ADVISORS ASSET MANAGEMENT

Par Value versus Market Value
What's the Difference?

What is par value?

Also referred to as face value, par value is the nominal or dollar value a bond is worth upon reaching its maturity date. The issuer (i.e. corporation, municipality, or sovereign government) assigns a par value at issuance and promises to pay that amount back at maturity absent default. Par value is also the short-hand manner by which market participants refer to the amount of bonds being purchased or sold. For example, "Please purchase $100,000 of the current 10-year US Treasury note."

What is market value?

Market value is the actual price a bond is worth at any given time. It can fluctuate with the ups and downs of the markets. To expand upon the previous example, "The market price of the current 10-year US Treasury note is 100-16/32nds or 100.50."

What causes the market value to fluctuate?

- **Interest rate movements**
  - When rates rise, the market value of securities fall as market participants are less willing to purchase bonds at current market prices. In other words, demand for bonds decreases, causing prices to fall and interest rates to rise.
  - When rates fall, the market value of securities rises as market participants are more willing to pay higher prices for purchases. In other words, demand for bonds at current market prices increases, causing prices to rise and interest rates to fall.
- **Credit risk**
  - A change in either the issuer's credit rating or the market's perception of the issuer's business prospects will affect the value of its outstanding securities.

What is difference between market and par value?

Market value is the approximate value of a bond if the holder chose to sell it at that given time, which can be more or less than the original purchase price.

Par value is the amount of proceeds the bond holder will receive if they hold a security to maturity. Even if the bond is trading at a lower value than the original purchase price (par value) at a given time, the issuer is obligated to pay back the full par value to the bondholder at maturity.

How does par value and market value for individual bonds differ from other fixed income investments, such as bond funds or ETFs?

As previously discussed, when investing in individual bonds, the bond's par value is returned at maturity (or call date if the bond is called). At the time of purchase, the investor knows the expected future value of the bond, if they hold it to maturity.

Conversely, bond funds and Exchanged Traded Funds (ETFs) do not mature and therefore there is no guarantee the investor will get their initial investment back in the future. They trade on an exchange and can be sold at any time at the current market value known as the Net Asset Value (NAV). Bonds are bought and sold within the fund or ETF's portfolio to maintain the portfolio attributes and meet new money and redemption requirements. The NAV is based on the value of all the securities in the portfolio and typically fluctuates daily in response to factors such as interest rates and credit quality.

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