

Bond Bargains Are Here

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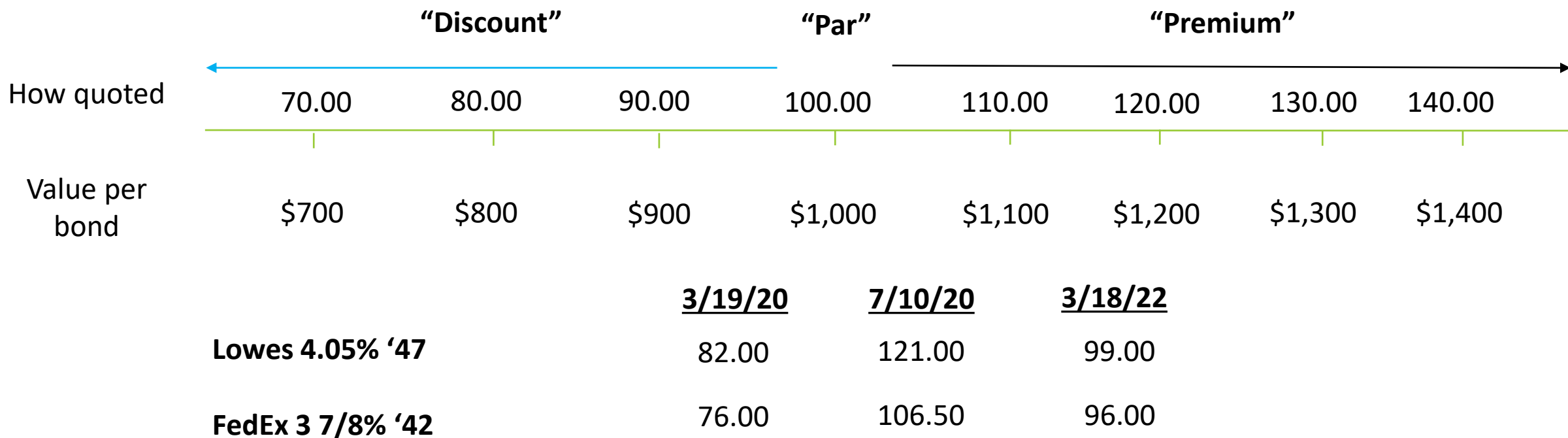
March 19, 2022



How Do We Know When Bonds Are a Good Value?

Individual Bonds Are Quoted Relative to Par Value

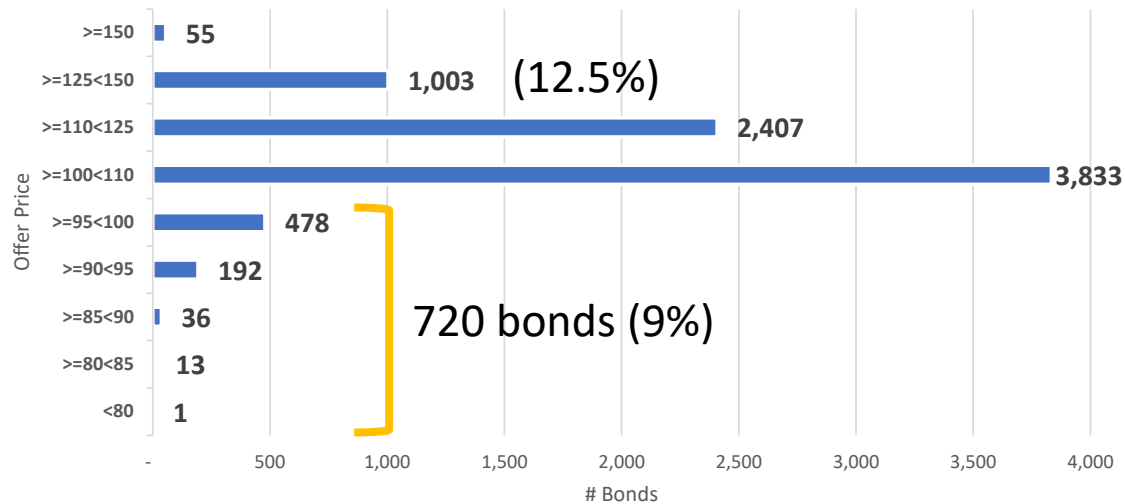
Since individual corporate bonds are quoted as a percentage of their face value, investors can begin assessing a bond's relative value



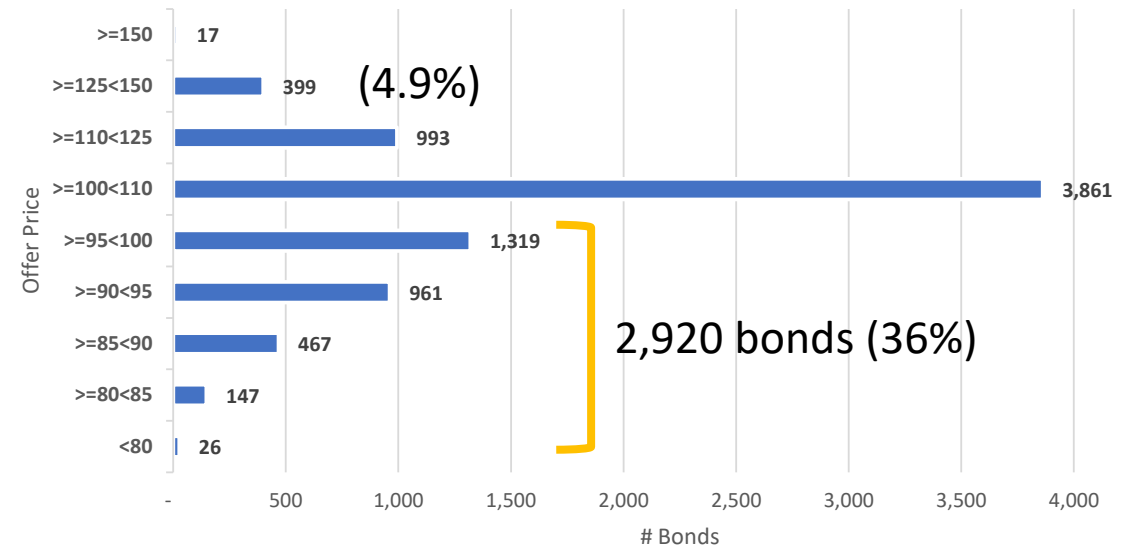
Investment Grade Corporate Bond Prices: May '21 vs. March '22

- Higher US Treasury yields have driven many investment grade corporate bond prices lower, creating buying opportunities not seen in years

8,018 Investment Grade Bonds – May 14, 2021*



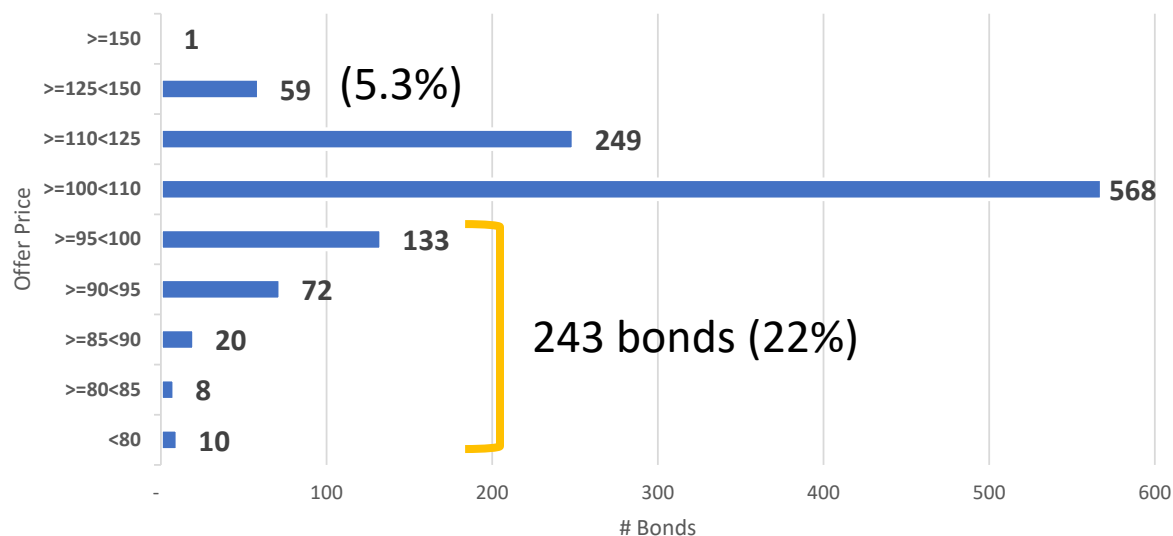
8,190 Investment Grade Bonds – March 17, 2022*



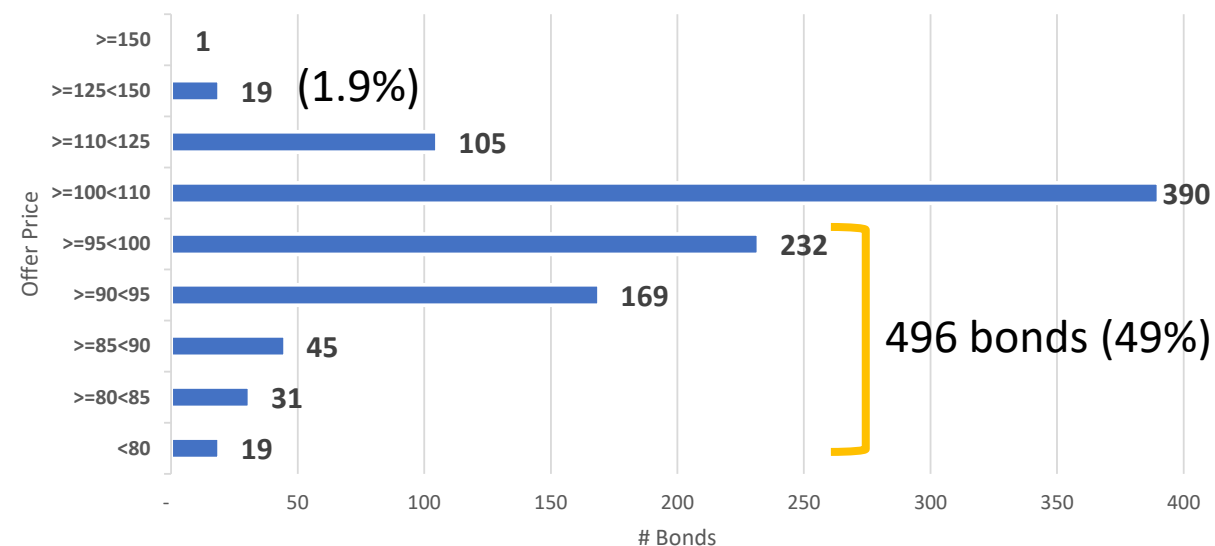
High Yield Corporate Bond Prices: May '21 vs. March '22

On March 17, 49% of high yield corporate bonds trading on Fidelity.com were trading at less than par

1,120 HY Bonds – May 14, 2021*



1,011 HY Bonds – March 17, 2022*



Bond Funds: Impossible-to-assess prices and high turnover

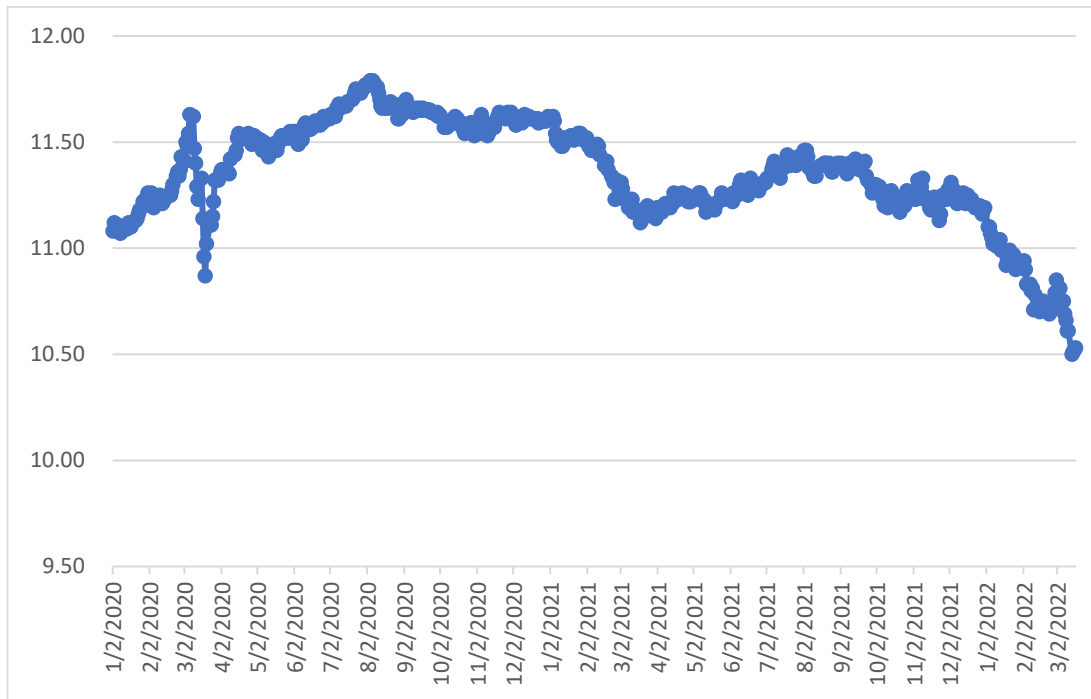
Bond Fund	Net Assets \$BB*	# Bonds	3/18/22 Price	Turnover*
Vanguard Total Bond Market Index Fund (VBTLX)	\$305	10,127	10.53	69%
iShares AGG	\$85	10,149	108.48	179%
PIMCO Total Return	\$67	~2,500	9.66	133%
MetWest Total Return	\$78	1,916	10.27	474%

*Turnover is for the most recently reported 12-month period. Net assets are as of the most-recently reported dates available.

Cannot Identify Value with Bond Funds

Bond fund investors lack the tools of individual bond investors to assess value and potential upside













VBTLX Price Performance



Source: Nasdaq market data

- Bond funds are priced off NAV / share rather than as a percentage of par value
- Bond funds lack financials similar to bond issuers, so investors cannot compare financial metrics to prices
- Bond funds don't have credit spreads
- When assessing upside, a bond fund does not have to return to "par value" like a bond does and can stay at or below the current pricing level long term

Value Investing: Individual Corporate Bonds vs. Funds and Stocks

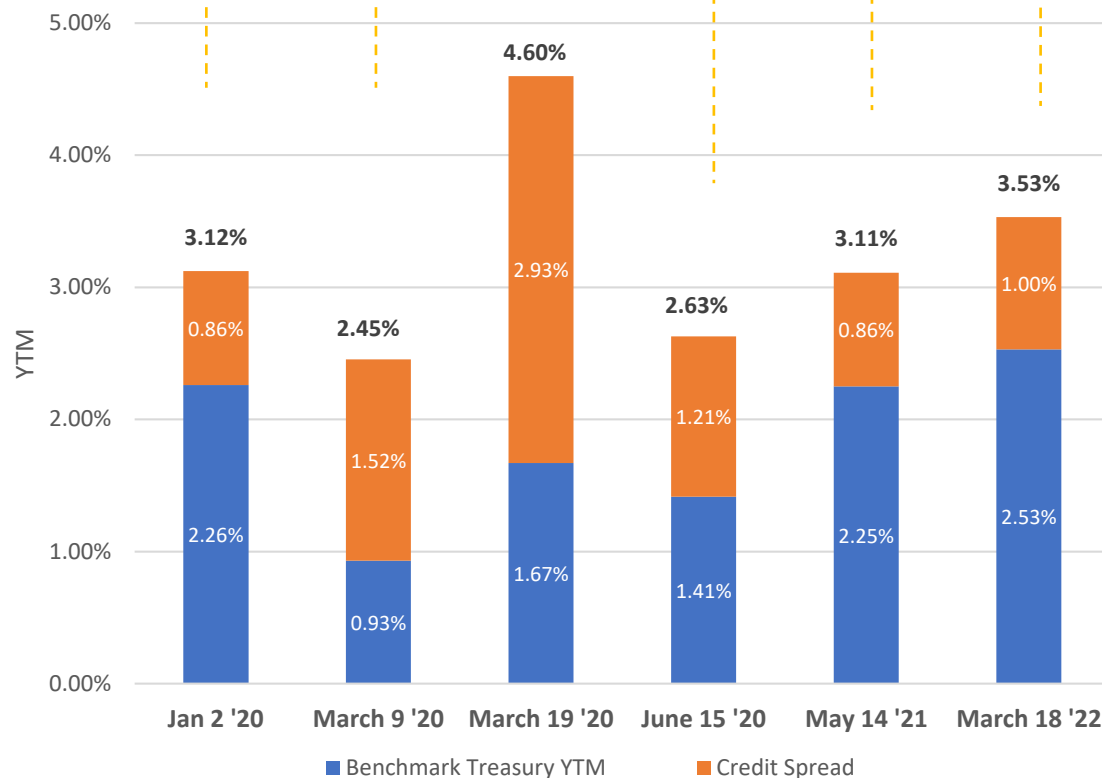
	Individual Corporate Bonds	Bond Funds	Stocks
Quantifiable Downside			
Can Compare Financial Metrics to Prices			
Contract with Issuer to Pay Face Value			
Higher Upside			

Drivers of Recent Bond Price Movements

Drivers of Changes in Apple '45 Bond Price

Building Blocks of Apple 4.375% '45 Bond Price: 2020-Mar 18 '22

Price: 121.83 135.91 96.69 131.78 121.67 113.42





Apple 4.375% '45 Daily Bond Price: 2020-Mar 18 '22



For More on Understanding Credit Spreads....

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How To Calculate and Use Leverage Ratios

We calculate leverage ratios to assess default risk and relative value of corporate bond investments. Leverage ratios tell us how much... [Read more](#)




Where Can I Buy Corporate Bonds Online?

Corporate bond investors can buy bonds online from a number of online brokers, including Fidelity Investments, E*TRADE Financial, Charles Schwab, and... [Read more](#)




How BondSavvy Is Better Than Institutional Credit Research

BondSavvy makes CUSIP-level corporate bond investment recommendations whereas most credit research provides issuer-level... [Read more](#)




What Are Credit Spreads and How Do They Work?

Credit spreads, also known as Treasury spreads, are the difference between a corporate bond's yield to maturity ("YTM")




What Corporate Bond Returns Does BondSavvy Seek To Achieve?

Many bond investors believe a bond's yield is the only return you can achieve. Further, many media outlets such as CNBC... [Read more](#)



What Role Do Individual Corporate Bonds Play in Income Investing?

Individual corporate bonds are a crucial component of income investing as they provide yields generally higher than

 BondSavvy
Making You a Better Bond Investor.

bondsavvy.com/corporate-bonds

Rising Treasury Yields Don't Impact All Bonds the Same Way

- The 0.76-0.79 percentage point increase in long-dated US Treasury yields has impacted some corporate bonds more than others

Corporate Bond Price Charts: December 3, 2020-March 18, 2022*

Natural Gas Operator



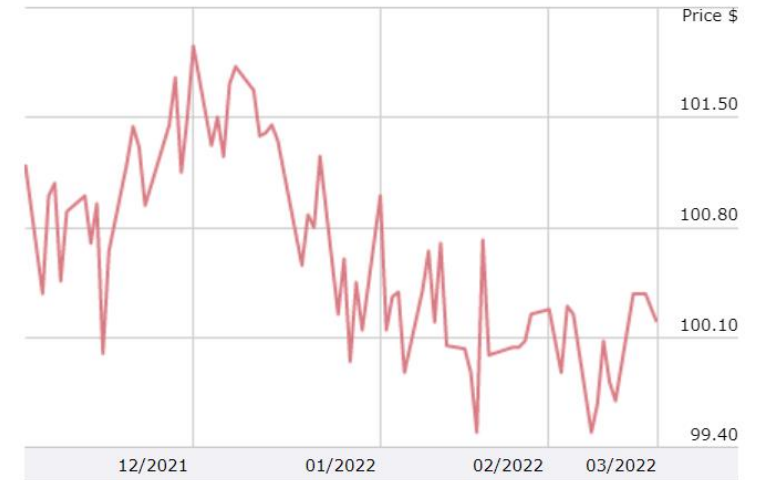
**Callable @ 102 in May '22
Matures 2025**

Leading Tech Company



**Make-Whole Call
30+ Year Maturity**

Quad / Graphics 7.00% 5/1/22



How Do We Identify Value in Corporate Bonds?

Rule #1: Don't Rely on Bond Ratings

	Moody's	S&P
Investment Grade	Aaa	AAA
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
	A1	A+
	A2	A
	A3	A-
	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-
Non-Investment Grade or "High Yield"	Ba1	BB+
	Ba2	BB
	Ba3	BB-
	B1	B+
	B2	B
	B3	B-
	Caa1	CCC+
	Caa2	CCC
	Caa3	CCC-



Bond ratings impact how bonds trade:

Investment-grade bonds can be sensitive to changes in Treasury yields

Upgrades and downgrades can impact corporate bond prices

But....they have many shortcomings:

Can often go years without changing

Don't speak to the value of a bond

"Fuzzy metrics" often weighted more heavily than traditional credit ratios

Good BBB vs. Bad BBB

Many market gurus have warned about lurking trouble in BBB-rated corporate bonds, but not all BBB bonds are created equal

- Kroger and AB InBev have similar ratings, but Kroger has much stronger financials
- Kroger is what an investment-grade issuer should be: a strong business with low leverage
- Investors doing their homework can find opportunities where a bond issuer's credit risk is not aligned with its bond rating

Kroger vs. AB InBev Financials *

		Anheuser- Busch InBev
<i>\$ in millions</i>	Kroger	
June 15 '20 Rating	Baa1 / BBB	Baa1 / BBB+
Cash	\$2,726	\$7,169
Total Debt	\$12,603	\$100,949
Revenue (Last 12 Months)	\$126,584	\$51,108
EBITDA (Last 12 Months)	\$6,028	\$19,903
Leverage Ratio	2.1x	5.1x
Q1 '20 Growth		
Revenue	11.5%	-10.0%
EBITDA	25.2%	-17.7%

Why Kroger and AB InBev Have Similar Ratings

- Based on industry, Moody's and S&P weigh different factors to determine a corporate bond's rating
- Since "Leverage and Coverage" only comprise 30% of AB InBev's rating, the other factors inflate its rating, which results, in our view, an undeserving Baa1 Moody's rating for the company

Moody's Weightings: Retail Industry

Factor	Factor Weighting	Sub-Factor	Sub-Factor Weighting
Scale	10%	Revenue	10%
Business Profile	30%	Stability of Product	10%
		Execution and Competitive Position	20%
Leverage and Coverage	45%	EBIT / Interest Expense	15%
		Retained Cash Flow / Net Debt	15%
		Debt/EBITDA	15%
Financial Policy	15%	Financial Policy	15%
Total	100%	Total	100%

Moody's Weightings: Alcoholic Beverage Industry

Factor	Factor Weighting	Sub-factor	Sub-factor Weighting
Scale	15%	Revenue (USD Billion)	15%
Business Profile	32.5%	Diversification and Exposure to Riskier Markets	10%
		Category / Brand Strength and Diversification	7.5%
		Global Industry Position	7.5%
		Innovation, Distribution and Infrastructure	7.5%
Profitability	7.5%	EBITA Margin	7.5%
Leverage and Coverage	30%	RCF / Net Debt	10%
		Debt / EBITDA	12.5%
		EBIT / Interest Expense	7.5%
Financial Policy	15%	--*	15%
Total	100%		100%

*This factor has no sub-factors.

Source: Moody's Investors Service

How We Identify Value

\$ in millions, except quote values

Bond	Quote ⁽¹⁾		Offer Price		Credit Ratings	Bid/Offer # Quotes (# Bonds)	Amount Outstanding	Credit Ratios		
	Bid	Offer	Yield to Maturity ⁽¹⁾	Spread to Treasury ⁽¹⁾				Leverage ⁽²⁾		Interest Coverage ⁽³⁾
								Gross	Net	
<p><i>Subscribe to learn recommended bonds</i></p>	93.70	94.61	10.08%	8.83%	B3 / B	11 / 9 (2,500)	\$350	4.1x	3.6x	3.4x
	97.27	98.00	4.07%	2.48%	Ba3 / BB-	8 / 10 (2,215)	\$500	0.9x	0.8x	25.8x
	91.59	92.50	6.42%	4.84%	B3 / B-	4 / 6 (1,500)	\$1,500	2.9x	2.2x	5.4x
	84.70	85.56	3.28%	1.20%	Baa1 / A-	7 / 7 (1,800)	\$1,500	0.9x	Negative	38.1x

(1) Quotes as shown on Fidelity.com from 1-1:15pm EST on January 12, 2022

(2) Most recent quarter's total debt divided by last twelve months' EBITDA

(3) Last 12 months' EBITDA divided by last quarter's annualized interest expense

Recommended Bonds: Size, Balance Sheet, and Duration Risk

Financials as of, or for date ending on, September 30, 2021

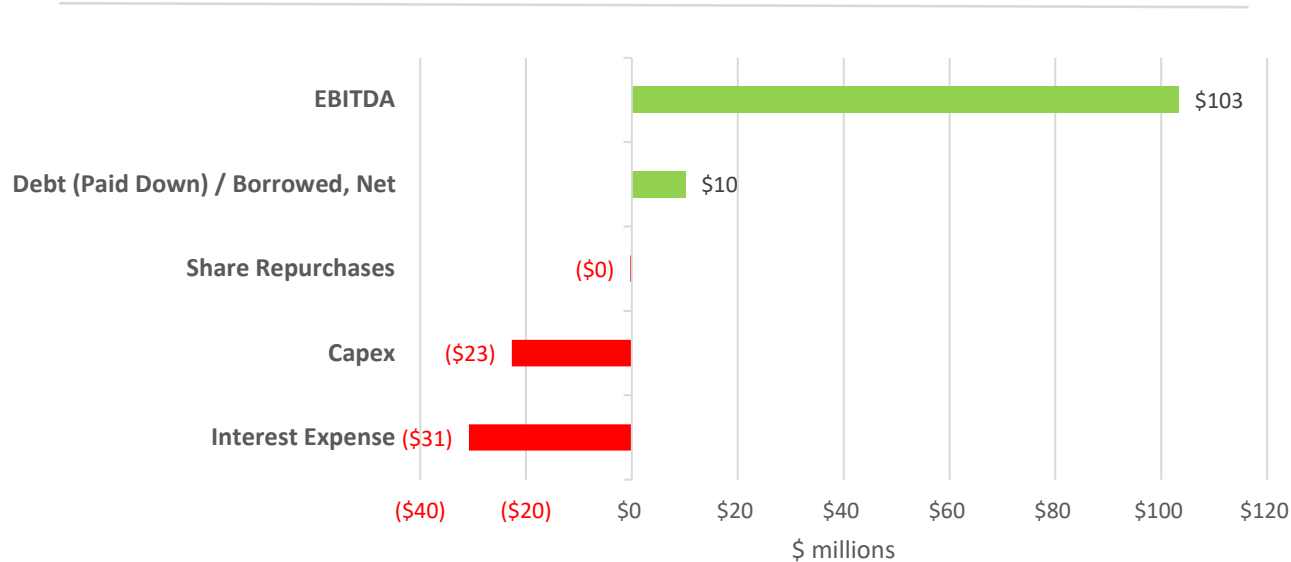
\$ in millions, except quote values

Bond	Spread to Treasury ⁽¹⁾	YTD YOY Growth		Last 12 Months			Debt	Cash	Interest Rate Sensitivity	Upcoming Maturities	
		Revenue	EBITDA	Revenue	EBITDA	Margin				Amount	Date
<div> <p><i>Subscribe to learn recommended bonds</i></p> </div>	8.83%	-4%	9%	\$595	\$142	24%	\$577	\$60	Low	\$226 \$350	Oct '23 May '25
	2.48%	32%	117%	\$25,071	\$1,671	7%	\$1,436	\$119	Low	\$550	Sep '25
	4.84%	1%	9%	\$12,811	\$3,478	27%	\$10,024	\$2,445	Low	\$2,000 \$1,500	Jul '22 Mar '23
	1.20%	17%	24%	\$9,052	\$4,110	45%	\$3,650	\$9,718	High	\$850 \$400	Sep '26 Jun '27

(1) Quotes as shown on Fidelity.com from 1-1:15pm EST on January 12, 2022

Understanding Capital Allocation

9 Months Sep 30, 2021 Capital Allocation (\$MM)



- Comparing leverage ratios and growth to a bond's credit spread is the first step to identifying value

BUT...

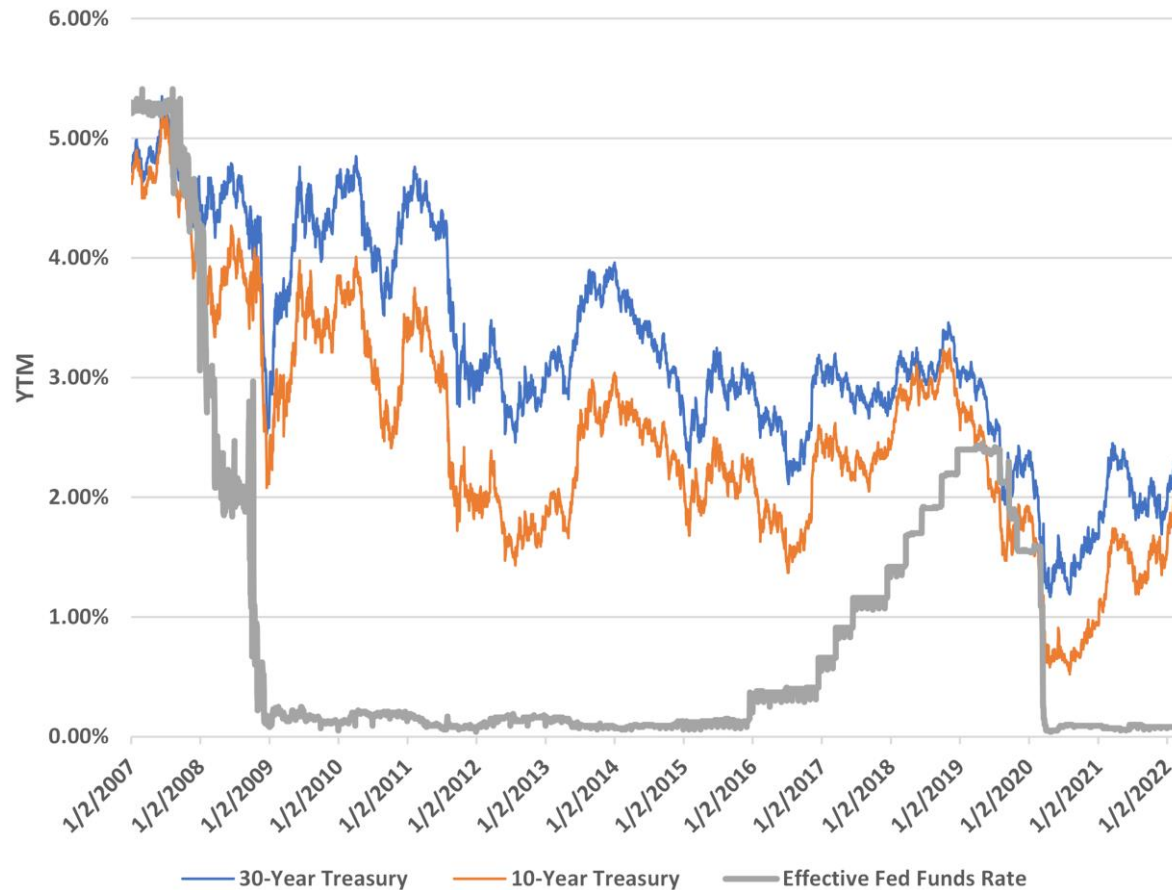
- The next key question is what a bond issuer does with its profits
- Many companies allocate significant portions of profits to share buybacks and dividends, which do not improve the lot of bondholders
- Issuers with 'value-enhancing' capital allocation can improve their credit profiles over time

How Have We Been Approaching the Current Market?

- **Focus on high-yield bonds:** Of our four bond recommendations made January 12, three were high yield bonds, which are generally less sensitive to changes in US Treasury yields
- **Value in investment grade:** We continue to identify values in investment-grade corporate bonds that have fallen to the 70s and 80s
- **Moving bonds back to buy:** A number of previously recommended bonds remain holds; however, we intend to move certain of them back to BUY as market conditions improve
- **Strong issuer financials:** Of 40+ bonds recommended buy or hold, all but 6 were issued by companies with leverage ratios of 3.5x or less

The Fed Holds Some but not *All* of the Cards

US Treasury Yields vs. Effective Fed Funds Rate: 2007-Feb '22



- Short-term Treasury yields can move in lockstep with the federal funds rate, but the same is not true with longer-dated Treasuries
- As shown, US Treasury yields can be highly volatile even when the fed funds rate isn't changing
- US Treasuries are a \$20+ trillion market that is driven by many factors other than Fed activity

Doesn't inflation erode the value of bonds?

Key Recent Drivers of Long-Term US Treasury Bond Yields

- Believing “if inflation goes up, bond prices go down” oversimplifies how the bond market works
- Inflation is one of many factors that impacts US Treasury yields, as shown in the chart
- If rampant inflation ensues, it could hurt long-term investment grade bonds

BUT...

- Higher commodity prices have driven high yield bonds issued by oil & gas and other commodity-based issuers higher



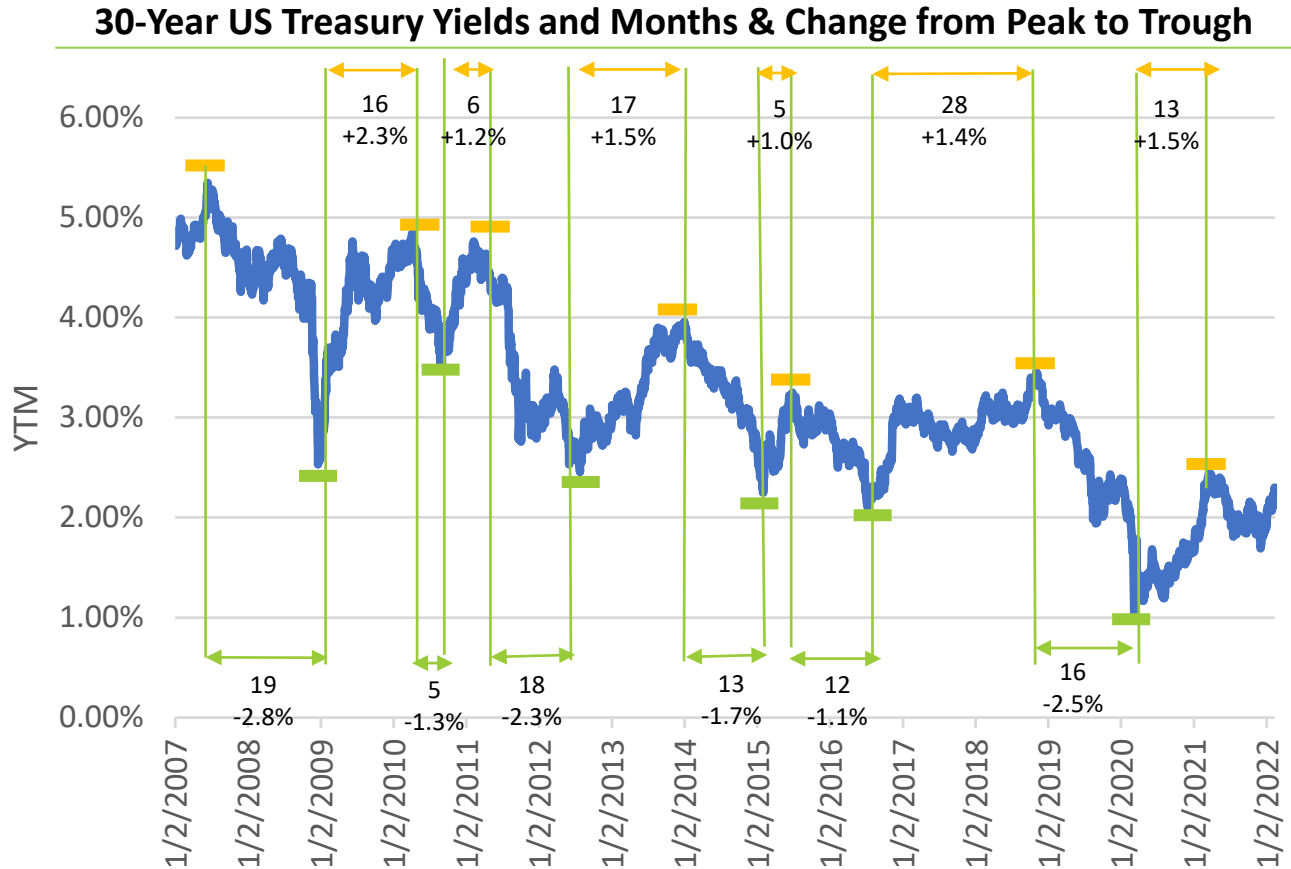
Factors driving Treasury yields higher

- Record levels of US Treasury issuance
- *Higher inflation expectations*
- Increased appetite for riskier investments as economy recovers
- Reduced Treasury purchases by foreign investors

Factors driving Treasury yields lower

- Treasury yields still high vs. Germany and Japan
- Fed purchases of Treasurys
- Global growth outlook still mixed
- Taxable bond fund inflows
- *Technology and globalization have kept inflation low for decades*

US Treasury Yield Volatility Can Be a Long-Term Investor's Friend



Source: US Treasury data and BondSavvy calculations

- Treasury yields are volatile, and peaks and troughs regularly occur
- Going back to 2018, many investors stayed away from bonds due to the 'rising rate environment'
- Investing in bonds over time limits investors' risk of buying at inopportune times
- Upward movements in US Treasury yields could cause us to hold a position longer than usual

Inflation's Impact on Corporate Bonds Can Often Be Overstated

- Inflation can be a tailwind for many high yield corporate bond issuers, especially energy companies
- Inflation is an historical number and, therefore, doesn't speak to future price increases, which is what could *potentially* erode the value of certain securities
- While inflation is reported as one number, it's not the same for everyone:
 - For example, housing makes up a large weighting of the CPI, but for homeowners with fixed-rate mortgages, the impact can be negligible

Inflation, however, does cause many bond investors to head for the exits, which can create buying opportunities



The strong potential returns and relative safety of corporate bonds are too important to ignore



I founded BondSavvy to make bond investing easy and to increase investor returns



Host 11 webinars annually, where we make new recommendations, update existing recommendations, and answer subscriber questions



Supplement webcasts with regular email updates



View our “Returns” page to see how our performance has compared to the leading corporate bond ETFs

Next Subscriber Events:

March 24 @ 4pm CDT: *The Super Bondcast*

April 6 @ 4pm CDT: *The Bondcast*

Price increase March 20 at 11am CDT

- **\$150 increase for one-year subscription**
- **\$350 increase for two-year subscription**

Act before the deadline to subscribe at our current fees



Thank you and stay well

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