Bond Prices, Rates and Default Risk: A Singapore Checklist

Description

A bondâ??s coupon can stay fixed while its market price falls. When comparable interest rates rise, an existing lower-coupon bond usually becomes less attractive; longer maturities are generally more sensitive, and issuer default can still produce a major or total loss.

A Singapore retail investor comparing an individual bond with a deposit, T-bill or bond fund faces a narrower question than the headline suggests: translate coupon, yield, maturity and credit quality into a loss and liquidity decision. The table separates the branches that change the answer before the practical checks and worked example.

Choose the branch before acting

Situation	Practical next step
Holding to maturity	Test issuer default risk and whether cash is needed earlier
May sell before maturity	Add price, duration and market-liquidity risk
High coupon offered	Compare yield, credit quality, call terms and price paid
Using a bond fund	Expect changing holdings and no single guaranteed maturity payout

Coupon is not the same as return

The coupon is the contractual interest payment based on face value. Yield also reflects the price paid, time to maturity and redemption amount, so a high coupon can coexist with a poor expected return if the bond trades above par. MoneySense understanding bonds.

When market rates rise, the price of an existing fixed-rate bond generally falls so its return becomes more competitive. The reverse can happen when rates fall, although credit and liquidity changes may dominate. MoneySense understanding bonds.

Maturity magnifies rate sensitivity

MoneySense explains that longer-maturity bonds are generally more sensitive to interest-rate changes. An investor who may need to sell early should not treat the maturity value as available cash today. MoneySense understanding bonds.

A ladder of maturities can reduce the concentration of reinvestment and cash-flow dates, but it does not remove credit risk. Compare each issuer and issue rather than assuming several bonds from one group create diversification. MoneySense understanding bonds.

Default changes the question from yield to recovery

If an issuer fails to pay interest or principal, investors may face restructuring, delayed payment or loss. MoneySense warns that bondholders can lose all their investment when an issuer defaults. MoneySense bond-default guide.

Claim priority matters in insolvency, but senior status is not a recovery guarantee. Read the prospectus for ranking, security, guarantees and call features, and distinguish the issuing entity from a familiar parent brand. MoneySense understanding bonds.

Liquidity is a cost even without default

Some bonds trade infrequently. The quoted price may not be executable for the desired amount, and the bidâ??ask spread can turn an apparently small rate move into a larger realised loss. MoneySense understanding bonds.

Compare a bond with alternatives on the same currency, maturity and access needs. A Singapore Government Security, deposit and corporate bond solve different problems; the largest headline yield should not decide the allocation by itself. MoneySense understanding bonds.

Put the numbers or sequence to work

Consider a S$10,000 face-value bond with a 3% coupon, paying S$300 a year. If comparable new bonds offer 4%, buyers will generally demand a lower price for the old bond; the exact price depends on remaining cash flows and risk. The S$300 coupon does not prove the investor earned 3% on the market price or can sell at S$10,000.

The example is a planning model, not a quoted price, official calculator result, medical instruction or promised outcome. Replace its assumptions with the issued notice, live service, signed contract, current timetable or professional advice that controls the real decision.

Before you commit

1. Identify issuer and issuing entity

2. Separate coupon, market price and yield
3. Check maturity and call dates
4. Assess credit and claim ranking
5. Estimate rate sensitivity and liquidity
6. Match currency and cash-flow needs
7. Read default and restructuring terms

A useful working note combines **a coupon-price-yield distinction table** with **a S$10,000 cash-flow example that exposes the limits of the coupon rate**. Enter only details that can be tied to a current document or live record.

Missteps that change the answer

- Calling coupon the return
- Assuming hold-to-maturity removes default risk
- Ignoring a call option
- Confusing seniority with guaranteed recovery
- Comparing yields across different currencies and maturities

If one of these conditions appears, pause before payment, submission, travel or implementation and reconcile it through the relevant official service. Save the issued result or acknowledgement; a search snippet or forwarded screenshot cannot establish a current entitlement.

Compare the downside in dollars

For each bond, estimate the cash needed before maturity, the amount that could be difficult to sell and the loss the household could tolerate if recovery were delayed. This does not predict default. It forces the yield comparison to sit beside liquidity and capital-at-risk numbers, which are often more important than a familiar issuer name.

Related next steps

Once this decision is settled, you may need to compare a Singapore T-bill route. The next adjacent check is to place the decision in a wider plan.

Common questions

Why do bond prices fall when rates rise?

New bonds can offer higher returns, so an older lower-rate bond usually needs a lower price to compete. MoneySense understanding bonds.

Can a bondholder lose everything?

Yes. MoneySense says default can result in a total loss. MoneySense bond-default guide.

Does holding to maturity remove price risk?

It can avoid selling at a market loss, but cash needs, default and reinvestment risks remain. MoneySense understanding bonds.

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