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Fixed Income Arbitrage in a Financial Crisis (A)

Introduction

Throughout the “Fixed Income Arbitrage in a Financial Crisis (A)” case study readers examine how fixed income arbitrage strategies function within financial turbulence by analyzing market dislocations which occurred during the 2007-2008 global financial crisis. The case analysis tracks decision paths of Horizon Advisors fund managers who specialize in relative value trades at their hedge fund.



Income Arbitrage

The core of fixed income arbitrage exists in using price variances between related fixed income products as managers keep their portfolios unaffected by interest rate changes. Strategies within normal market environments yield both minimum risk profile and substantial profits.



Crisis Impact

The fund experienced expanding funding spreads together with the collapse of conventional pricing patterns when the financial crisis struck. The market's reduced liquidity levels and systemic threats degraded the arbitrage methods as described in the case.



Conclusion

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