



National
Investment
Services

Understanding Bonds and NOT the 007 Kind

Mark Anderson, CFA
Chief Strategy Officer

**October 3,
2023**

Contents

- 1. Definitions & Examples**
- 2. Possible Risks**
- 3. Speaking Bond**
- 4. Key Takeaways**

Presenter Bio

Mark Anderson, CFA

Chief Strategy Officer – National Investment Services (“NIS”)

Mark is charged with leading NIS’s Dynamic Fixed Income allocation discussions and brings a top-down focus to these meetings, monitoring implementation of the strategy, and ensuring that clients’ goals and expectations are being met. He is also a co-manager of NIS’s Preferred Stock Strategy, sits on the firm’s Executive and Investment Committees, and is an owner of the firm. He also assists with managing taxable municipal bonds in clients’ portfolios and is responsible for the firm’s economic and fixed income market outlooks. In addition, Mark represents NIS in client meetings and at industry conferences.



Bond – What it is



An Instrument that represents a loan made by an investor to a borrower (corporation, government, etc.)

Borrower agrees to pay interest for the term of the loan and principal back upon maturity

Bond – Many Types

- Treasury, Agency (issued by U.S. Govt.)
- Corporate (U.S., Foreign, Investment Grade, High Yield)
- Mortgage Backed



"My heart says yes, but my head also says yes.
Which is why, I think, my neck is suspicious."

- Asset Backed – Auto, Credit Card
- Municipal – Tax Exempt, Taxable (G.O., essential service, lease revenue, special tax)

Bond – Example

New City XYZ needs a new school and needs to come to the bond market

Terms get set – coupon rate, maturity, size, ratings



Risks – Repayment

The issuer's ability or willingness to repay comes into question

Possibility of default could mean loss of principal and future interest

WWW.ANDERSTOONS.COM



"Even after applying the filter the numbers still look awful."

Risks – Ratings

Bond ratings fall between AAA to D (default)

There are a handful of agencies that analyze and rate bonds

Shifts in rating generally affect the market price of the bond



"How come there's no Bcc between Bb and Cc?"

Risks – Liquidity

Liquidity in the bond market refers to how quickly or easily one can enter or exit a position without having a large impact on the price

During times of uncertainty, liquidity seems to disappear



Risks – Interest Rate

Bond Prices generally move in the opposite direction of Interest Rates

Lower prices equate to higher yields



Risks – Interest Rate

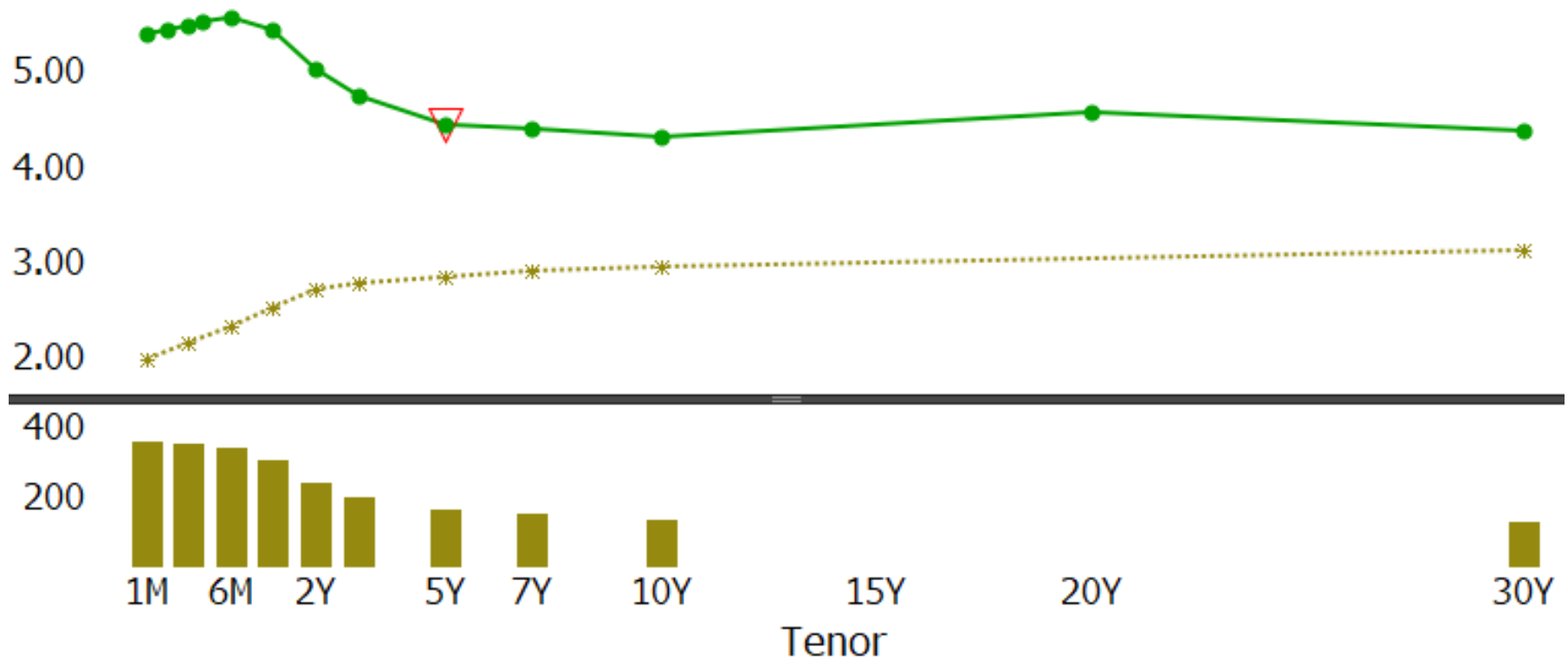
Yield of the 10-Yr. U.S. Treasury Note



Source, Bloomberg

Bond Speak — Curve and basis point

Current U.S. Treas. curve (green) vs. same curve 5 yrs. ago (dots)



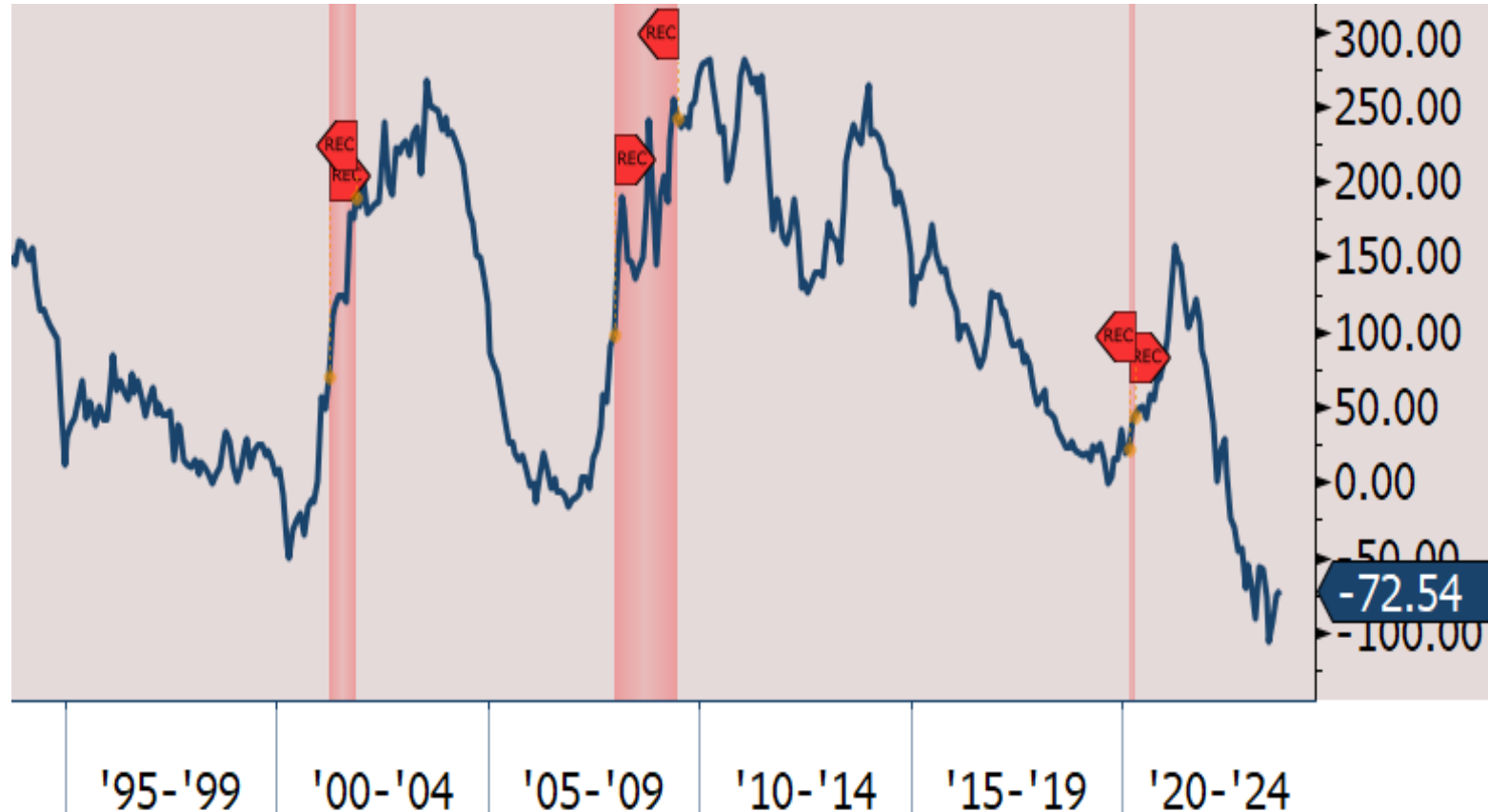
Copyright© 2023 Bloomberg Finance L.P.

07-Sep-2023 07:27:40

Source, Bloomberg

Bond Speak – Inversion

10 yr. Treasury yield vs. 2 yr. Treasury yield



USYC2Y10 Index (Market Matrix US Sell 2 Year & Buy 10 Year Bond Yield Spread) 10 Yr. U.S. T Yld Monthly 14SEP1993-07SEP2023

Copyright© 2023 Bloomberg Finance L.P.
07-Sep-2023 07:00:29

Source, Bloomberg

Bond Speak - Spreads

Investment Grade Corporate Bond Spread



Source, Bloomberg

Bond Speak – Duration

A term that measures a bond or portfolio's sensitivity to changes in interest rates

It factors in the yield, maturity, coupon, and call/payment features

Longer-dated bonds usually have higher durations



"I know it's an odd request, but can we move my release back one day?"

Key Takeaways

- > Bond terms are dictated by the issuer and the market
- > Risks – Repayment, Ratings, Interest Rate, Liquidity
- > Speaking the language
Yield, Spread (OAS), Duration

Disclosures

This presentation is for educational and informational purposes only and does not constitute investment advice. Any opinions expressed by the presenter reflect the views and judgment of the presenter as of September 2023 and are subject to change. While National Investment Services (“NIS”), its employees, and the presenter make every effort to provide accurate and current information in this presentation, they do not guarantee the accuracy of the information and the information should not be regarded as a complete analysis of the subjects discussed.

A portion of the data contained in this presentation is based on information and charts gathered from Bloomberg which is a third-party source. Although NIS believes the source is reliable, it has not independently verified any such information and makes no representations or warranties as to the accuracy, timeliness, or completeness of such information.

No content should be construed as a recommendation or offer to buy or sell, or a solicitation of any offer to buy or sell any securities.

NIS does not represent, warranty, or imply that the information in this presentation can or will predict future investment results. Past performance is not indicative of future results. ¹⁷

For further information about NIS, please see <https://nisi.net>.