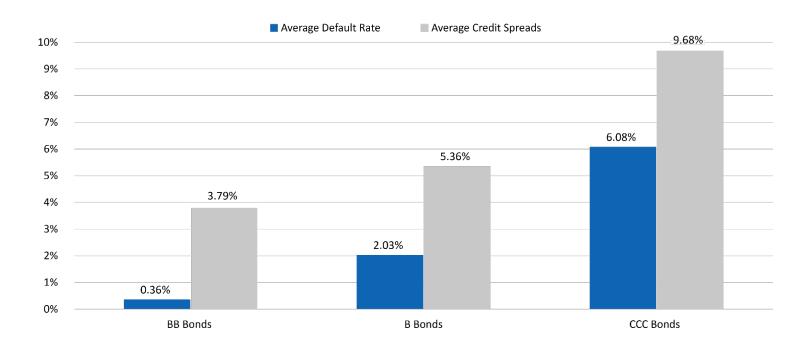


IS IT WORTH THE RISK?

Credit spreads exist to compensate investors for the extra risk in purchasing a credit-risky bond over a risk-free bond. While investors might expect default rates for corporate debt to be closer to the average credit spread offered by corporates, this has not been the case over the past 23 years. During this period, corporate-bond investors have seen the delta between corporate bond spreads and default rates at or near multi-year highs, as defaults have continued to sit at or near multi-year lows. This makes the case that investors may be getting compensated above what they should be for the default risk.

Average Credit Spreads vs. Average Defaults Over the Past 23 Years



Past performance does not guarantee future results. Investing involves risk, including loss of principal. Source: Bloomberg (23-year period: 12/31/2001 to 12/31/24). Corporate bonds are debt securities issued by corporations to fund business activities, offering investors regular interest payments and the return of the principal amount at maturity. Corporate debt refers to money borrowed by corporations to fund their business operations and growth. It is a form of debt financing, which involves obtaining funds that must be repaid, along with interest, to lenders. Bond ratings are grades given to bonds that indicate their credit quality. Ratings are expressed as letters ranging from "AAA," which is the highest grade, to "D." Investment grade refers to a bond whose credit rating is BBB- or higher. High yield refers to a bond whose credit rating is below BBB-. Default is the failure to make required interest or principal repayments on a debt, whether that debt is a loan or a security. Spread is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, represented by treasury bonds. Spread income refers to the additional income from this difference. Delta here refers to the difference between two values.