Some Factors That Influence Corporate Bonds by James Blee

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Sensitivity of Interest Rates Most of the companies is highly sensitive to the changes in the rates of interests. Generally, when the rate of interests rises, the prizes of the bonds tends to fall and vice versa is equally applicable. While the ones with a shorter term will show a comparatively lesser sensitivity to changes in the rates, the ones with longer duration is to some extent dependent on the rates of interest.

Market Conditions- The overall performance of corporate bonds is directly dependent on the market conditions. If the market condition improves, the interest rates will also grow higher which in turn will increase the bond yield and lower the prizes.

Duration- As suggested earlier, the performance of corporate bonds is dependent on the duration of the dealings. For the short term dealings, variations are less as it is more or less inert to market fluctuations but for the longer terms, the performance is highly dependent on the fluctuations in market rates.

Credit Quality- Every corporate bond is issued a credit rating by certain rating agencies and it has been repeatedly found that the ones with a good credit quality tends to perform well whereas the ones with a minimal score fails to touch the expected limits. At the same time, higher rating means the deal is more liquid which is always better for transactions.

Corporate Cash Flow- When a company directly issues corporate bonds; it is quite obvious that the financial aspects of the issuing authority will play a leading role in deciding its fate. Therefore, when the issuing company performs up to the mark, it will lead to a generation of a substantial cash flow which will enhance the profit levels of the company made transactions.

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James Blee - About Author:
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