HSBC

Asset Management

Breaking down duration: a useful concept for bond investors

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Bond prices and interest rates move in opposite directions. When interest rates rise, bond prices are likely to fall, and in contrast when interest rates decline, bond prices are likely to increase.

What is duration?

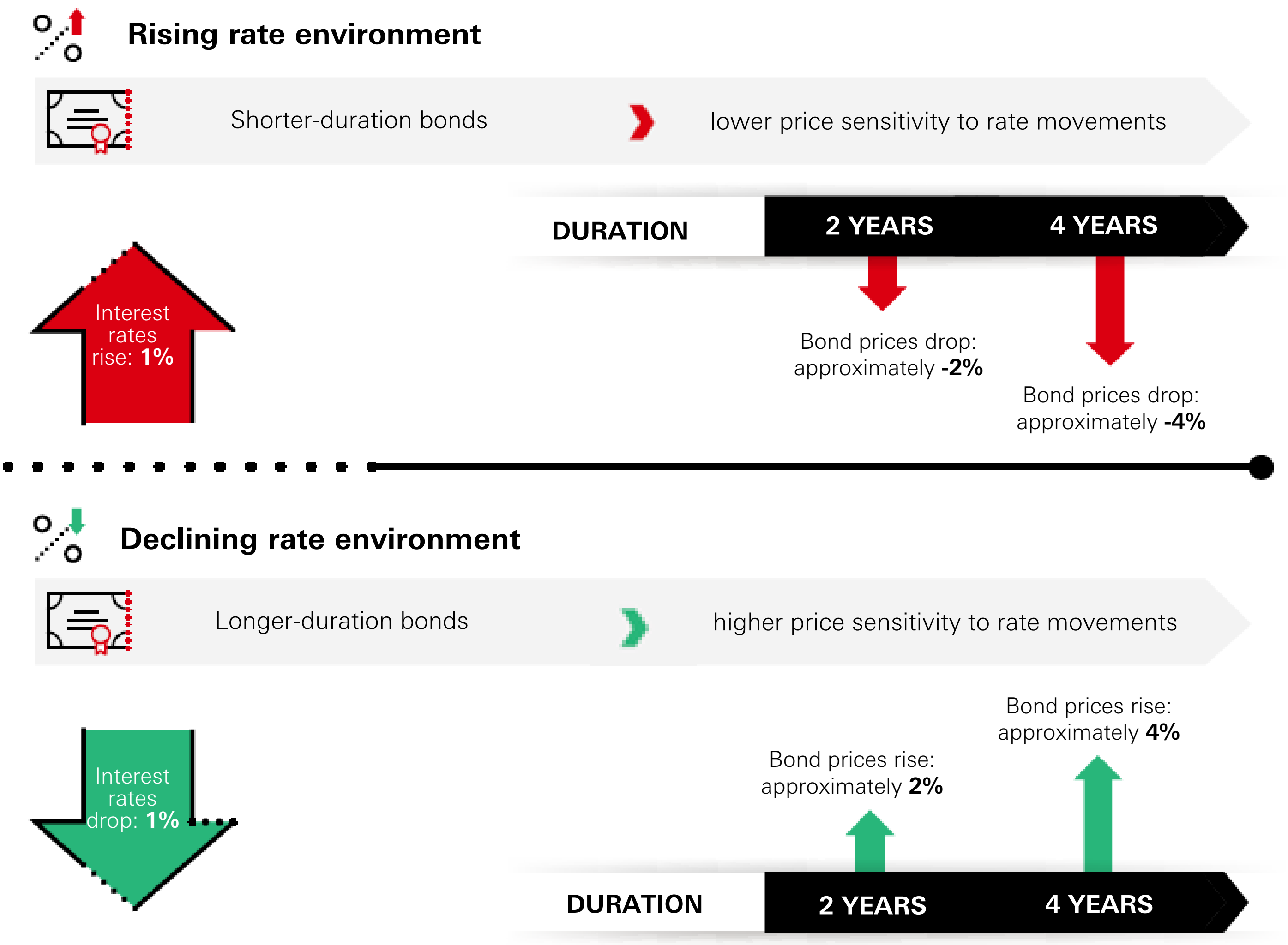
Duration, expressed in the unit of years, is an important and useful concept for bond investors as it measures the sensitivity of bond prices to interest rate movements. The longer a bond's duration is, the more sensitive the bond's price is to interest rate changes.

Source: HSBC Asset Management. For illustrative purposes only.

A useful concept for bond investors

Many people tend to shun away from understanding bond duration because the underlying mathematics could be difficult. However for investors, to make good use of duration when investing in bonds, calculation is not needed if you understand the concept.

Duration examples



Source: HSBC Asset Management. For illustrative purposes only, with all other factors assumed to be equal.

Given its usefulness, duration is a standard data point provided in most bond and bond fund materials.

Short-duration strategy: a relatively defensive option in a rising rate environment

In the current economic environment where inflation is picking up, especially in the United States, central banks are turning hawkish and interest rates are expected to climb.

HSBC Global Asset Management (Singapore) Limited
10 Marina Boulevard, Marina Bay Financial Centre, Tower 2, #48-01, Singapore 018983
Telephone: (65) 6658 2900 Facsimile: (65) 6225 4324
Website: www.assetmanagement.hsbc.com.sg
Company Registration No. 198602036R