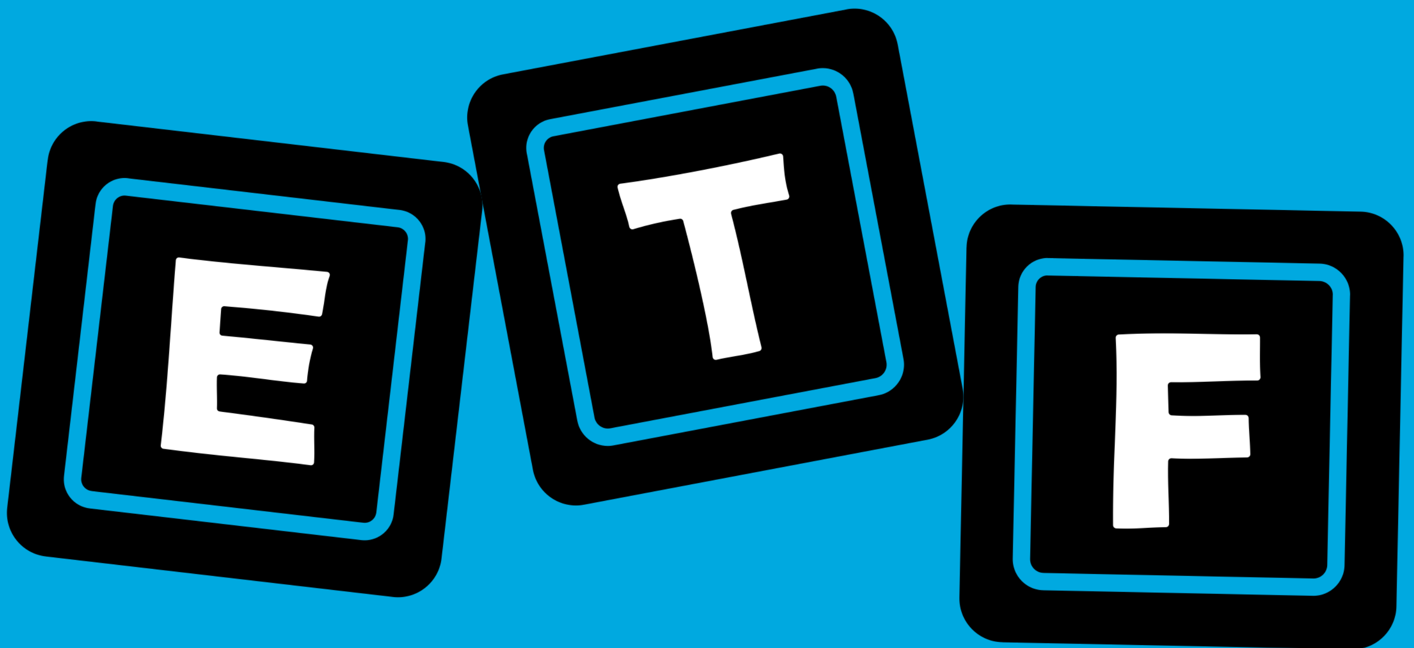
THIS DOCUMENT IS MARKETING MATERIAL

BONDS AND ETFs, MADE SIMPLE



Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

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WHAT ARE BONDS AND WHY INVEST NOW?

WHAT ARE BONDS?

Bonds are a way for governments or companies (issuers) to borrow money from investors (bondholders).

In return, the issuer promises to repay the principal amount (the initial investment) at a specified future date, known as the “maturity date” and to make periodic interest payments to the bondholder over the life of the bond. Typically, these interest payments are fixed and are known as “coupons”.

The annual return a bondholder can expect to receive over the life of the bond is known as the “yield”, this is calculated based on a bond’s coupon payments and its current market price.

WHAT ROLE DO BONDS PLAY?

Bonds provide investors with three potential benefits:

Income stream Bonds provide income generally higher than cash.[1]

Offset volatility Bonds can help investors mitigating volatility associated with owning stocks.[2]

Preserve capital Bonds may help investors preserve their money, (i.e. savings) while potentially providing more yield than idle cash.

Risk: Two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to repay the principal and make interest payments.

1. Bonds are unlike cash current bank accounts as they invest in financial markets. Therefore, there is a greater level of risk to your money because they can go up and down in value, but this can mean greater returns. Additionally, in high inflation environment, the cash held in bank current accounts or deposit savings are at risk of losing value. As, inflation will reduce the buying power of your money over time.

2. Bonds generally exhibit lower price volatility compared to stocks. Bond prices are primarily influenced by changes in interest rates and the issuer credit profile, which tend to be less volatile than the factors affecting stock prices, such as earnings reports, market sentiment, and economic indicators. Historically. investors used bonds to diversify their investments and reduce the impact of market volatility.

WHY INVEST IN BONDS NOW?

In 2022 and 2023, we faced a period of high inflation. To keep inflation in check, most central banks around the globe raised their interest rates. This made borrowing money more costly, slowing down spending in the economy, which, in turn helped curb inflation.

This rise in interest rates changed the game for bonds making them more attractive for investors – the higher cost of lending had led to an increase in bond yields. This is in stark contrast to the years following the global financial crisis, where low interest rates and inflation meant bonds offered little in the way of income.

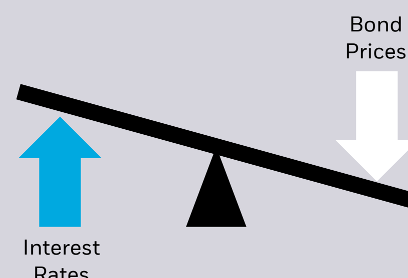
> **"Interest rates have risen, making bonds more attractive for investors."**

WHY DOES THIS HAPPEN? LET'S BREAK IT DOWN:

When interest rates rise, (i.e. the cost of borrowing rises), bond yields typically also rise, as bond holders are compensated more for the money they lend to bond issuers, this makes bonds more attractive for prospective investors.

But what happens to older bonds that were issued when interest rates were lower? When new bonds are issued with higher coupon payments, older bonds, with lower coupon payments, see their price decline (see graph on the right). However, to make these older bonds more attractive the yield on these bonds increases. This increase in yield helps to offset the lower bond prices, keeping the older bonds appealing to investors despite their lower coupon payments.

Today, bonds can offer more attractive returns compared to the low interest rate period we had in the 2010s. Plus, central banks are likely near the highest point of the interest rate cycle, which means there's not much more room for interest rates to rise and hurt bond prices. **The smartest time to invest in bonds is when interest rates are at their peak: That's when bond yields are highest!**



ARE BONDS SAFE? WHAT ARE THE RISKS ASSOCIATED WITH THEM?

Bonds are generally considered safer than stocks, but they are not completely risk-free. There are several risks associated with them including:

Interest rate risk

When interest rates go up, bond prices tend to go down.

Credit risk

In rare instances, issuers with low credit ratings may default, potentially resulting in incomplete repayment of the bond.

Liquidity risk

Selling bonds quickly might be difficult, especially for less popular ones.

Inflation risk

Rising prices (i.e. inflation) can erode the value of bond returns over time.

Currency risk

When investing in bonds issued in different currencies, changes in exchange rates could affect returns when converting back to your home currency.

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INVESTING IN BONDS MADE SIMPLE WITH ETFs

WHAT IS AN ETF?

An Exchange Traded Fund (ETF) is a pool of investment securities, usually stocks or bonds, wrapped into one vehicle, a 'fund'. ETFs provide access to a diversified selection of stocks or bonds, usually at a lower cost than purchasing the individual stocks or bonds yourself.

ETFs are also easy to access as they trade on a stock exchange, hence the term 'exchange traded', you can simply buy and sell them at any point during trading hours.

HOW DO BOND ETFs COMPARE TO INDIVIDUAL BONDS?

Bonds, unlike stocks, are typically not available for many individual investors, as they do not trade on a stock exchange – instead, buyers and sellers agree a transaction price via intermediaries (a process known as over-the-counter trading).

Bond ETFs help investors:

1.

Access

Easily access bonds as ETFs trade on stock exchanges, just like single stocks. ETFs also offer flexibility to enter and exit a trade at any time during trading hours.

2.

Diversification

Diversify as bond ETFs offer investors access to multiple bonds in one trade, helping diversify their investments and avoid the risk of exposure to one single issuer.

3.

Cost efficiency

Gain cost efficiencies as bond ETFs often have lower costs, relative to other methods of accessing the bond market such as, individual bonds or mutual funds.

> **“ETFs provide access to a diversified selection of stocks or bonds.”**

Risk: Diversification and asset allocation may not fully protect you from market risk.

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START INVESTING WITH iSHARES iBONDS ETFs

WHAT ARE iBONDS ETFs?

iBonds ETFs are bond ETFs that have a fixed maturity date. An iBonds ETF holds a diversified basket of bonds with similar maturity dates and distributes a final payment at maturity.

iBonds ETFs combine the benefits of investing in ETFs and individual bonds, offering an efficient tool that matures like an individual bond, while trading on a stock exchange at low cost.

HOW DO iBONDS ETF COMPARE TO TRADITIONAL BOND ETFs AND INDIVIDUAL BONDS?

Traditional bond ETFs do not mature, instead, as individual bonds within the ETF mature, new bonds are being added. This gives a continuous, rolling exposure to bond markets.

In contrast, like individual bonds, iBonds ETFs mature at a specific date. So, investors could expect a final payment at maturity, which could help fund life stage planning, such as buying a car or a house, college tuition or retirement.

iBonds ETFs combine the best features of individual bonds and ETF investing offering investors an efficient tool that matures like an individual bond while trading on an exchange at low cost like a traditional bond ETF**.**

Features	iBonds ETFs	Traditional bond ETFs	Individual bonds
Diversified (exposure to a basket of bonds)	✔	✔	✖
Known maturity date (matures at a fixed date)	✔	✖	✔
Trades on a stock exchange (how easy you can buy and sell)	✔	✔	✖

“iBonds ETFs combine the best features of individual bonds and ETF investing.”

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WHAT ARE THE BENEFITS OF iBONDS ETFs?

iBond ETFs help investors:

1.

Easily access bonds

iBonds ETFs provide easy access to bonds, with one trade, you gain exposure to a selection of bonds and could generate regular income

2.

Be flexible

iBonds ETFs are available in a range of maturities, so you can choose how long you want to invest your money for. If your needs change, so can your investment. You can buy or sell iBonds ETFs at any time on the stock exchange

3.

Diversify at low cost

iBonds ETF provide exposure to a selection of bonds (sometimes hundreds), across various regions and parts of the bond market, at relatively low cost.

Risk: Diversification and asset allocation may not fully protect you from market risk.

FAQs

How do I know the yield of an iBonds ETF when I invest?

You can find the yield of each iBonds ETF on the iShares.com website on each individual iBonds ETF product page.

Does the yield of an iBonds ETF remain fixed, or can it change throughout the life of the investment?

The yield of an iBonds ETF may fluctuate depending on the timing of your investment and the ETF price at that time.

The yield of a bond ETF is not fixed, it can fluctuate based on market conditions such as economic events, interest rate changes and the performance of individual bond issuers held in the ETF and therefore is not 100% guaranteed.

If I invest in iBonds today, what will my final payment look like? Is my initial investment secured at maturity?

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