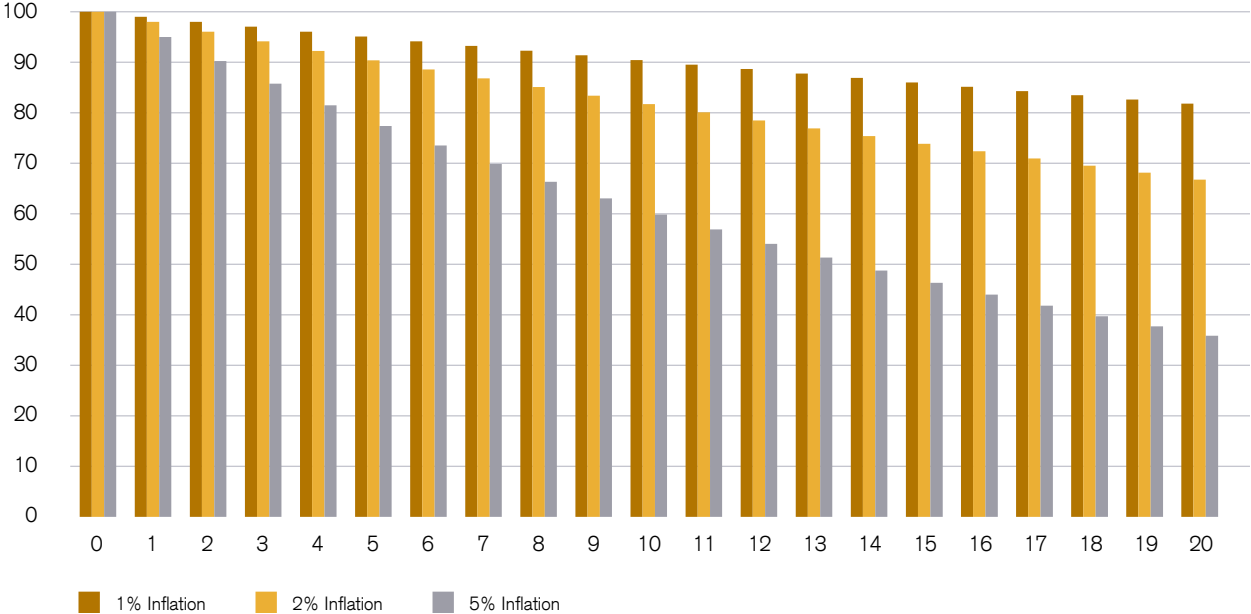
This makes cash attractive again. When interest rates were at zero or even negative (as in Switzerland), there was little incentive to hold cash. Women who tend to hold their savings predominantly in cash were often falling behind in terms of capital growth as their preference was not aligned with the incentive given by central banks to invest instead of holding cash. Today's interest rates are therefore good news for all people who have savings and prefer to hold large portions of cash during times of high uncertainty. Based on our experience, this is often the case for women.

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**While cash can be temporarily attractive, it is not a long-term store of value.**

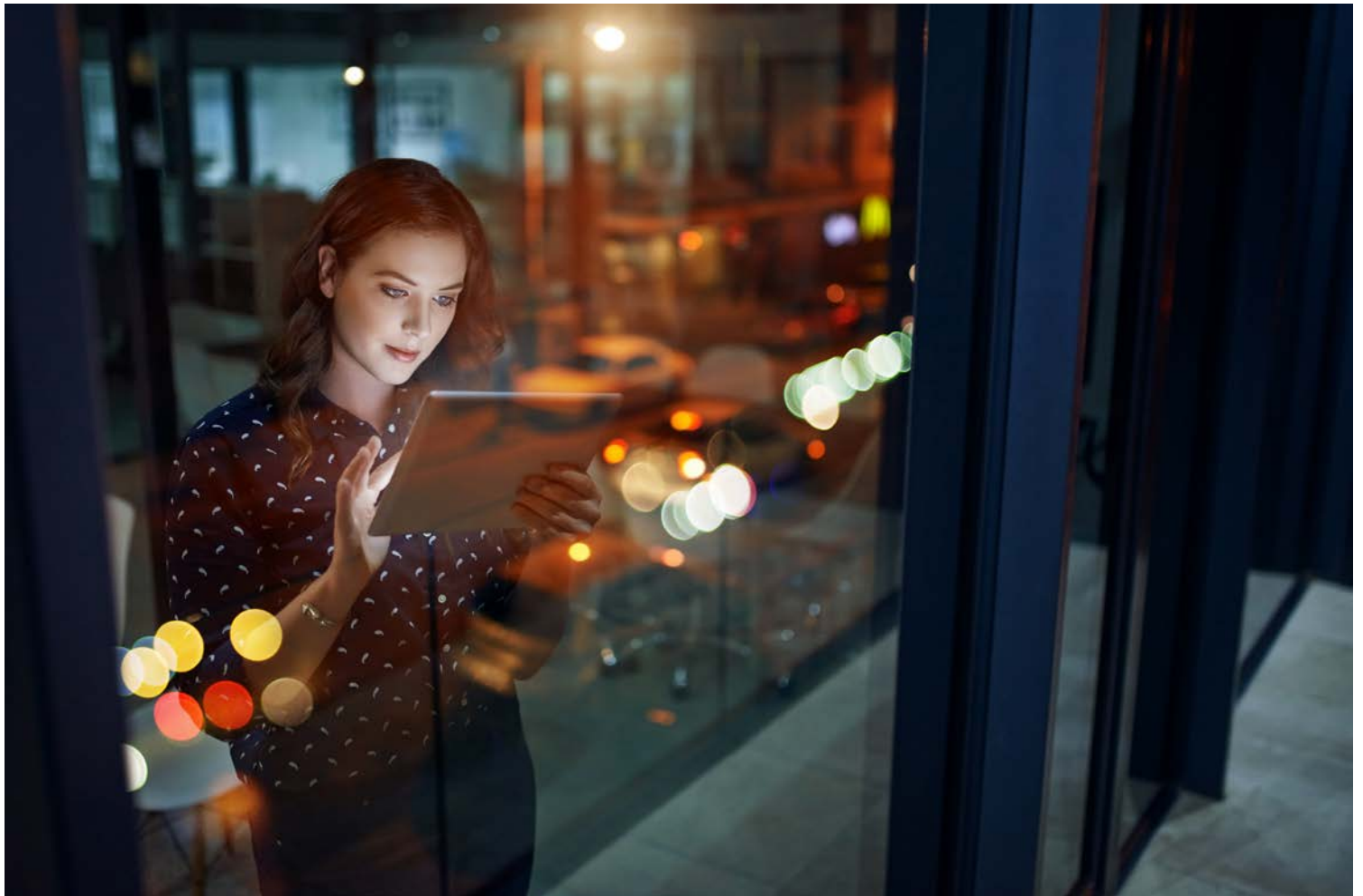
**But cash is not a long-term store of value**

Cash is a poor choice as a long-term store of value, however, and excess cash holdings should be avoided as inflation reduces the purchasing power of money over time. For example, at a future inflation rate of 5%, the same banknote would enable one to purchase only half as many goods and services as today after 15 years (see Figure 2 for an illustrative calculation from a CHF-based perspective). Even if the inflation rate were only 2%, which is the inflation target set by most developed market central banks, the purchasing power of cash would be reduced by half after more than 35 years.

**Figure 2: Inflation erodes purchasing power of cash over time**  
 Value of 100 CHF over 20 years with different inflation assumptions



Source: Bloomberg, Credit Suisse



In other words, a person buying a basket of goods that used to cost, for example CHF 100 in 1900, would have to pay CHF 1,200 today for the same basket. Roughly 90% of the value of cash has been eaten up by inflation over this time span. If the same CHF 100 had been invested back then, the picture would be much more positive. Even putting that money into low-paying Swiss federal bonds would have paid off: an investment of CHF 100 in 1900 would have yielded around CHF 1,200 after accounting for inflation today. The best option would have been to invest the money in the Swiss Market Index at the time. Thanks to the appreciating value and dividends, an investor would have seen an increase in purchasing power of over CHF 25,000, despite inflation.

### **The two roles of cash**

Cash should therefore really play two roles in individuals' holdings: first, to provide for emergency needs (cash for a "rainy day") or for special expenses further down the line (special purpose savings) and, second, to provide the necessary liquidity in the management of portfolios.

Most asset allocators hold between 5% and 10% liquidity (cash) as part of an investable

portfolio to seize opportunities when they arise and to actively manage the portfolio in general. In past years, when interest rates were zero or even negative, we have tended to hold 5% or less in invested portfolios at Credit Suisse. Now that cash rates and money market instruments offer better interest rates in a number of currencies (e.g. USD and GBP in developed markets), we tend to hold more than 5% in invested portfolios.

This is not to be confused with the cash you hold for a "rainy day" or special purpose savings. The former needs to be accessible at any time and is not really regarded as part of an investable portfolio. The size of that pool of cash should depend on age, the region where investors are based and the extent to which their local social security system offers a financial safety net. In addition, personal circumstances – including any dependents – and monthly living costs come into the equation. Cash represents for many women a sense of added safety and financial independence and therefore plays an important role. Cash holdings should be commensurate with lifestyle and take account of immediate liabilities. In countries where, in normal times, the average period of unemployment is around six months and

there is a reasonably good social security system, a useful rule of thumb is for women aged under 45 to hold the equivalent of around 3–6 months of living costs as cash reserves.

The more inflexible labor markets are, the longer the period of unemployment can be. Hence some adjustment to cash reserves may be required. For women over 45, the average period out of employment tends to be longer. In this case, cash allocations equivalent to about a full year of living expenses may be necessary.

In turn, examples of special purpose savings might be a 3-month sabbatical, a 1-year redundancy, six months to one-year employment of a live-in childcare provider, a new car, and so on. In general, these do not necessarily need to be available immediately as a contingent expense, but rather on a certain date.

Cash can thus be held in different ways to optimize its remuneration:

- Immediately available deposits at reputable banks (generally the lowest remunerated).
- Term deposits (one month, three months, six months, 12 months) at banks (available in one month, three months, etc.).
- Money market funds (generally comprised of short-term bonds, i.e. bonds with maturities of less than 12 months).
- Commercial papers (unsecured short-term debt issued by corporations to finance payrolls, accounts payable or inventories for example).
- Other money market instruments.

Cash and money market investments in general have a very low risk. Their volatility is much lower than that of other financial market assets. Moreover, governments in a number of countries provide guarantees for a certain amount of cash that individuals hold in bank deposits. Bank deposit rates are generally very competitive, i.e. there are only minor differences between the offerings of different competing banks. Sometimes, however, different banks' funding costs can also lead to differences in cash deposits remuneration, which investors can use to their advantage. Money market funds and commercial papers can offer slightly better rates as different issuers of short-term debt pay different rates.

### Short-term interest rate outlook

While cash rates may be attractive in 2023, we could see a decline of cash rates again in 2024 if central banks successfully bring inflation back into the price stability range of 0%–2% by then. This means women should certainly look to profit from better savings remuneration in 2023, but already prepare their investment decisions for the future and seize investment opportunities as they present themselves.



### Something to think about

- Determine your levels of immediately available cash and special purpose savings.
- Check what interest rates your bank and competitors are offering on savings accounts, including term deposits.
- Ask your financial advisor what money market solutions are available to you.
- Allocate your cash holdings to achieve the best solutions for your cash holdings.
- Put the rest of your money to work by investing in assets that help to maintain purchasing power and grow wealth in line with your investment objectives and risk tolerance.





# The importance of financial investments and lifecycle investing

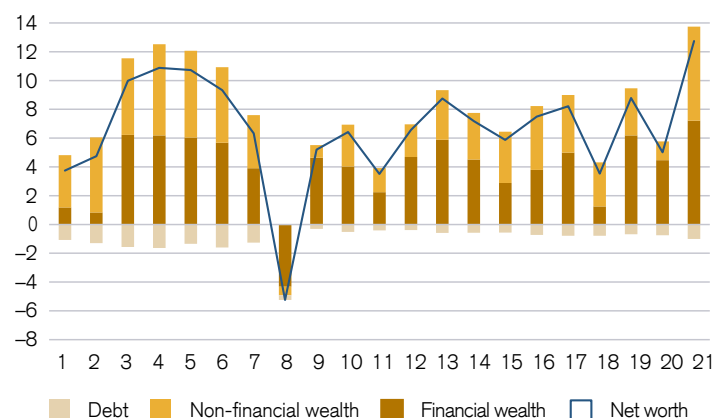
Financial assets provide an important means for building wealth and ensuring financial independence and safety. Over the last 20 years, wealth creation around the world has essentially been driven by financial assets. The analysis provided in Credit Suisse's Global Wealth Report 2022 indeed shows that growth of financial assets has, in all but a few cases, always exceeded growth of non-financial assets.

While financial assets are a key pillar of global household wealth (see Figure 1), they represent different shares in different regions of the world. Some of the highest financial asset ratios in private household wealth are typically found in the USA, Taiwan (Chinese Taipei), Denmark or Sweden, South Africa and Nigeria (between 70% and 80%). The lowest financial asset ratios in private household in contrast are found, for example, in India and South Korea (25%–30%). Most countries have financial asset shares of their private wealth of between 40% and 60%. Figure 2 shows financial asset ratios for a selection of countries.

Within countries, the share of financial to non-financial assets depends on age and income. For example, in younger years, individuals might not yet be able to afford property ownership, so the share of wealth in financial assets would be high. In middle years, if and when property is bought, there may be a higher share of non-financial assets, but often mortgaged. In older years, the share of financial assets again increases as retirement funds accumulate.

The key point with regard to financial assets is that a high share of financial assets in the allocation of wealth has generally led to stronger wealth creation.

**Figure 1: Annual change in net global household wealth 2000–21 (%)**

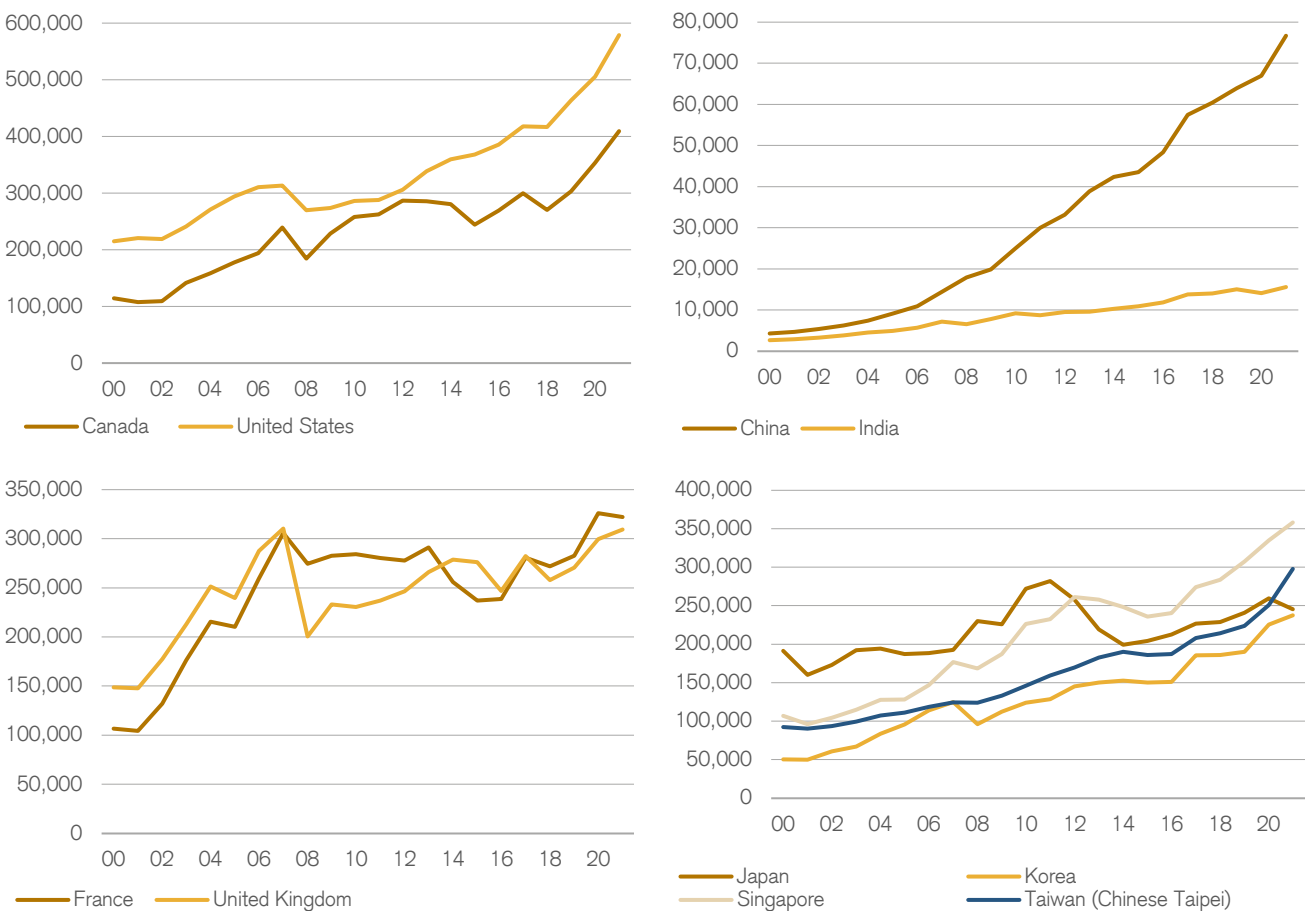


Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Report 2022



Investing in financial assets is a convenient and flexible way to maintain purchasing power over time, grow wealth and ensure financial stability and independence.

Figure 2: Selected countries financial and non-financial asset shares in private net wealth



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Report 2022

### Financial asset returns and volatility

Before choosing what to hold as financial assets, women may wonder what returns they can expect from different asset classes. Credit Suisse's Capital Market Assumptions (CMA) give an indication of average 5-year returns and volatilities for a wide array of financial assets. There are three broad groups of assets:

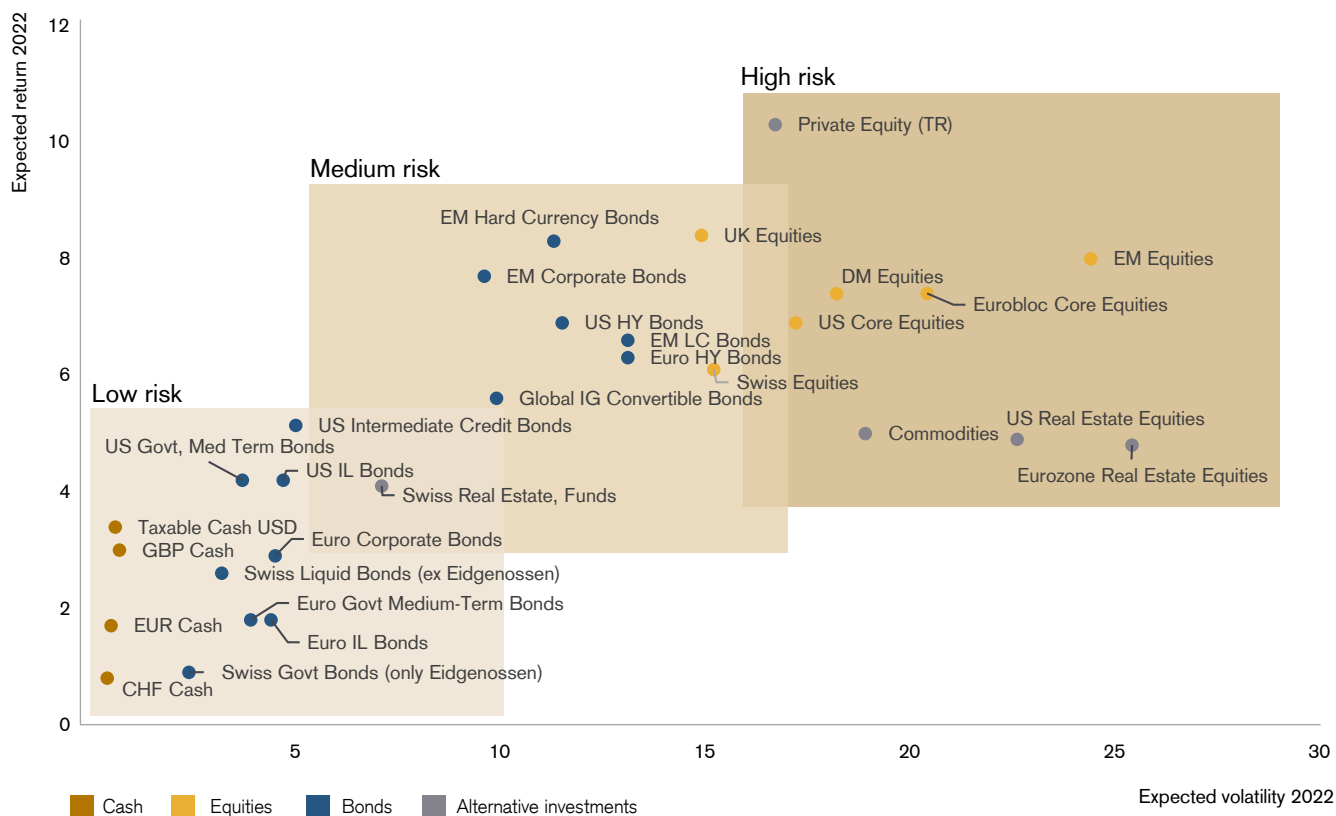
- Low-return/low-volatility assets (lower than 5% volatility per annum).
- Medium-return/medium-volatility assets (5-10% annual volatility).
- High-return/high-volatility assets (more than 15% annual volatility).

Money markets and cash make up the first group, fixed income and hedge funds essentially make up the second group, and equities and private equity constitute the third group (see Figure 3).

The expected nominal average 5-year returns for the first group are between 0.5% and 4.5%, while expected 5-year average returns for the second group are between 3.5% and 6.5%. For the last group, 5-year average returns vary between 5% and 10%.

**Figure 3: Financial asset returns and volatilities**

Three groups of assets: low, medium and high risk



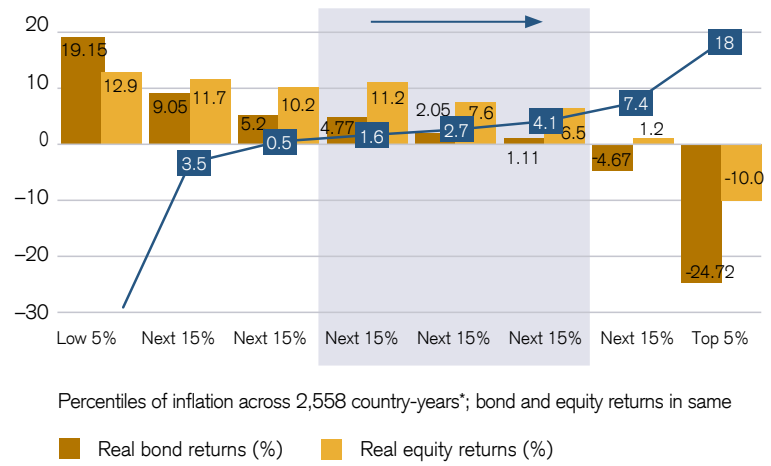
Source: Credit Suisse

### Inflation and financial asset returns

The same way that it erodes the value of cash, inflation also impacts asset returns. In Credit Suisse's Global Investment Returns Yearbook, the authors document the typical real returns of bonds and equities (to take the most prominent financial asset classes) in different inflation regimes. Figure 4 shows their results. When inflation reaches around 1.6%, investors earnings on top of inflation are around 4.8% from bonds and around 11.2% from equities. When inflation is on average 2.7%, the average real returns on bonds and equities are 2.05% and 7.6%, respectively. When inflation is on average 4.1%, the average real return on bonds is 1.1% versus equities at 6.5%. Hence, as the prevailing inflation rate increases, investors can expect to earn less on top of the compensation for inflation from their financial investments. However, inflation must be relatively high (7% and above) before financial assets stop maintaining their purchasing power. Equities, in particular, provide better inflation protection than bonds over long periods of time.

**Figure 4: Inflation and its impact on asset returns**

Real bond and equity returns versus inflation rates, 1900–2021



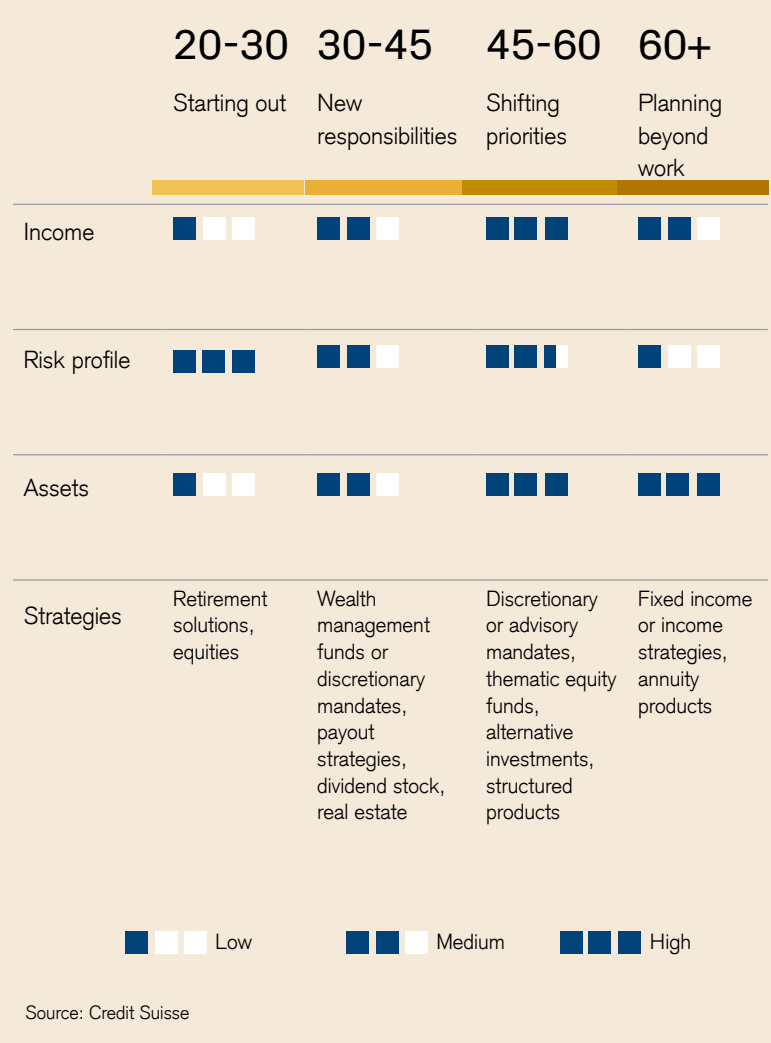
\*we compare equity and bond returns with inflation in the same year for the full range of 21 countries for which we have a complete 122-year history. We exclude the hyperinflationary years of 1922–23 for Germany and 1921–22 for Austria. Source: Credit Suisse Global Returns Yearbook 2022

### Getting started with financial investments

Women sometimes lack a framework to start investing. Lifecycle investing can provide a useful starting point. Investment objectives and risk parameters often differ according to the stage of a woman's lifecycle. For example, women in their twenties to early thirties do not have the same income and savings as women in their forties or fifties. Their key objective would be to grow wealth as opposed to preserving wealth. Their investment horizon would therefore be longer and their propensity to take investment risks may be higher. Women at a more mature age, on the other hand, would have shorter investment horizons and a natural desire to take more moderate risks.

Hence an important theme of this report is how to align investment strategies and asset allocations with key needs and degrees of freedom at various life stages. Figure 5 summarizes key aspects of lifecycle investing.

**Figure 5: Lifecycle and investor needs and constraints**

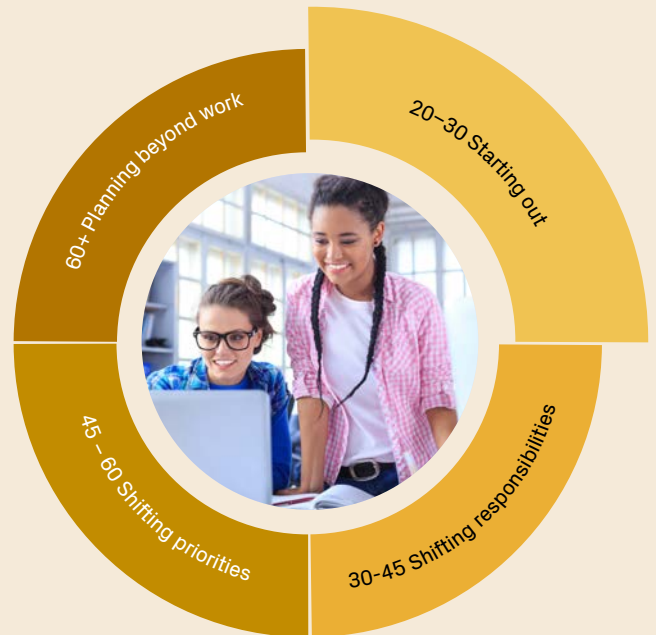


### Lifecycle stage 1: Starting out

This lifecycle stage is defined by a relatively low savings rate combined with minimal investment activity, reflecting the fact that young women tend not to have a steady income as they complete their education or training, and that their income tends to be at the lower end of the salary scale when they enter the workforce in their respective fields.

This does not mean, however, that it is too early for women to start planning for a secure financial future further down the road. On the contrary, as in other areas of their lives – physical and mental health, education and friendships – young women should take good care of their finances in order to enjoy the benefits in life. Beyond the basic state pension, women should especially begin building personal retirement savings as soon as possible after they enter the labor market. Young women with a long investment horizon should have a relatively high-risk tolerance. They do not require regular cash flow from their investment portfolio at this time, so a multi-asset strategy tilted toward equities is a suitable solution for this lifecycle stage.

Younger women often have the impression that they need a lot of money to start investing, but this is not the case. Stock prices range from very low (less than CHF 10) to high unit prices (above CHF 2,000). Participation in investment funds is possible from CHF 100 upward in retail retirement-oriented investment funds.



### Lifecycle stage 2: New responsibilities

As they move beyond the first phase of their career, women tend to have a medium savings rate. Their financial investment activity may really kick off during this period as they may still have savings even after contributing to occupational and voluntary retirement schemes. Women can still accept a high level of risk (i.e. exposure to equities) during this phase in light of their long investment horizon, especially if they stay on the full-time employment track and thus continue to add to their savings. Their focus will continue to be on growing their capital at a low cost. We believe the most effective way of doing this is via funds managed by professional asset managers, along with exchange traded funds (ETFs) or passively invested funds that track selected reference indices.

Women who decide to take a break from work to take care of children or other dependents may need to reduce their earnings and pension contributions, which can lead to wealth setbacks later down the road. Women should ensure that their planning reflects their reduced ability to take risks during this period so as to counteract some of these effects. To generate income from their capital and compensate for the impact on salary income, for example, women need to start tilting their investments toward a more balanced mix of equities and income-paying investments like fixed income.



### Lifecycle stage 3: Shifting priorities

As their careers advance and/or women return to work as their children grow up, they look toward a phase in their lives in which they can generate higher income and therefore savings. Some also hold a mortgage on their primary home or secondary residence. Women at this stage tend to be more sophisticated investors – a reflection of their experience accumulated over two decades of investing, combined with new financial obligations. They may have developed specific investment interests or convictions, be able to devote more time to their finances, or seek to engage more directly in their investment decisions. This is the time when women’s investment portfolios can become more diverse and strategic.



### Lifecycle stage 4: Planning beyond

At this stage, women’s risk tolerance declines as they rely more directly on capital income and predictable cash streams to fund activities and living costs during the pre-retirement or retirement phase. Hence, the focus now shifts to low-risk investments. Many investors want their portfolios to tilt heavily toward direct bond investments (fixed income) or other income investments with reliable annual cash streams and low volatility on the capital invested. Women who inherit money later in life may need to review their existing investment portfolio and adjust it accordingly. Similarly, women in this lifecycle stage may also be thinking about how they would like to pass on their wealth eventually.





## Cryptocurrencies in asset allocations

Younger readers may ask themselves about including digital assets such as cryptocurrencies in a portfolio. After a long and painful descent from USD 68,992 to a low of USD 15,485, Bitcoin has had a good start into the new year so far. As central banks gradually reach the end of their monetary-tightening cycle, the recovery of cryptocurrencies may even continue. We do not make any projections as it is extraordinarily difficult to model the price of cryptocurrencies. However, using past performance and technical indicators to infer price dynamics, our technical analysts gauge that a break below 15,48/048 could open up another major leg lower, with the next minor support at 10,000/9,853. In contrast, a break above 25,203 would remove the downside risks and complete a base, with the next resistance levels then seen at 28,113, then 32,359.

Regardless of where Bitcoin or any other cryptocurrency is headed, women investors should know that it is a very volatile asset. The most volatile emerging market equity indices (like China A shares for instance) have average annual fluctuations of around 30%. Bitcoin has an average annual volatility of above 200% in comparison. Including Bitcoin into a balanced portfolio made up of 50% equities, about 30% bonds, 5% cash and the rest in alternative investments dramatically changes the volatility of the portfolio depending on how much Bitcoin is added. When we switch 2% hedge funds into Bitcoin in a portfolio experiment, these 2% drive 25% of the overall portfolio volatility. When we raise the share to 5% or even 10%, the overall portfolio volatility rises from 9.1% to 22.6% (see Table 2). As a result, we do not include cryptocurrencies in advised portfolios at Credit Suisse.

**Table 2: Portfolio statistics with different hypothetical bitcoin allocations in a balanced portfolio**

	with 2% Bitcoin	with 5% Bitcoin	with 10% Bitcoin	without Bitcoin
Realized return (p.a.)	12.40%	19.50%	31.40%	7.60%
Volatility (p.a.)	9.10%	13.50%	22.60%	7.60%
Value-at-risk (p.a.)	-2.90%	-2.70%	-5.30%	-2.30%
Conditional value-at-risk (p.a.)	-4.20%	-5.00%	-7.80%	-3.90%
Maximum drawdown	-13.20%	-14.10%	-17.80%	-12.70%

Source: Credit Suisse



### Something to think about

- Invest excess cash in financial assets as a convenient and flexible way to maintain purchasing power over time, grow wealth and ensure financial safety and independence.
- Use a lifecycle investing approach to tailor your portfolio to particular stages in your in life based on specific investment needs and constraints.
- Review your portfolio mix when your risk tolerance, income situation or general life situation changes and adapt it to the new situation.
- Discuss with your advisor if, and the extent to which, a cryptocurrency allocation is compatible with your risk profile if you consider adding it to your portfolio.
- Enjoy collectibles if you have or purchase any, and collect expert advice as well as be mindful of their asset properties if you approach them as investments.



### How to view non-financial assets?

Even though investing in financial assets is a convenient and flexible way to maintain purchasing power over time, as well as grow wealth and ensure financial stability and independence, many women may feel attracted to non-financial alternatives. Owning their own house or rental property is a dream for many people and direct real estate investments deserve a careful assessment of their own.

Collectibles such as art collections, jewelry, watches, luxury handbags, wines, classic cars, etc., may also be appealing as they may correspond to private interests and passions of women. These non-financial assets can also be classified into:

- store of value assets;
- medium volatility assets; and
- high volatility assets.

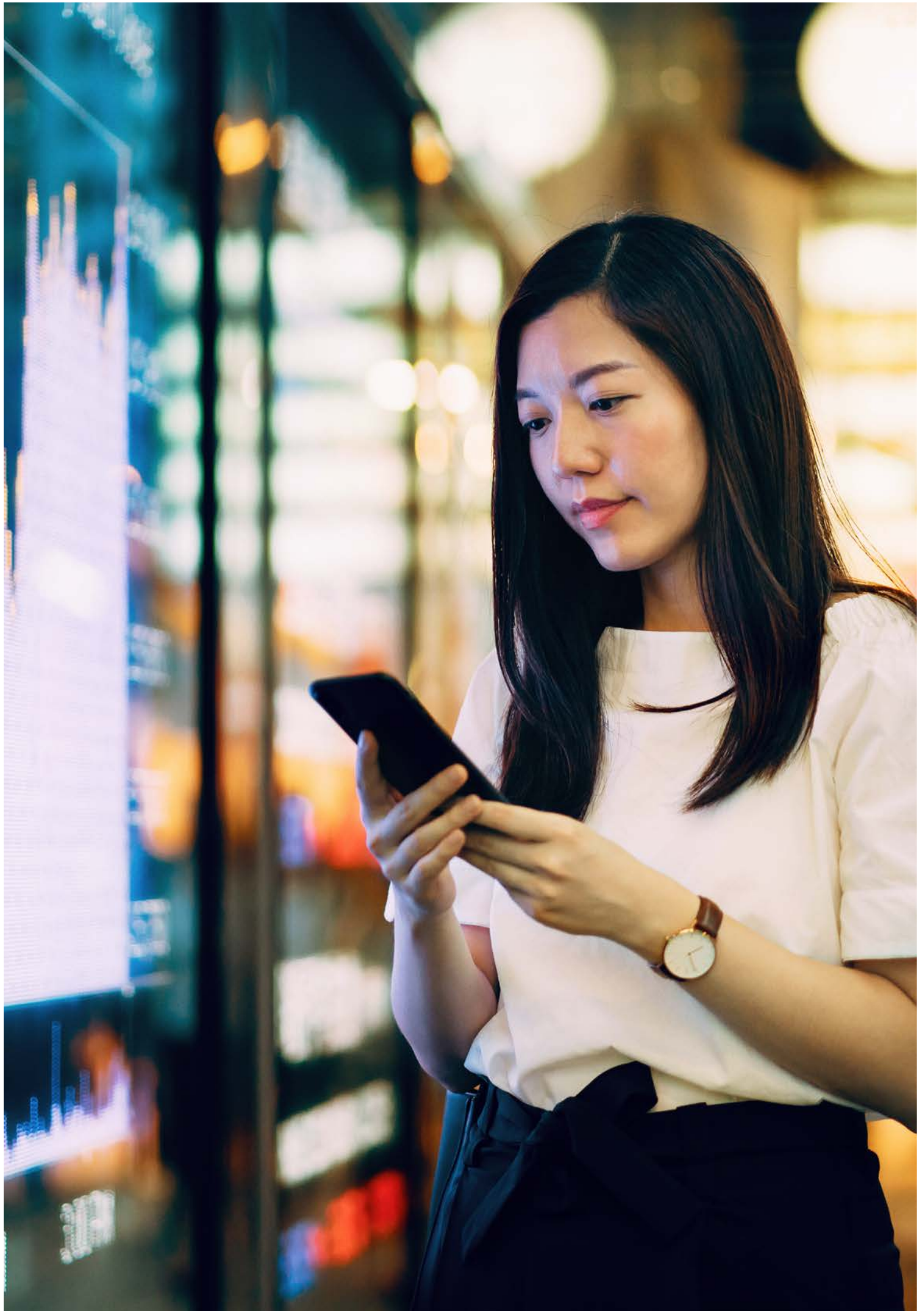
For example, watches, jewelry and Chanel handbags are store of value assets. The average annual volatility of these assets is less than 5% and annual returns are 4%–6%. Their information ratio (return by unit of risk) is very good (above 100%, ie. their returns are on average higher than their volatility). Fine wines, classic cars and art in general are medium-risk assets, comparable to bonds in financial assets. Their average annual volatility is 5%–15% and annual returns are high single digit to low teens. Their information ratios are between 50% and 100%. Assets like contemporary art have a higher risk, but also a higher return, and are more suited to capital growth objectives when considered as investments. Their investment ratios are below 50% (see figure 6).

Hence collectibles can offer interesting complements to private wealth, but do not replace financial assets. They require expert knowledge to become investments and are not liquid or immediately disposable. They also often come with separate maintenance and storage costs. But, importantly, they have different asset properties to take into consideration.

**Figure 6: Financial and non-financial asset returns and volatilities**



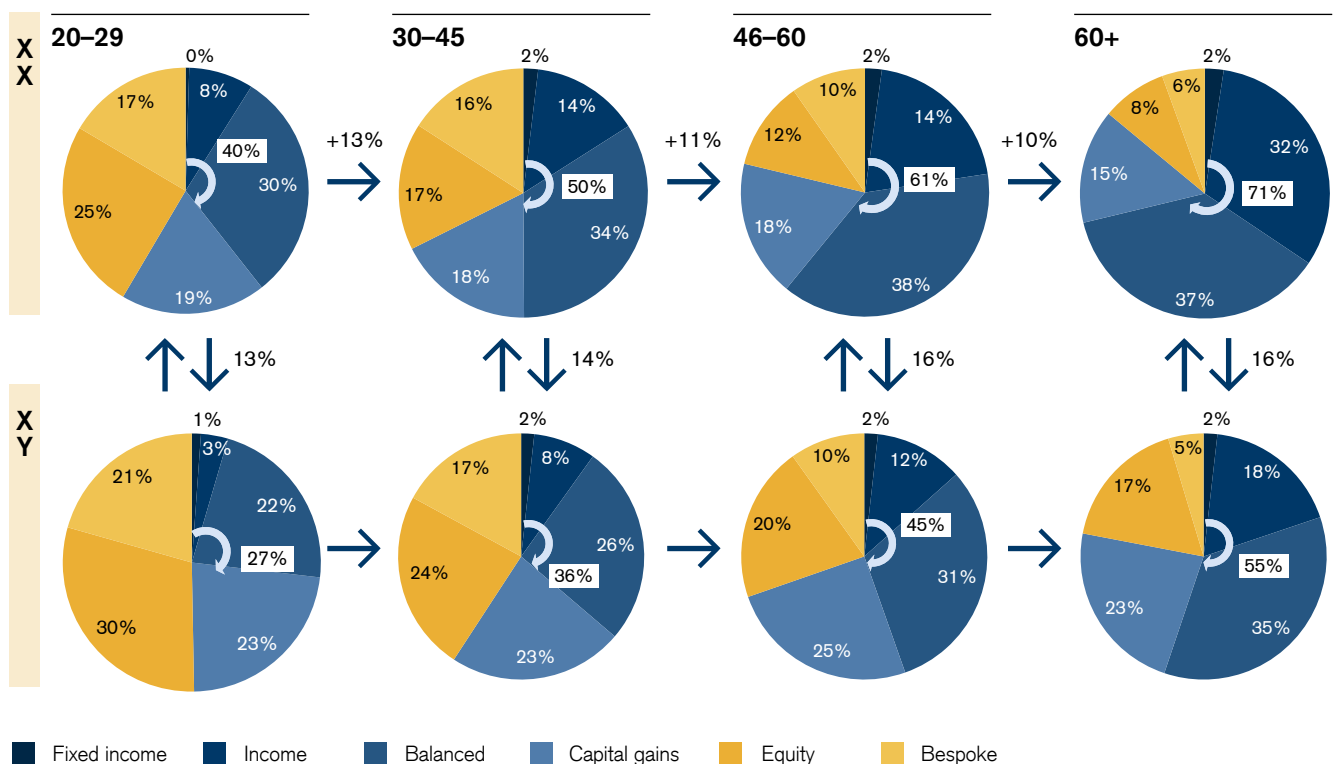
Source: Credit Suisse Research Institute Collectibles Report 2022 and 2020



# Investment opportunities in 2023

Our client experience at Credit Suisse shows that women often choose fixed income and income investment strategies for their investment purposes. Figure 1 shows the typical distribution of selected investment strategies by gender and age. In past years, this preference has contributed to women falling behind their male peers in terms of wealth accumulation due to the high prevalence of negative yielding or very low-yielding bonds. It is not the only reason, but one of several which explain that women typically hold around 30% of assets although they make up about 40% of all private client relations at a bank like Credit Suisse.

**Figure 1: Share of XX investors with Balanced or more conservative investment strategy targets are higher across all age groups compared to XY investors**



Increasing share of Fixed Income + Income + Balanced strategies from one age category to the next  
 Source: Credit Suisse

### Attractive yields in fixed income

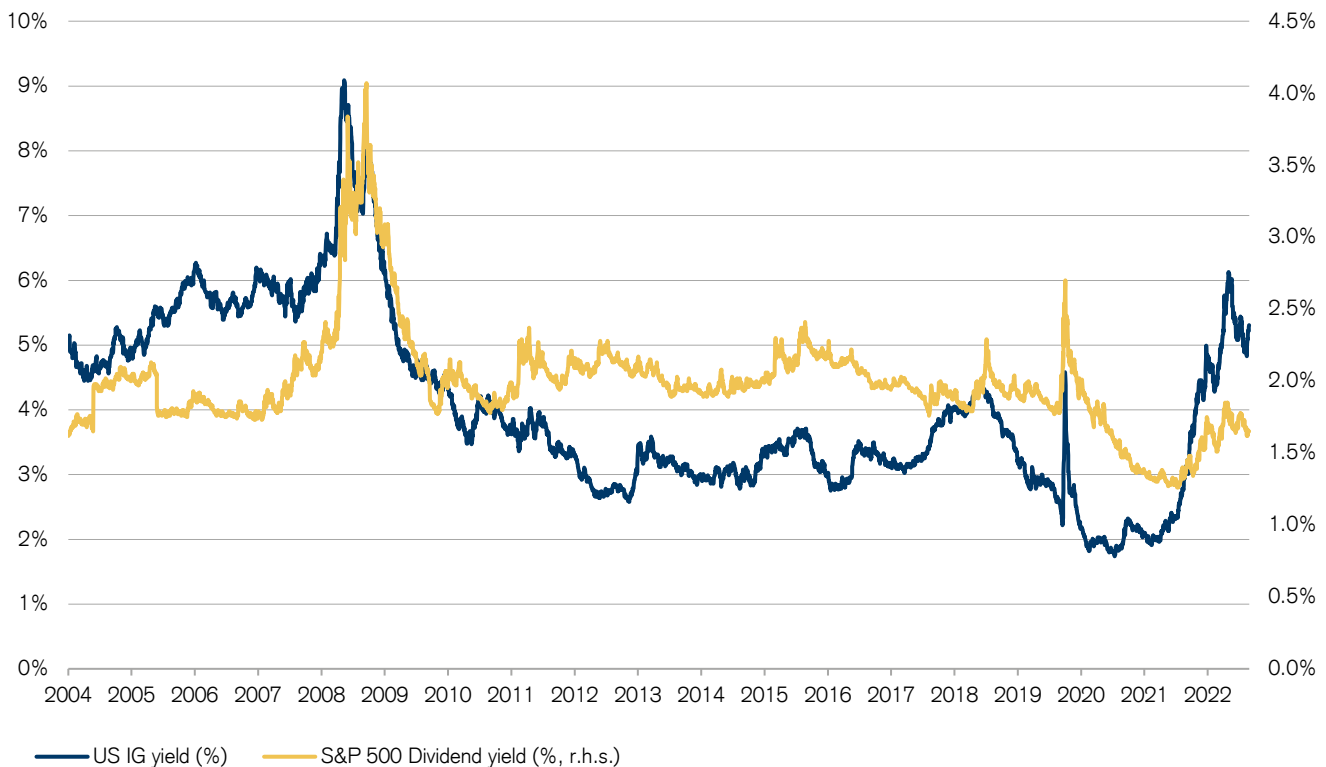
Currently, bond yields are again at levels that make them an attractive investment proposition for any type of investor. This is particularly good news for women investors whose preferences are for fixed income assets and income-oriented strategies. In contrast to past years, the global share of negative yielding bonds has declined to zero and there is a wide choice of fixed income opportunities in different base currencies. Government bonds, high quality corporate bonds, financial senior and subordinated bonds, and emerging market bonds all offer yields not seen for many years.

For example, US dollar yields for 10-year government bonds are at the time of writing 3.9%, US corporate bond yields of investment grade credit quality (good quality bonds typically selected for retirement plans) are offering 5.4%. In euro, German Bunds yields for 10-year maturities are at 2.5% and corporate bond yields at 4.5%. In Swiss francs, 10-year government bonds yields are 1.44% and corporate bonds yields 1.9%.

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In 2023, there is a wide choice of fixed income investment opportunities in different base currencies.

**Figure 2: Investment grade bonds pay more than dividends again**

US investment grade corporate yield versus S&P 500 dividend yield



Source: Bloomberg, Credit Suisse

There are two broad ways to invest in fixed income:

- Direct bonds to buy and hold until they mature or to resell before maturity, and
- Fixed income ETFs or funds.

Direct bond investments offer the cheapest way to invest in fixed income, but direct bond holdings require investors to pay attention to the quality of the bonds they purchase. They can check this by reviewing the credit rating of the bonds. Bonds are qualified as "investment grade" when their risk is relatively low and the issuing entities have a low risk of default. Investment grade credit ratings range from AAA or Aaa to BBB- or Baa3 (by rating agencies Standard&Poors and Moody's, respectively). Bonds with lower credit ratings (BB+/Ba1 to D/C on Standard Poors/Moody's) are regarded as speculative and are qualified as "high yield." They are associated with substantial credit risk all the way to default. The key point to remember is that the higher the risk, the higher the yield (and vice-versa).

When held to maturity and of reasonably good credit quality, direct bond holdings offer full visibility of what one can expect by way of yield until they mature. This is referred to as the yield to maturity. The longer the maturity of a bond, (normally) the higher the yield. It can sometimes happen that, for special reasons, shorter maturity bonds of a same issuers offer higher yields to maturity than longer bonds of the same issuer. When yield levels are historically high, women should focus on longer maturities. When yields are low, it is preferable to concentrate on shorter maturities. At present, yields are comparatively high and we would consider 7-year maturities in US dollars, for example, as a good opportunity for women to lock in attractive yields for the next seven years. When inflation comes down, these yields are no longer expected to be available in coming months. In euro and Swiss francs, where yields are lower, we would consider it more appropriate to concentrate on maturities of 3-5 years.

Bond funds offer a diversified way for women to invest in bonds instead. Whether actively managed or following a bond index (fixed income ETFs), bond funds offer diversification. The investment risk is spread over many bonds when investors buy a share of a bond fund. They therefore do not need to worry about individual bonds. This is taken care of by the fund manager or is part of a diversified benchmark index. Investors just need to pay attention to the average credit rating (credit risk) of the fund they consider purchasing and the duration of the fund. Duration expresses the interest rate sensitivity (interest rate risk) of a fund, i.e.. how much the

prices of the bonds in the fund react in response to interest rate increases or declines. Duration is denominated in years, but is not to be confused with maturities. A bond fund typically contains bonds of different maturities, so that it does not make sense to refer to a fund's maturity (except for fixed maturity bond funds, which mimic individual bonds with given maturities). Investors focus on the overall sensitivity to interest rate fluctuations instead. For bond funds that do not mature, there is a perpetual exposure to the fluctuation of bond prices, which makes duration a key characteristic of the bond fund.

The longer the duration, the higher the sensitivity to interest rate increases/declines. At moments in time when yields are high (like now), investors concentrate on bond funds with longer duration in anticipation of future interest rate declines and bond price increases. The reverse holds true in periods of relatively low bond yields, when it makes more sense to focus on bond funds with a short duration. Bond funds come with a management fee and are a more expensive way to invest in fixed income. Fixed income ETFs have the lowest fees among bond funds as they do not involve a fund manager, but track a diversified bond index instead.

Of course, there are multiple investment possibilities other than bonds and women should actively seek opportunities across the entire spectrum of financial assets (equities and alternative investments) as is appropriate according to the investment strategy that fits their needs and risk constraints. The Credit Suisse House View provides women with a convenient source of ideas and investment convictions throughout the year.



### Something to think about

- Investigate with your advisor which fixed income solutions could make sense for you here and now.
- Consider buying and holding direct bonds of reasonably good credit quality or bond funds with appropriate credit risk and duration with your excess cash available for investment purposes
- Consult the Credit Suisse House View regularly for an updated view on financial markets and investment ideas across all financial assets.

## Bond basics and glossary

**Bonds:** Bonds are essentially market-traded debt issued by a company, a country or an agency. Instead of taking a loan, a bond is issued on the debt capital market.

**Denominations:** The bond is divided into portions (called denominations) that investors can buy. Denominations are usually in portions of CHF 5,000 in Switzerland, for example, except for the Swiss Confederation (CHF 1,000). This means when the Swiss Confederation (government) issues debt for CHF 500 million in denominations of CHF 1,000, investors can buy multiples of the denomination up to the total of CHF 500 million.

**Coupon:** Similar to a loan, the issuer pays an interest rate (called the coupon) to investors who purchase the bond in order to compensate them for lending their money to the debtor. The coupon is generally fixed, except for so-called floating rate notes or bonds. Floating rate notes have coupons that fluctuate together with a pre-set reference interest rate.

**Maturity:** Bonds usually have maturities, i.e. dates by which the bond is repaid by the debtor. Bonds without a maturity are called perpetuals. Perpetuals often have call dates, however, i.e. dates by which a debtor has the right to redeem the bond.

**Below, at or above par:** Between the time of launch and the maturity date, the bond has a market price. Let us assume, for example, that company X issued a bond worth CHF 1 billion in 2015 on the CHF debt capital market, which can be purchased in denominations of CHF 5,000. The price is said to be at par when it trades at 100% of the value when it was launched, which in this example would imply a market value of CHF 1 billion. When a bond trades higher or lower than 100%, it is said to be above or below par. In other words, the market value of the bond can be below or above the initial launch value. This is the result of fluctuating demand for the bond.

**Yield to maturity (YTM):** When holding a bond to maturity, the investor earns the annual coupon, in addition to the difference between the purchase price and the par value at which the bond will be repaid. This is known as the yield to maturity (YTM). The YTM of a bond is therefore the average annual rate of return of a bond from the time it is purchased at a certain market price (above, at or below 100%) until it is redeemed (is paid back by the issuer) at 100%. Investors lose money if the bond has a negative YTM. This was the case for many bonds until 2021. Now YTM for many bonds are again at attractive levels.

**Credit rating:** Credit ratings reflect the credit quality of the bond and therefore the credit risk associated with the bond. Behind every credit rating, there is an expected risk of default (where the issuer does not pay back either the interest due or the principal amount of a bond in full). Good quality bonds with low risk of default are investment grade bonds. Their current 12-month probability of default lies at an estimated 1.3%. Lower quality bonds are of a speculative nature. They are referred to as speculative grade or junk bonds. Their current probability of default is between 2% for BB+/Baa bonds and 8% for the lowest quality junk bonds.

**Duration:** Duration reflects the interest rate risk of a bond, i.e. the sensitivity of a bond to interest rate fluctuations. Durations are expressed in years as they measure the time it takes, in years, for an investor to be repaid a bond's price by the bond's cash flows.

**Senior and subordinated bonds:** In addition to credit ratings, bonds can have different degrees of subordination, i.e. ranking in the order of priority of repayment in the case of the debtor's bankruptcy. Senior bonds are those that have a high priority in the order of repayment. Subordinated bonds are paid after the payment of other higher-priority bonds in the case of bankruptcy.

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