Those falling bond prices are good news for investors

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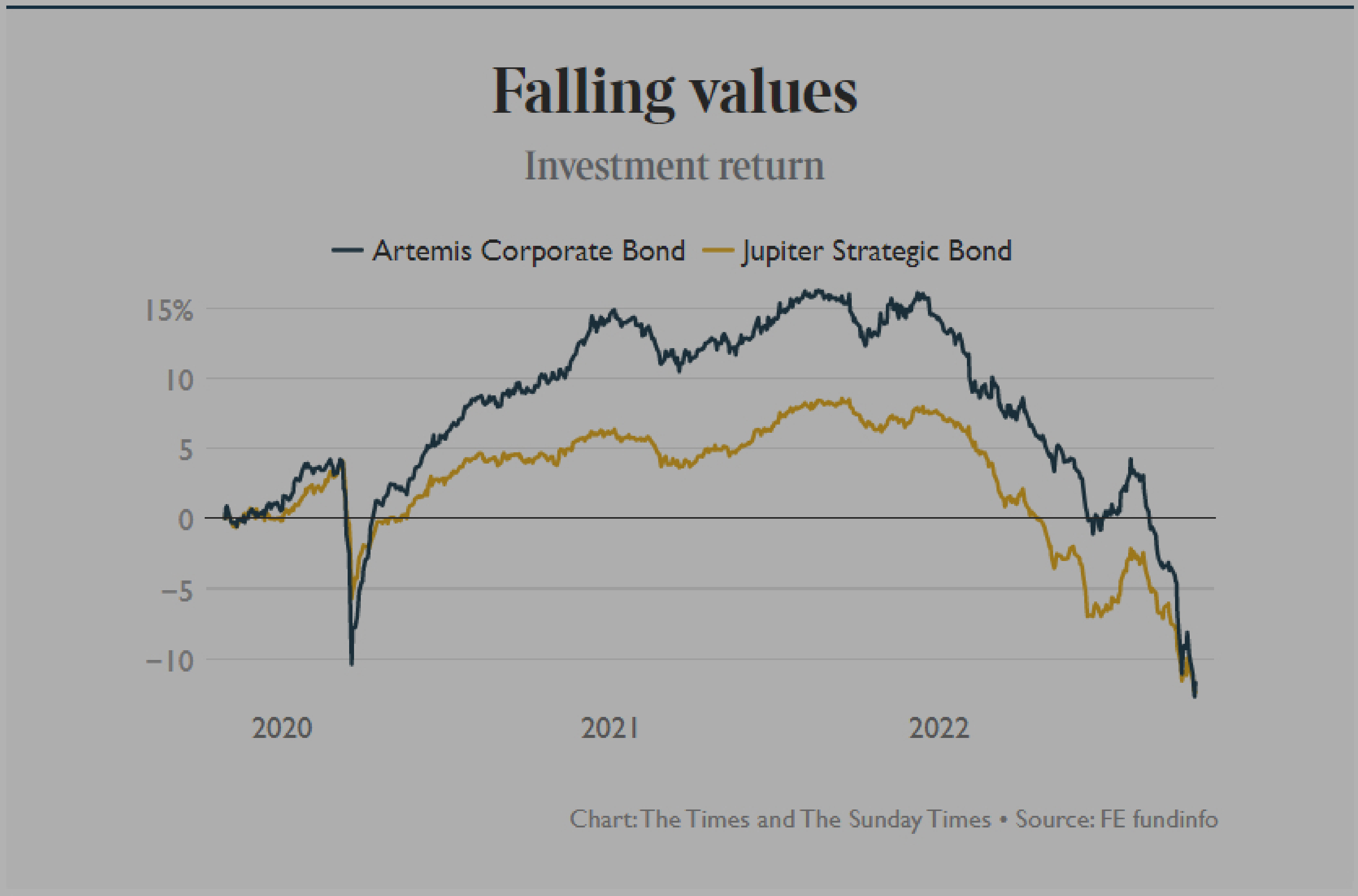
Bonds are an attractive investment option for the first time in a decade, analysts say.

Bonds are essentially IOUs. You lend money to a government or company and it provides regular interest payments over the life of the bond, then returns your initial investment. Ordinary investors buy bonds through bond funds, which trade them in search of higher yields — the return expressed as a percentage of the capital invested.

The interest payments that you receive are fixed, so high inflation erodes your return in real terms. Rising interest rates reduce the appeal of already-issued bonds because you can get higher yields from newer issues.



The average global corporate bond fund is down 9.7 per cent this year, and global government bond funds are down 6.5 per cent. The average sterling corporate bond fund has lost 23.2 per cent and UK gilt funds 30.4 per cent. But when the price of a bond falls, its yield rises. Five, ten and 30-year gilt yields are all above 4 per cent. Rates are better in the US, where a six-month Treasury note pays 4 per cent. UK savers can't buy US bonds directly, but can access them through funds.

The riskiest "investment grade" corporate bonds yield about 6.2 per cent. Some firms pay as much as 9 per cent. Rupert Silver from the wealth manager Credo said that BB and BBB-rated bonds offered the best return for the risk being taken. (Bonds are rated on a scale from AAA, the best, to D, also known as high-yield or junk bonds.)

"Default rates on these bonds have been very low, even during the financial crisis," Silver said. "You're taking a modicum more risk and getting a chunk more yield."

Bonds now account for 38 per cent of Silver's Credo Dynamic fund portfolio, up from a record low of 19 per cent in January. He said that investors should focus on bonds issued by high-quality blue-chip firms. Some experts are still nervous about high-yield bonds — they are often issued by firms in travel and leisure, which could struggle if the global economy falls into recession.

Darius McDermott from the wealth manager Chelsea Financial Services has been buying the **Artemis Corporate Bond** fund, which yields about 3.3 per cent and holds bonds from the miner BHP and the caterer Compass.

Dzmitry Lipski from the platform Interactive Investor prefers strategic bond funds, which can invest in any type of bond. He likes the **Jupiter Strategic Bond** fund — 63 per cent of its portfolio is in corporate bonds such as the French media firm Altice, and 26.7 per cent is in government bonds in America, Australia and Brazil.