Perpetual

Perpetual knowledge bank series: maturity

By Perpetual Asset Management
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Maturity is the agreed-upon date on which an investment ends, often triggering repayment or some other form of settlement. In the case of bonds, maturity is the time when the bond issuer must repay the original bond value to the bond holder. This date is set when the bond is issued but the bond holder can sell before this time if they want to. Non-payment of a bond at maturity

can result in the issuer defaulting on the obligation, which would then negatively impact their credit rating and ability to raise funds through future bond offerings.

Bonds can be short, medium or long term, which refers to the length of maturity, with the latter traditionally a popular option for retirement savings. Short-term bonds generally mature after one to five years, medium-term bonds after five to 10 years, and long-term bonds after more than 10 years. 'Term to maturity' refers to the amount of time during which the bond owner will receive interest payments on their investment. If they buy a bond and hold it to maturity, they will get back the face value (also known as 'par value').

But if the holder sells the bond before maturity, they will get market value, which may be more or less than the face value. Factors such as supply and demand, market interest rates, duration and credit risk all have an impact on the price of a bond. Bonds with a longer term to maturity will generally offer a higher interest rate. Once the bond reaches maturity, the bond owner will receive the face value of the bond from the issuer and interest payments will cease.

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