

Understanding the Basics of **Fixed Income Securities** - for Beginners

The predictable nature of fixed-income securities makes them an anchor of stability for many investors. These investment options provide a straightforward proposition: invest your money in any fixed-income securities (Bonds, Sukuk, Eurobonds, Commercial Papers, Treasury Bills) and receive regular interest payments (in the case of bonds, known as coupons), along with the return of your initial investment at a predetermined date (maturity date).

This article will guide you through fixed-income securities, showing how their simplicity and reliability make them an excellent choice for investors seeking consistent returns and financial stability.

A Reliable Path to Predictable Returns

Fixed-income securities prioritize reliability over the potential for dramatic gains. When you purchase these securities for example bonds, you enter into an agreement that specifies exactly how much you will receive in interest (coupon) payments and when you will get your initial investment back. This predictability sets them apart from stocks, where dividends and market prices fluctuate significantly.

The stability of these securities stems from two key sources. First, they provide a predictable payment schedule—investors know precisely when and how much they will

receive, creating a reliable financial planning framework. Second, these investments often come with strong institutional backing. Government bonds, for instance, are supported by a nation's debt management office (in the case of Nigeria, it is the DMO), while corporate bonds typically offer investors priority status for repayment if the company experiences financial difficulties.

This combination of predictable returns and institutional support makes fixed-income securities particularly attractive to investors seeking portfolio stability.

Who Benefits Most?



Fixed-income securities serve diverse investment needs, making them valuable for investors at different life stages. Risk-conscious investors, for instance, appreciate the predictable nature of returns. For those new to investing, these securities provide an excellent foundation for understanding investment principles without excessive market volatility. Likewise, for retirees transitioning

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from consistent salary payments to investment income, these securities offer a steady, reliable income stream to maintain their lifestyle.

Consider Victoria, a recently retired educator with 30 years of classroom experience. Her priority is not maximizing potential returns but ensuring that her retirement savings generate reliable income—whether monthly, quarterly, or semi-annually—without the stress of market fluctuations. Bonds, a type of fixed-income security, provide dependable interest payments and help preserve her initial investment, making them a suitable option for financial stability

in retirement.

Types of Fixed-Income Securities

Various types of fixed-income securities are designed to suit different investment goals and risk tolerances. Government bonds are the most preferred option, offering maximum security backed by national governments.

Other fixed-income securities include: Euro bonds, Corporate bonds, Sukuk bonds, Treasury Bills and Commercial Papers. We will explore them in more detail:

Instrument	Issued By	Risk Level	Maturity	Returns Type
FGN Bonds	Nigerian Government	Low	Long-term	Regular interest
Eurobonds	Nigerian Government/Companies	Low-Moderate	Long-term	Dollar interest
Corporate Bonds	Companies	Moderate	Long-term	Regular interest
Sukuk Bonds	Government/Companies	Low	Long-term	Regular interest
Treasury Bills	Nigerian Government	Low	Short-term	Discounted return
Commercial Paper	Corporates	Moderate	Short-term	Discounted return

FGN Bonds

The Federal Government of Nigeria issues these bonds through the Debt Management Office (DMO). They are considered the safest fixed-income investment in Nigeria since the full faith and credit of the Federal Government back them. They typically have maturities ranging from 5 to 30 years (could be longer) and pay interest (known as coupon) semi-annually.

by the Nigerian government or Corporations. They allow Nigeria to borrow from international investors. While they offer higher yields than many international bonds, they carry both credit and currency risks since they are denominated in dollars.

Euro Bonds

These are bonds that are denominated in foreign currency (usually US dollars), that are issued

Corporate Bonds

On the other hand, corporate bonds are debt instruments issued by Nigerian companies to raise capital. Companies like MTN Nigeria, Dangote Cement, and various banks have issued corporate bonds over the years. Unlike the federal government, these bonds typically offer higher yields than FGN bonds

to compensate for the higher risk because of default risk.

Sukuk Bonds

Sukuk bonds are Islamic financial certificates that comply with Sharia law. In Nigeria, both the federal government and states issue Sukuk bonds, mainly to fund infrastructure projects. Instead of paying interest (which is forbidden in Islamic finance), investors receive a share of the profit from the underlying asset.

Treasury Bills

These are short-term government debt securities issued by the Central Bank of Nigeria (CBN) with maturities of 91,182, or 364 days. They are sold at a discount and redeemed at face value, with the difference representing the investor's return. They are popular among Nigerian investors for their liquidity and relatively low risk.

For example, James, a business consultant, can invest part of his earnings in 364-day Treasury bills. Since Treasury bills are backed by the government, they offer a secure investment and provide a predictable return, making them a reliable option for preserving capital and earning steady income.

Commercial Paper

These are short-term discounted debt instruments issued by large corporates in Nigeria, typically with maturities between 180 and 270 days. Companies like Dangote, FMCG companies, and large banks often issue commercial papers to meet short-term financing needs. Commercial paper usually offers higher yields than Treasury Bills.

If Micheal, a seasoned architect

invests in a commercial paper issued by a reputable company, he could earn higher yields than Treasury Bills. This allows him to grow his savings efficiently while keeping risk at a manageable level.

Who Regulates Fixed-Income Securities?



The regulation of fixed-income securities involves a sophisticated interplay of several regulatory bodies. These regulatory bodies ensure a well-supervised and orderly fixed-income market in Nigeria, with each institution playing a distinct yet interconnected role in maintaining market integrity and protecting investor interests.

The Securities and Exchange Commission (SEC) is the primary regulator of the capital market. Its mandate encompasses licensing capital market operators and regulating various bonds, including corporate and FGN bonds, in the secondary market while also establishing the framework for fixed-income trading and safeguarding investor interests.

Working alongside the SEC, the Central Bank of Nigeria (CBN) plays a crucial role by managing the primary dealer market maker system, and overseeing banks involved in fixed-income trading.

The Central Bank of Nigeria (CBN) uses different monetary policy tools,

such as the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Open Market Operations (OMO) auctions, to regulate the financial system. These tools have a direct impact on the fixed income market. For example, if the CBN increases the MPR, currently at 27.5%, interest rates on fixed-income investments tend to rise, making them more attractive. However, this also leads to a drop in bond prices since yields and prices move in opposite directions. On the other hand, if the MPR is reduced, yields decline, and bond prices increase.

The **Debt Management Office (DMO)** is specifically responsible for issuing FGN Bonds on behalf of the Federal Government. It also manages domestic and external debt, conducts bond auctions, and formulates policies governing government borrowing.

Moving Forward

As you consider your investment options, remember that fixed-income securities represent more than just another investment choice—they offer a proven approach to building financial stability. Whether you are starting your investment journey, raising capital for your business, approaching retirement, or simply seeking to diversify your portfolio, these securities provide a foundation for achieving your financial goals with confidence and peace of mind.

***The insights shared are based on extensive market experience. For tailored investment decisions, consult qualified financial professionals who can provide guidance aligned with your financial goals.*



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