Investing in a bond is lending money at an agreed interest rate for a set period

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1 You lend money
To a government or company

2 You receive coupons
Regular interest payments

3 Bond matures
You get your principal back



Interest income
Coupon payments you receive while holding the bond

Capital gain or loss
If you sell before maturity, the price may be higher or lower than what you paid

Why bond coupon rates differ

NEW VS. OLD BONDS
A bond's coupon rate depends on issuer credit quality, credit ratings, and tenure.

CREDIT QUALITY & RISK

INVESTMENT GRADE (Lower Risk)
→Lower Coupon Offered

NON-INVESTMENT GRADE / HIGH YIELD (HIGHER RISK)
→ Higher Coupon Offered

Rated by credit rating agencies based on default risk

Longer tenure carries higher default risk over time.

2-year bond — Less sensitive
VS
10-year bond — More sensitive

KEY INSIGHT Lower credit quality or longer tenure = Higher coupon rate to compensate for greater risk.

High yield usually means higher risk

A higher coupon is compensation for risk — not a free bonus.

1. **Highest credit quality** (Lowest risk) — Aaa-Aa / AAA-AA
2. **Strong to Good credit quality** (Lower risk) — A-Baa / A-BBB
3. **Speculative credit quality** (Higher risk) — Ba-B / BB-B
4. **Highly speculative** (Very high risk) — Caa/Ca / CCC/CC/C
5. **In Default or Imminent Default** — C / D

Junk bonds / high-yield bonds
Offer higher yield but comes with a higher chance of default

Unrated bonds
Unrated does not mean safer – the issuer may simply not have paid for a rating

If unrated, check:
- ☑ Interest coverage ratio
- ☑ Operating profit margin
- ☑ Debt-to-equity ratio
- ☑ Free cash flow

Credit ratings are opinions, not guarantees. They are also subject to revision. Use them as one input, not the only one.

Common bond choices in Singapore

Bonds come with different levels of flexibility, risk, and complexity

Safest retail bond options in Singapore

1 Singapore Savings Bonds
- Govt-backed
- Min $500
- Redeem full principal with accrued interest early, without penalty
- Interest steps up over time

2 Singapore Government Securities
- Govt-backed
- Min $1,000
- No early redemption but can be sold on SGX
- Price may differ from face value
- Fixed coupon

Need more checks

3 Corporate bonds
- Issued by companies
- Usually higher coupon than govt bonds
- Higher credit risk
- Listed bonds can trade on SGX

4 Perpetual securities
- No maturity date
- Regular distributions
- Payments may be deferred or cancelled
- Principal may not be returned unless redeemed

5 Bond funds & ETFs
- Hold a portfolio of bonds
- Spread credit risk across issuers
- Require less capital
- Some may be Specified Investment Products (SIPs)

⚠ Do not assume higher yield means better value.

Bonds can provide regular income but are not automatically safe

Check these risks:

1. **Default risk** — Issuer may fail to pay interest or principal
2. **Interest rate risk** — Prices may fall when rates rise
3. **Liquidity risk** — You may struggle to sell at a fair price
4. **Call risk** — Issuer may repay early when rates fall
5. **Currency risk** — Foreign currency bonds can be affected by exchange rates

Next steps:

1. **New to bonds? Start with SSBs** — Check current rates and apply via internet banking or ATM of local banks
2. **Considering a corporate bond?** — Check the issuer's credit rating and read its most recent annual report
3. **Compare against SSBs** — Is the extra yield worth the extra risk?
4. **Want diversification?** — Explore bond ETFs, but check whether they are Specified Investment Products first

Always check credit quality before investing.

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