



# Friday Favorites- Bond ETFs

## BOND ETFs

With the Fed on the cusp of cutting interest rates, the economy slowing, inflation trending back toward pre-pandemic levels, and bond yields remaining well above pre-pandemic norms, it's worth better understanding bonds. In particular, describing the multitude of bond ETF options and key bond characteristics is helpful.

If interest rates return to pre-pandemic levels, bond investors will benefit from current high yields and price appreciation. Accordingly, the following brief review of some bond characteristics may help you better assess which type and maturity of bonds may be best for your portfolio and risk tolerance.

### Interest Rate Risk -Duration

A bond's duration is a measure of the sensitivity of the bond's price to its change in yield. A bond's duration is always shorter than its time until maturity. Some bonds do not pay a coupon and instead are offered at a discount to par. Treasury bills and zero-coupon bonds are two examples. In these cases, the maturity and duration are very similar.

The lower the coupon, the closer the duration is to the time until maturity.

A bond with a duration of 7 will gain 7% if the yield falls by 1%. Conversely, if the yield increases by 1%, the price will decline by 7%.

Therefore, choosing the proper duration bond to meet your interest rate risk goal is essential. Generally, the more risk-averse one is, the lower the duration they should select, and vice versa.

### Credit Risk

Credit risk applies to all non-U.S. Treasury bonds. It is the risk that the bond issuer will default. In most cases, the bondholder of a defaulted bond is left with a small percentage of the bond's original value. Credit-related losses can occur for many reasons beyond the state of the economy.

Credit agencies rate bonds based on their credit risk. Credit risk can also be implied via credit spreads. This is the yield difference between a similar maturity Treasury and the bond in question.

Spreads or the yield premium tend to widen during periods of economic as well as when the perceived risk of the debtor increases. Spread widening or tightening can have a significant effect on the bond price.

### Callable

Some bonds are callable, meaning that, on a specific date, the issuer can redeem the bond at par. Most often, issuers redeem bonds priced above par and do not call those priced below par. When looking at callable bonds always use the lesser of yield to maturity and yield to worst. The yield to worst is the yield you will earn if it is called.

### Yield Curve

The yield curve is a graph of yields for given maturities. When considering what maturity bond to buy, it is helpful to consider how you think the yield curve may shift over time. Consequently, the bond's duration, coupled with potential yield curve changes, is an important consideration for investors.

For more information on bonds, please read our article entitled- [Treasury Bond FAQ](#)

## Bond ETFs

The selected ETFs listed below represent the various classes of bonds; they do not represent our recommendations.

In most cases, many more bond ETFs are available for each category and maturity range. Furthermore, actively managed ETFs can switch between classes, credit ratings, and duration to take advantage of market opportunities.

| Bond ETF Classes and Examples |                                   |        |                |          |       |                             |
|-------------------------------|-----------------------------------|--------|----------------|----------|-------|-----------------------------|
|                               | Type                              | Ticker | Maturity Range | Duration | Yield | Comments                    |
| Treasury                      | Bill                              | BIL    | 1-3 month      | 0.13     | 5.30% |                             |
|                               | Note                              | SHY    | 1-3 years      | 1.84     | 4.11% |                             |
|                               | Note                              | IEI    | 3-7 years      | 4.32     | 3.91% |                             |
|                               | Note                              | IEF    | 7-10 years     | 7.19     | 3.95% |                             |
|                               | Bond                              | TLT    | 20+ years      | 16.52    | 4.30% |                             |
|                               | Bond                              | ZROZ   | 25+ years      | 26.64    | 4.28% | Zero coupon, High risk      |
| Corporate                     | Investment Grade (BBB- or better) | IGSB   | 1-5 years      | 2.61     | 4.94% |                             |
|                               | Investment Grade (BBB- or better) | LQD    | Broad          | 8.36     | 5.14% |                             |
|                               | Investment Grade (BBB- or better) | IGLB   | 10+ years      | 12.58    | 5.59% |                             |
|                               | Junk (BB+ or lower)               | JNK    | Broad          | 3.17     | 7.26% |                             |
|                               | Junk (BB+ or lower)               | HYG    | Broad          | 3.15     | 7.22% |                             |
| Municipal                     | Investment Grade (BBB- or better) | MUB    | Broad          | 6.24     | 5.59% | Tax Equiv. Yield            |
|                               | Investment Grade (BBB- or better) | SMB    | Short          | 2.66     | 4.67% | Tax Equiv. Yield            |
| Aggregate                     | Investment Grade (BBB- or better) | AGG    | Broad          | 5.96     | 4.41% | Hold all Types of bonds     |
| Mortgage Backed Security      | MBS (Government Guaranteed)       | MBB    | Broad          | 5.38     | 3.92% | Duration can change rapidly |
| Inflation Protected           | UST Short Term TIP                | STIP   | 0-5 years      | 2.49     | 4.10% |                             |
|                               | UST Long Term TIP                 | TIP    | 5+ years       | 6.69     | 3.54% |                             |
| International                 | Non-US Developed Sovereign Bonds  | IGOV   | Broad          | 8.06     | 2.57% |                             |
|                               | Emerging Markets                  | EMB    | Broad          | 7.06     | 6.08% |                             |

## Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.