

## Foreword

In 1992 I joined Hoare Govett Securities, a UK merchant banking institution with a highly regarded “old school” reputation, and after a brief apprenticeship of sorts moved up to the Fixed Income desk run by the legendary Sean Baguley. In due course the firm had set itself up as gilt-edged market makers, and I was delighted to be placed on the short-dated gilts/money markets desk. As such, I didn’t have much to do with “Linkers,” which were the responsibility of the long bond trader.

I can’t deny being relieved, initially, that I didn’t have to price them. To me they were strange beasts, even more problematic to value than some of the exotic illiquid high coupon gilts that were within my bailiwick (can one imagine a UK sovereign bond with a 14% or 15% coupon today? I was not sad to see those two old stocks mature, in 1996 and 1997 respectively!). But an “index-linked” security? What was that all about?

In fact, as I was to learn soon enough, index-linked bonds are very much sought-after investment products, particularly by longer-dated investors such as pension fund managers, who have an objective to protect their clients’ investments against the ravages of inflation.

As I write these words, “ravage” is no longer an over-emotive word to use, because inflation is very much back on the financial markets agenda. Double-digit inflation levels are prevalent on both sides of the Atlantic, indeed all over the world. Persistent inflation is a pernicious thing, eating away consumers’ spending power as well as the value of their savings. An ability to invest in an inflation-protected product, or to hedge against inflation risk, is a very value-added offering in the markets.

And had I possessed this book back in the 1990s, when admittedly the markets looked somewhat different compared to today, far from being apprehensive I would have approached the task of running the Linker book with relish! The authors have produced an exceptionally fine text that de-mystifies every aspect of the index-linked bonds and derivatives markets. Anyone, and everyone, involved in any aspect of this market, be they issuer (borrower), investor, market maker (dealer) or structurer, will benefit from reading this book. It is so accessibly written, so thoughtfully illustrated, so clearly explained, that I am tempted to say it is the last word on the subject!

My favourite chapter is Chapter 3, “Inflation-linked Products and Curves,” which provides a thorough description of both cash and derivative index-linked instruments. Reading it reminded me of the longest-dated product that I have ever personally come across: it was when I was at RBS Global & Banking & Markets Division Treasury, and involved a 70-year inflation-linked derivative transacted with a local authority counterparty. Seventy years! That takes some risk management ☺!

I read this book with a smile on my face, such a great job have the authors done in explaining this exotic, but very relevant and important, asset class. A truly high class work, written by genuine professionals at the top of their game. I commend it to you.

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*December 2022*