Moscow Exchange Bond Indices: a Map of Yields and Risk Sectors

The bond market is made up of thousands of issues, hundreds of issuers, different borrowing terms, coupon sizes, credit quality and levels of investment risk. Moscow Exchange bond indices bring this diversity together into a single system in which the yield of each segment is shown alongside the risk behind it.

Why the market needs bond indices

To objectively assess the yield and investment appeal of an individual issue, it must be compared with the overall yield of the market segment to which that bond issue belongs. An index provides this benchmark:

- shows how the value of government and corporate debt changes and how the market sees the future path of interest rates;
- demonstrates what premium investors demand for credit risk;
- reflects the performance of a basket of issues grouped by issuer type, time to maturity, credit quality or coupon type.

What exactly an index shows

CLEAN PRICE INDEX

The market's “here and now” reaction

Reflects only changes in the market value of securities, excluding coupon income. Sensitive to shifts in interest rates and credit spreads: prices fall when yields rise and rise when yields fall. A tool for assessing current market conditions.

TOTAL RETURN INDEX

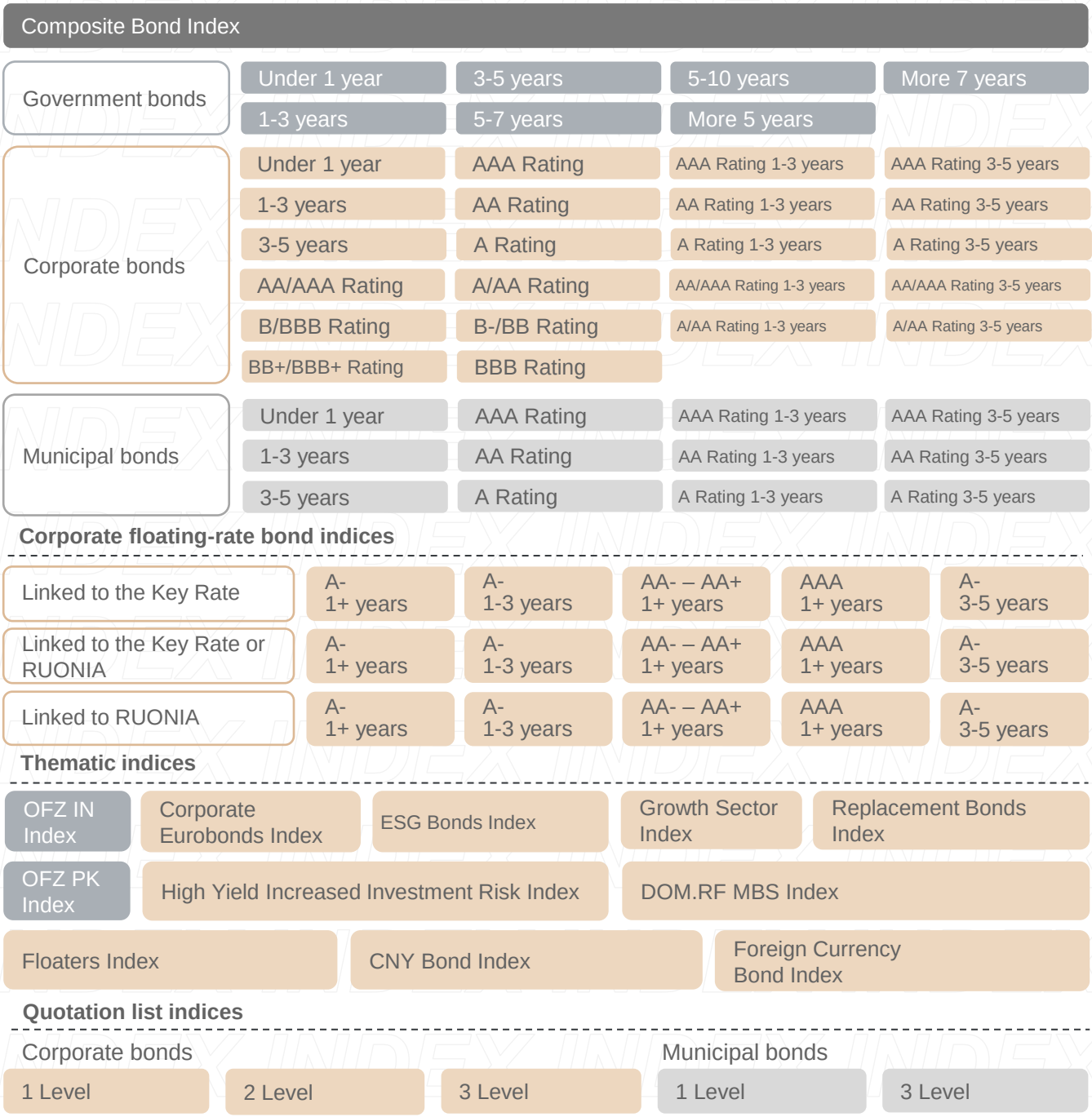
Long-term investment result

Reflects price changes plus accrued coupon income with reinvestment. Even when prices are flat or falling, the coupon stream can produce a positive result. For horizons over 1 year, total return is the right benchmark

In addition to the index value, the Exchange calculates indicators across the index’s entire calculation base. The key one is the weighted average effective yield to maturity, which shows the average yield of the issues included in the index, taking their weights into account. This is the segment yield against which an individual bond is compared. The weighted average duration – an indicator linked to time to maturity – is also calculated.

Navigating the debt market

Bond indices are divided into segments by sector, credit rating, duration and rate type, as well as by theme.

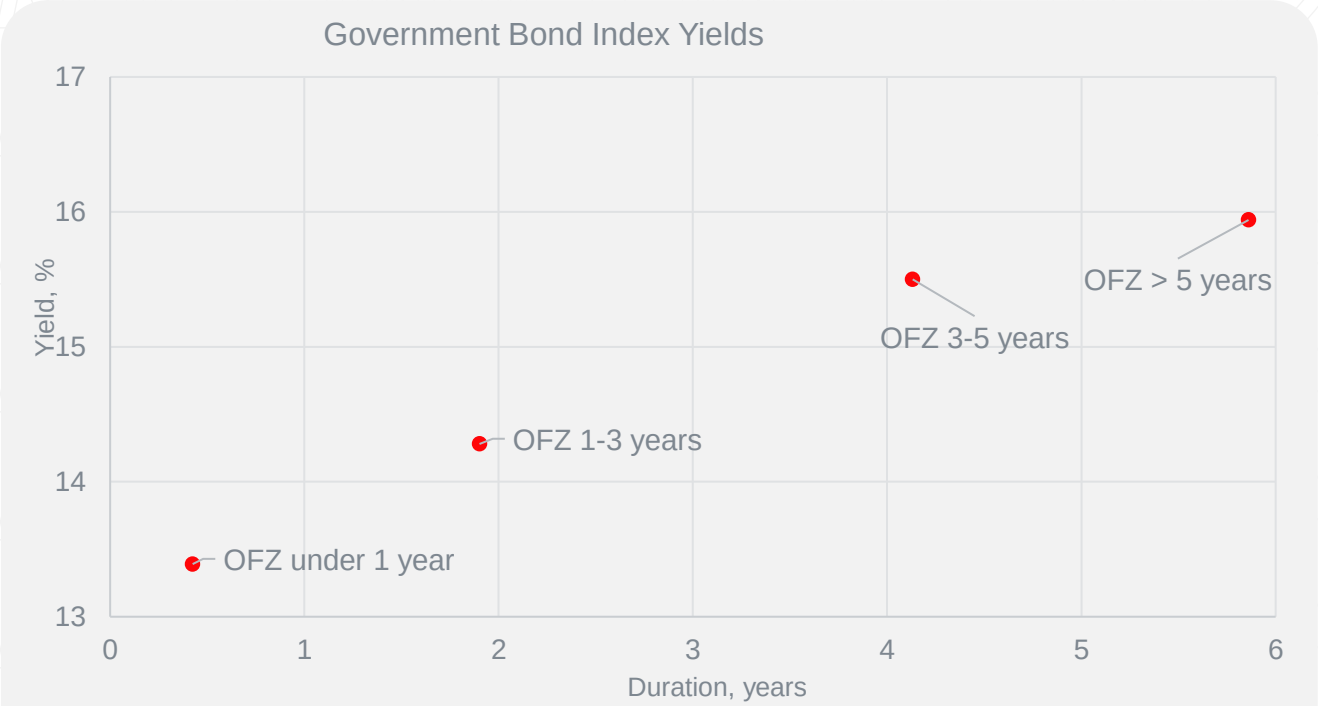


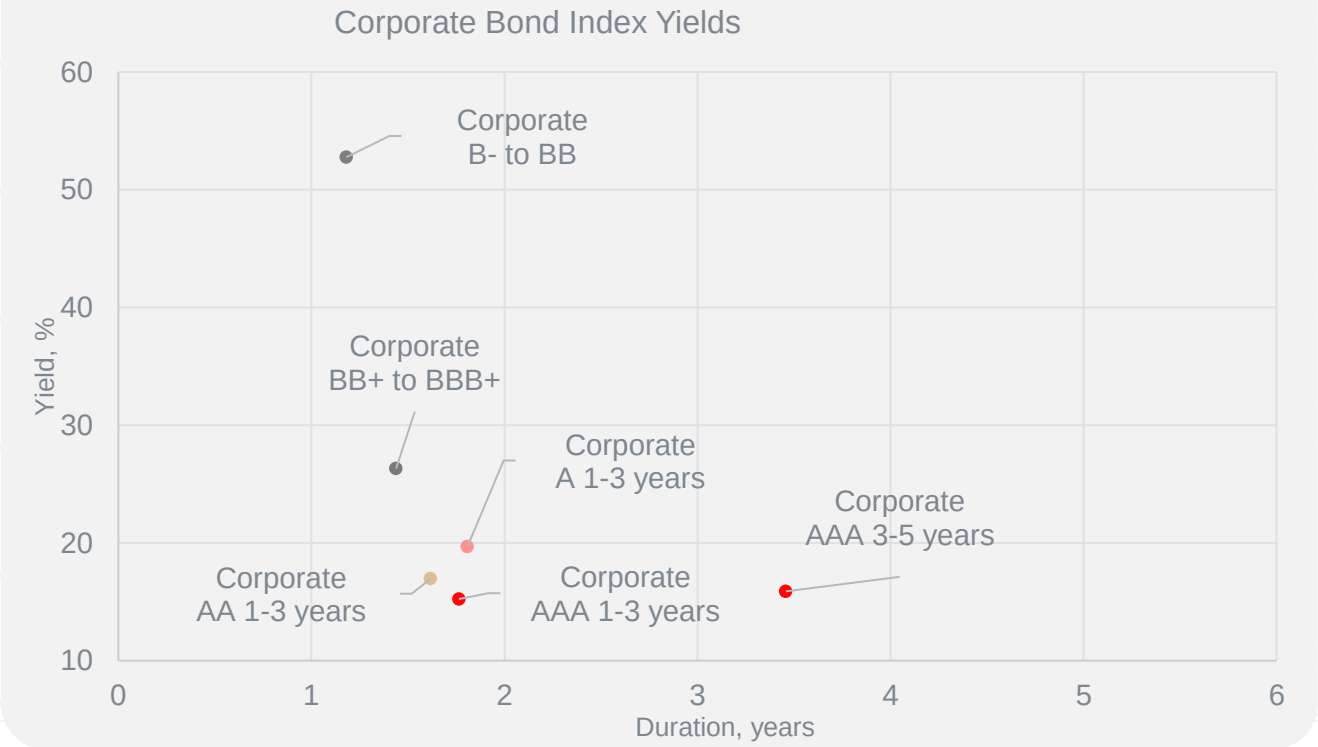
Segmenting the debt market is essential for sound analysis. Short-term bonds are usually less sensitive to changes in interest rates, while longer-dated securities react more strongly to revisions in inflation expectations and the monetary policy path.

Segmentation by credit quality is particularly important. Bonds of more reliable issuers usually offer lower yields, as investors consider their default risk to be lower. Issues from borrowers with lower credit ratings may offer higher yields, but this serves as compensation for additional risks arising from a possible deterioration in the issuer's financial position, difficulties refinancing debt, or reduced liquidity.

Yield map

If indices are plotted on “time to maturity – yield” axes, the debt market stops being a list of tickers and becomes a map of strategies. The horizontal axis is time to maturity; the vertical axis is segment yield. Each point is not an individual issue but an entire market segment, so the map shows structural relationships rather than the particular case of a single issuer. This is especially clear for corporate bonds: indices of AAA-rated issues are clustered in the low-risk zone, while indices of low-rated securities are shifted to the right and scattered vertically – from the highest yield on the map to a level below that of reliable issuers.





What drives segment risk

A high index yield, implying high expected returns, often indicates that the market is demanding compensation for a specific risk. When reading the map, it is important to understand which of these risks is pushing the index yield up.

01 Interest rate
Prices follow market yields. The higher the index duration, the stronger its reaction to rate revisions.

02 Credit
Deterioration in the issuer's financial position, refinancing problems, debt restructuring.

03 Liquidity
The calculated yield cannot be achieved if an issue trades rarely and has a wide bid-ask spread.

04 Reinvestment
Coupons are reinvested at rates that, by the time they are paid, may turn out to be lower than the original ones.

Bond indices do not tell you which security to buy. They answer two questions: how the yield of a specific issue compares with the yield of the debt market segment it belongs to, and how yields differ across segments of the bond market. Indices make it possible to view the debt market not as a set of individual issues but as a structured system – a benchmark for comparing the results of different investment strategies.

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Contacts: index@moex.com
Our office: 13 Bolshoy Kislovsky Lane, Moscow
Our website: https://www.moex.com/ru/indices