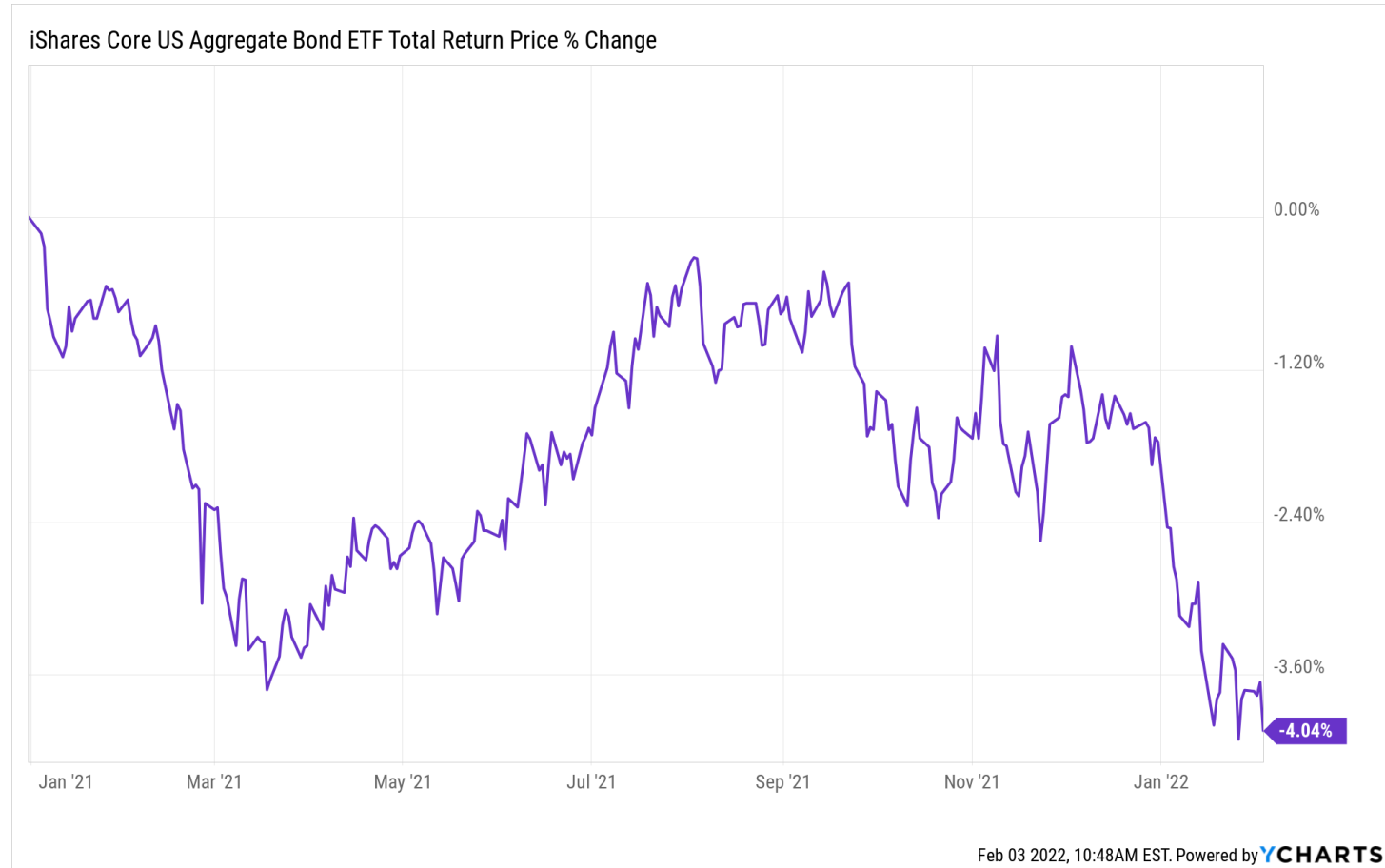


Potential Solutions for Income Focused Clients

Thursday, February 3rd, 2022

Tom Essaye, President Sevens Report Research

Bond Market Performance



Bond Market Risks

- Risk #1: Duration. With the Fed and most major global central banks raising rates, duration risk is one of the biggest factors to address in bond portfolios.
- Risk #2: Inflation. In reality and statistically, inflation is well over 5%, and that effectively guarantees a loss on short duration debt.
- Risk #3: Credit Risk. This is not as big of a problem, yet. Unlike previous crises, the pandemic did not result in a material destruction of corporate balance sheets except in the travel and leisure sector.

Bond Market Characteristics

Late 2021 Macro Characteristics

- Inflation high and rising
- Fed getting slightly more hawkish
- Economic growth strong
- Yields generally stable
- How did bond classes perform?

2022 Macro Characteristics

- Inflation high, but peaking?
- Fed has gotten much more hawkish, but is this the peak?
- Economic growth possibly wavering
- Yields rising, curve flattening
- How have bond classes performed?

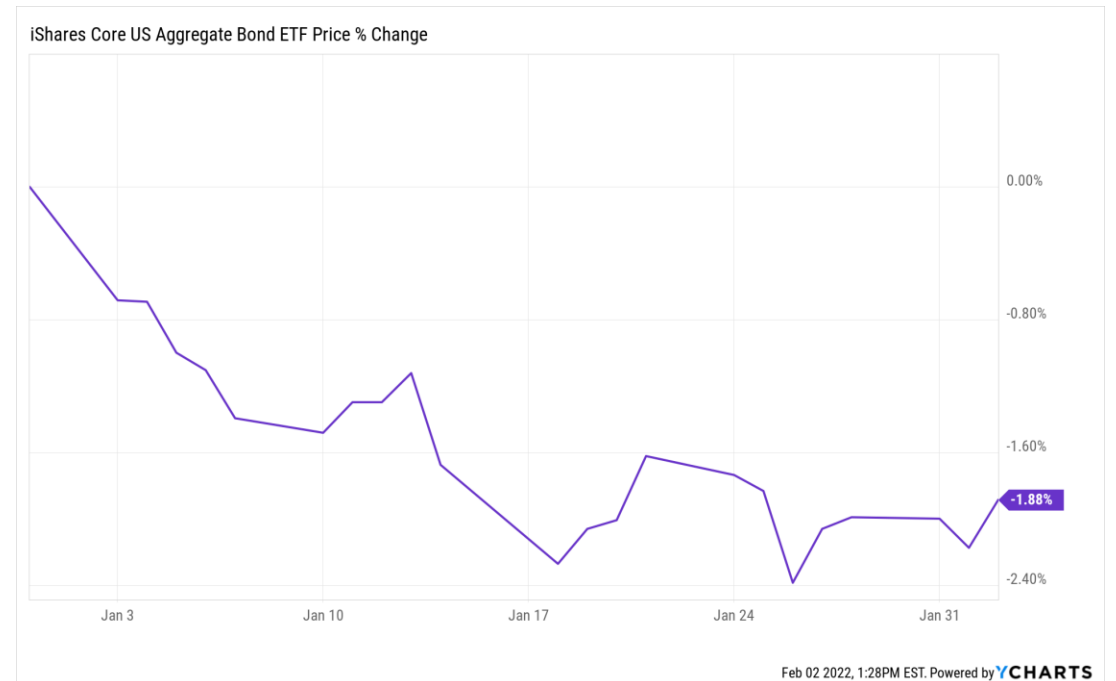
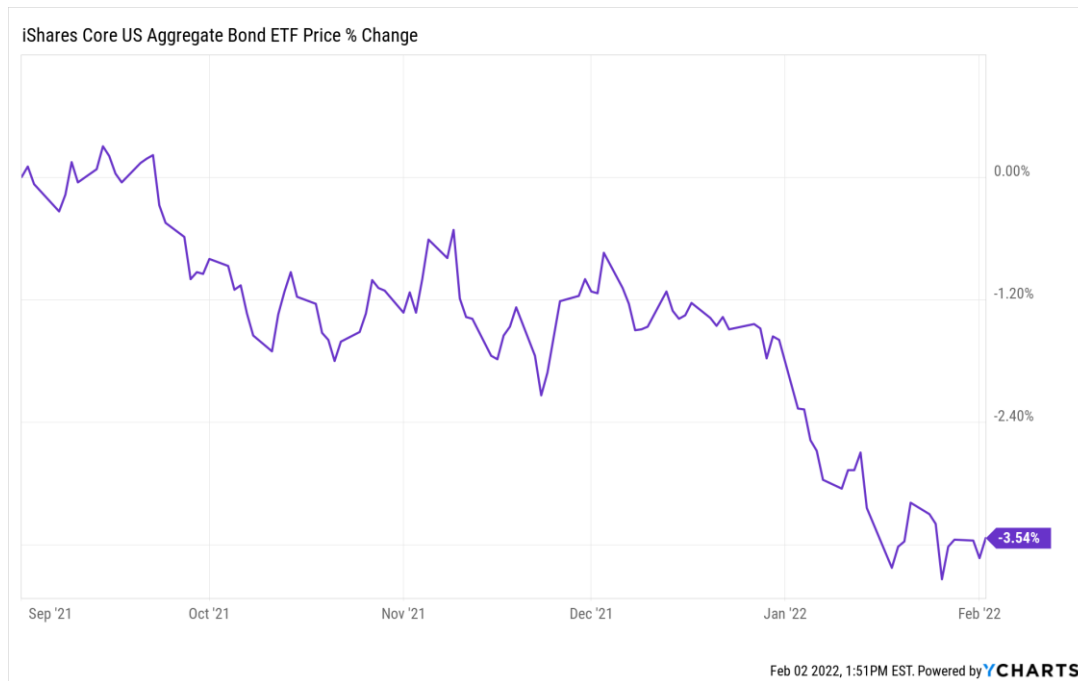
Broad Bond Market

AGG 30-Day SEC Yield: 1.74%

YTD Performance: -1.88%

Duration: 6.6 years

Max Drawdown: 12.83%



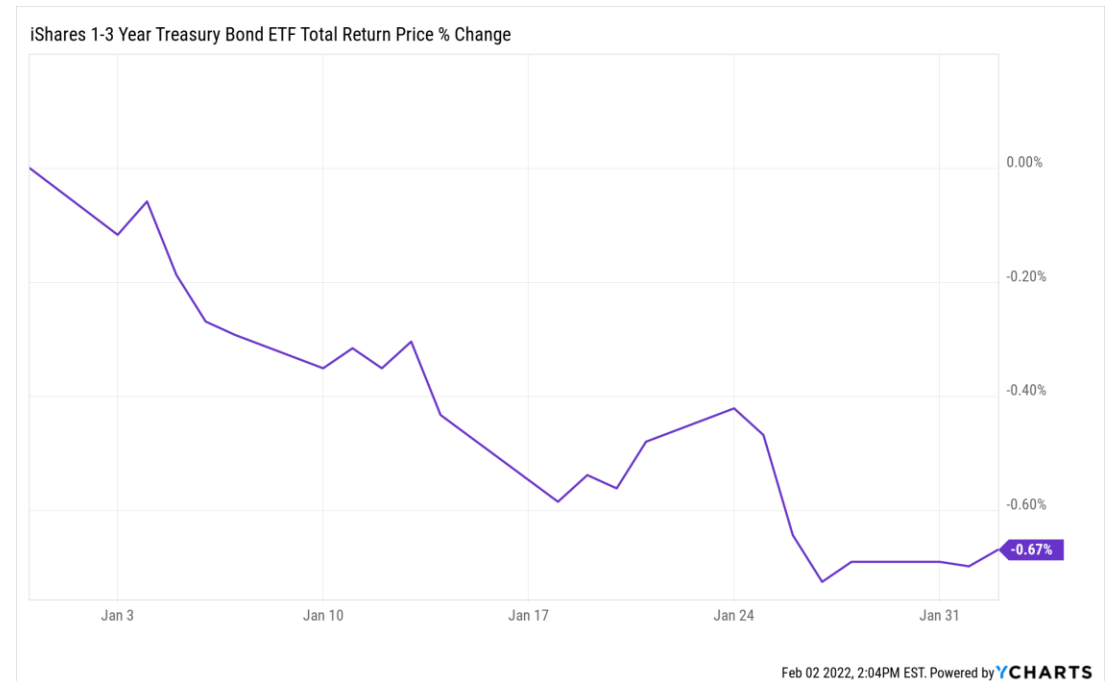
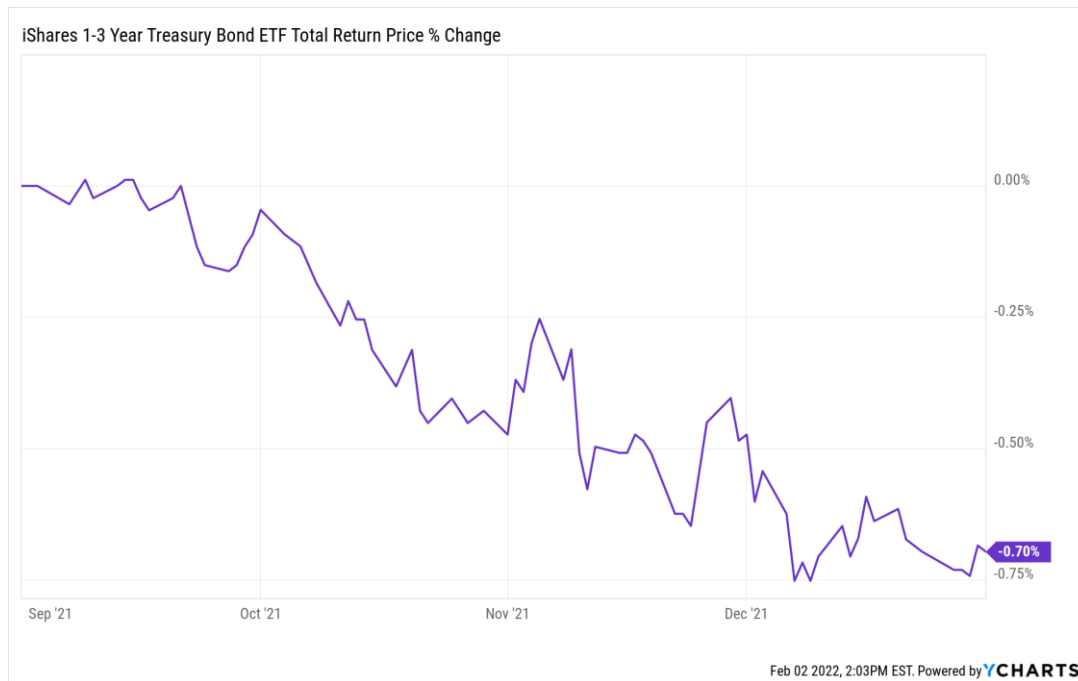
Short End of the Curve

SHY 30-Day SEC Yield: 0.76%

YTD Performance: -0.67%

Duration: 1.9 years

Max Drawdown: -2.23%



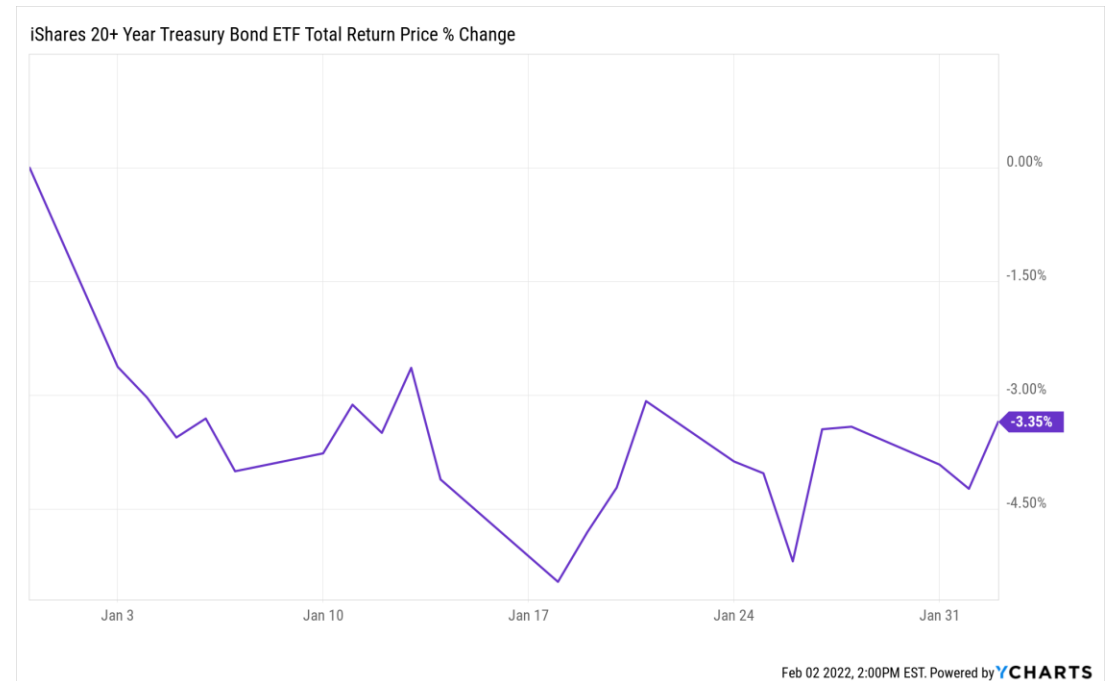
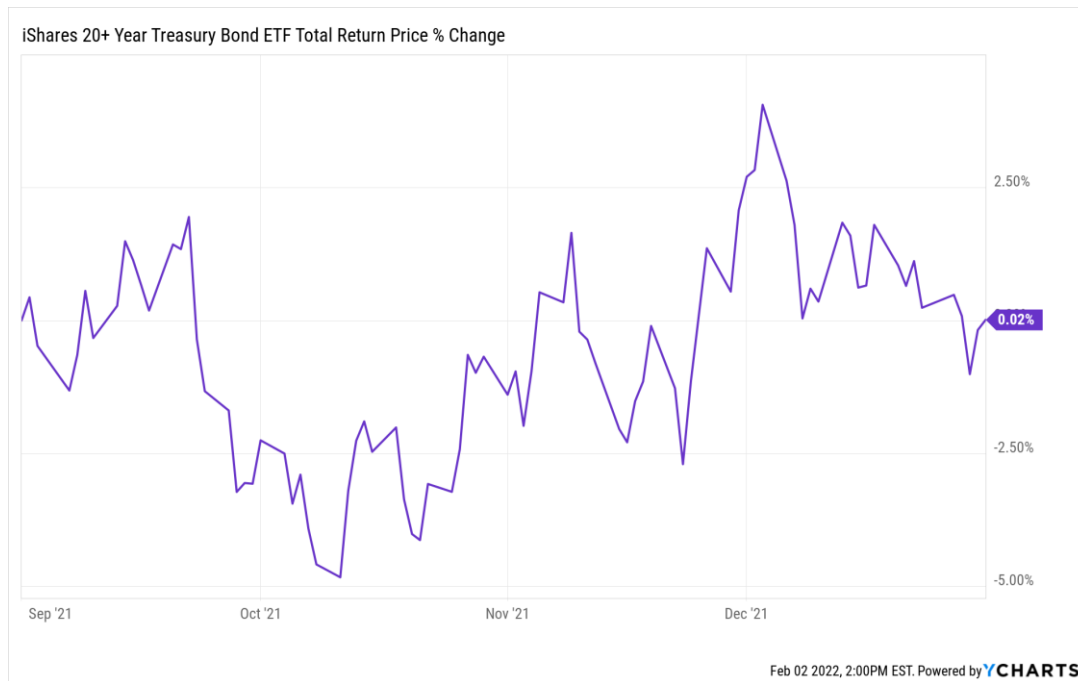
Long End of the Curve

TLT 30-Day SEC Yield: 1.98%

YTD Performance: -3.35%

Duration: 19.2 years

Max Drawdown: -26.58%

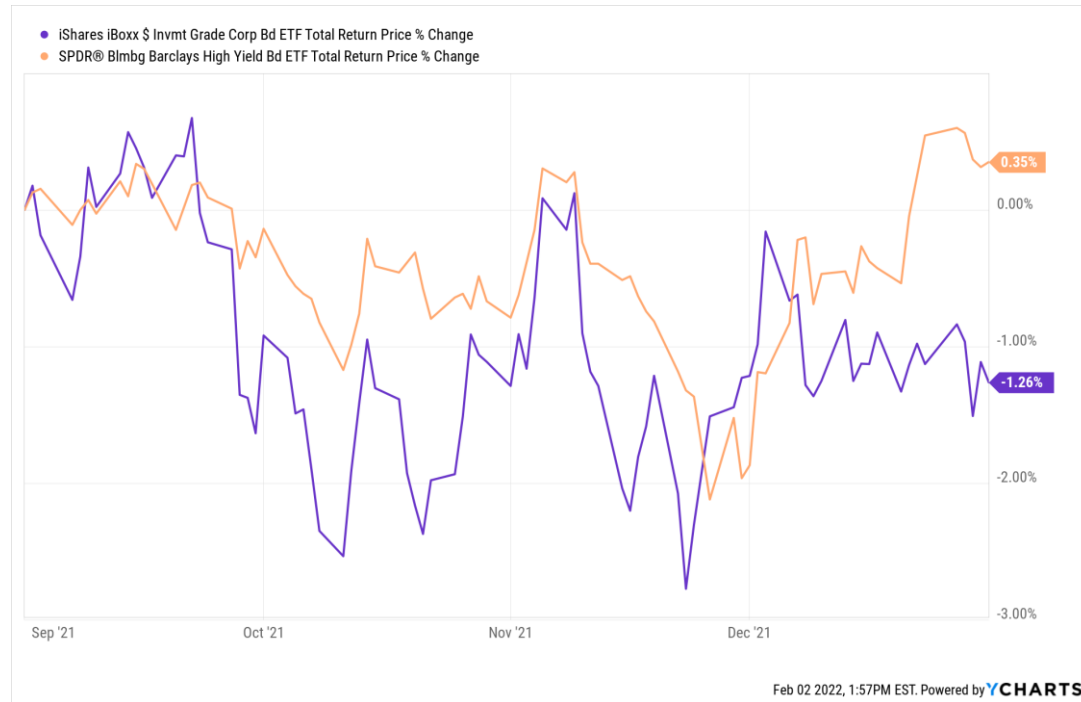


Corporate Debt (Investment & Junk)

LQD 30 Day SEC Yield: 2.69%

YTD Performance: -3.14%

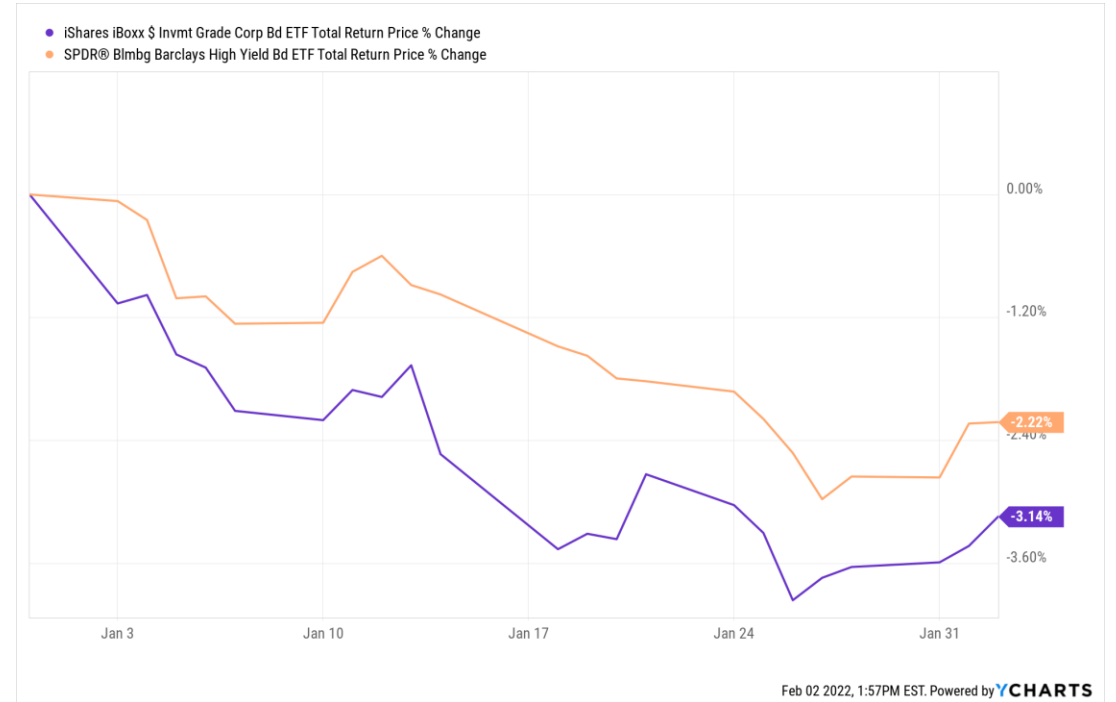
Duration: 9.6 years



JNK 30 Day SEC Yield: 4.42%

YTD Performance: -2.22%

Duration: 3.5 years

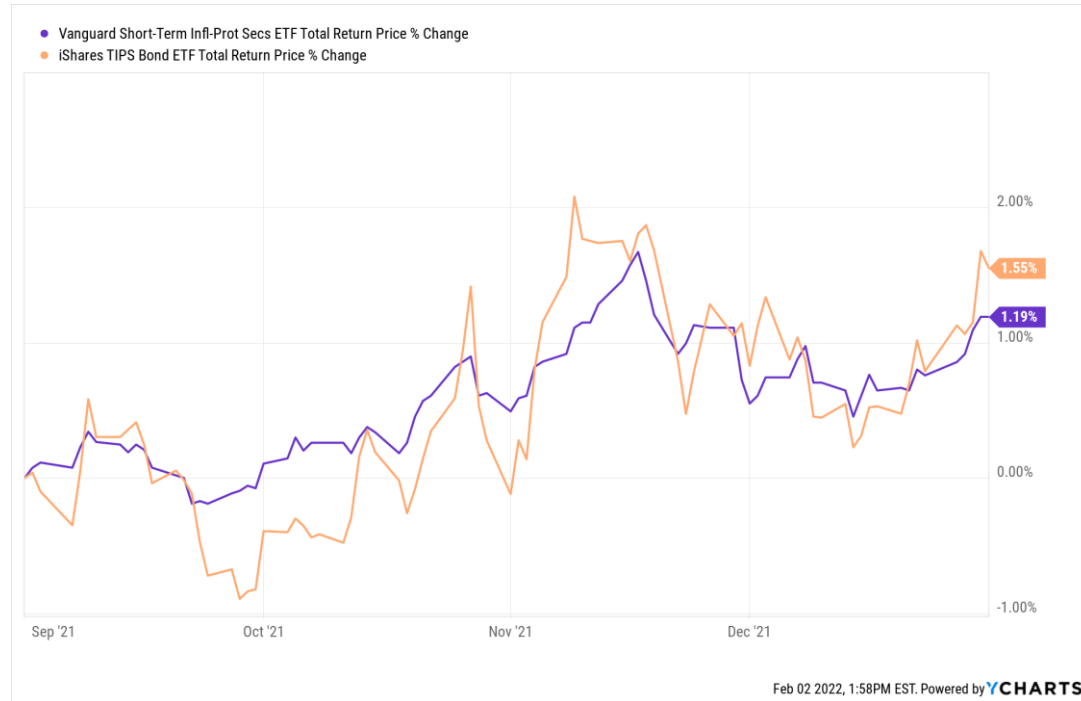


TIPS

TIP 30 Day SEC Yield: 5.5%

YTD Performance: -2.50%

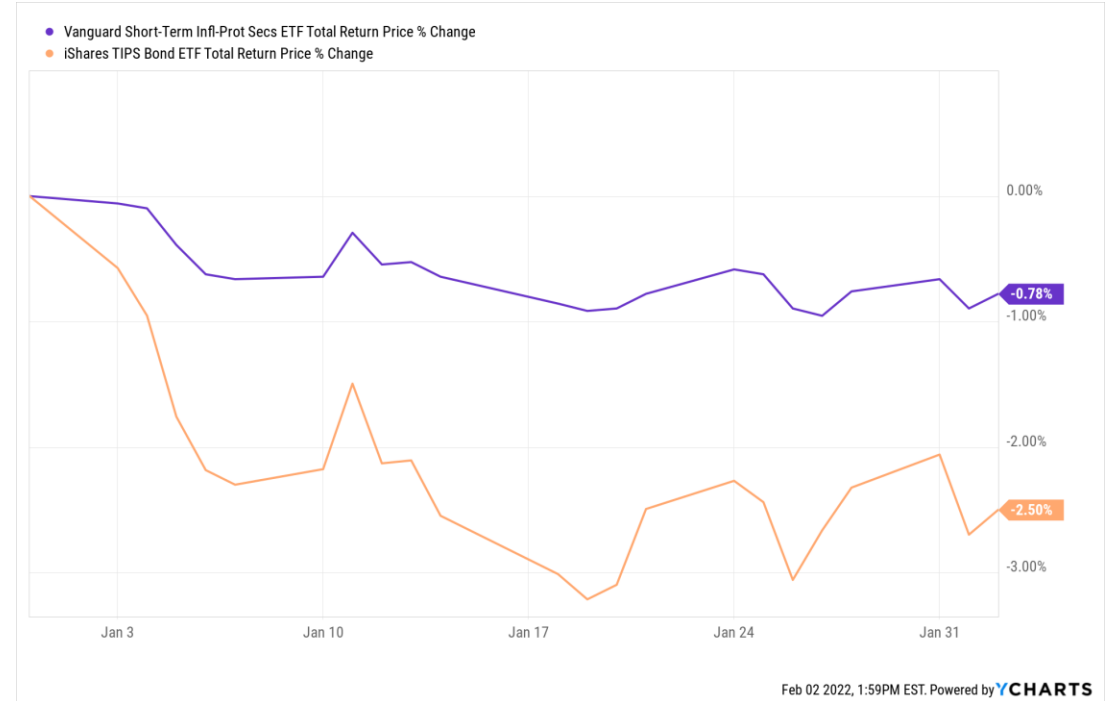
Duration 7.5 years



VTIP 30 Day Sec Yield: 4.7%

YTD Performance: -0.78%

Duration: 2.48 years



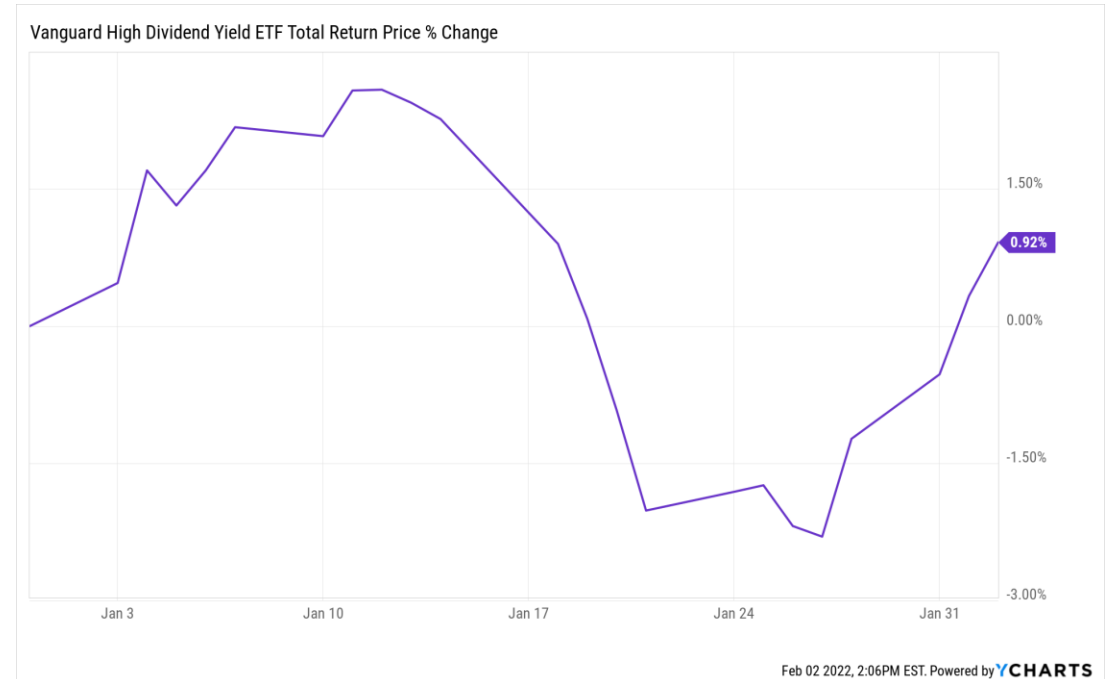
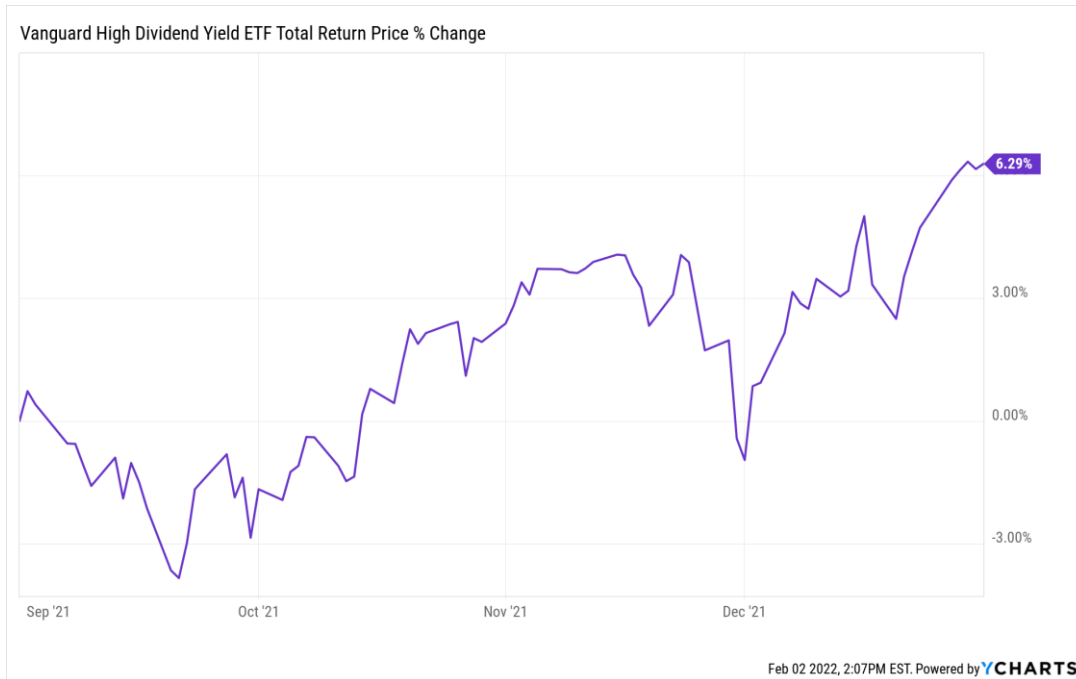
High Dividend Stocks

VYM Yield: 2.74%

YTD Performance: 0.92%

Max Drawdown: -56.97%

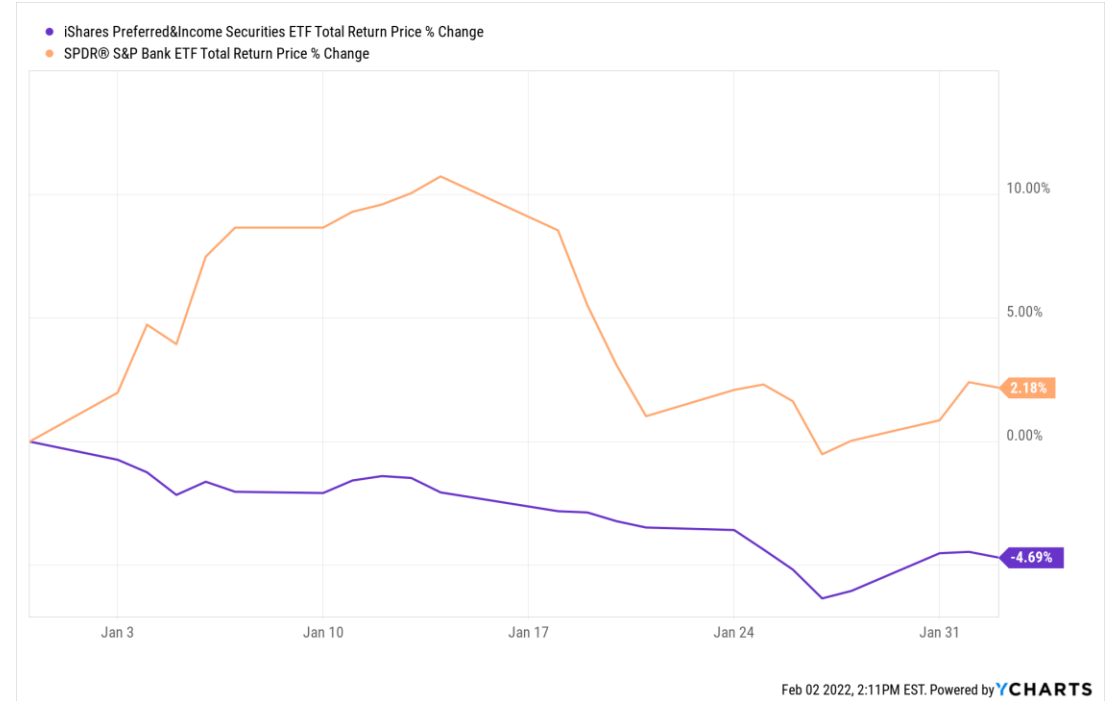
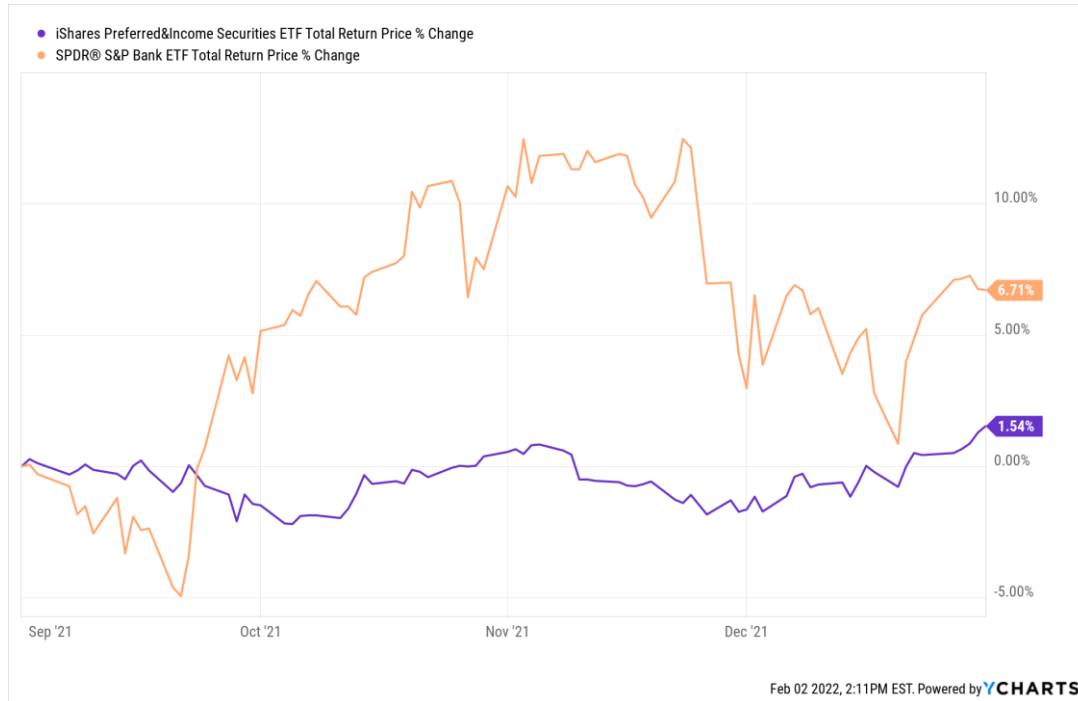
P/E: 14.58



Preferreds

PFF 30 Day SEC Yield: 5.39%

YTD Performance: -4.69%



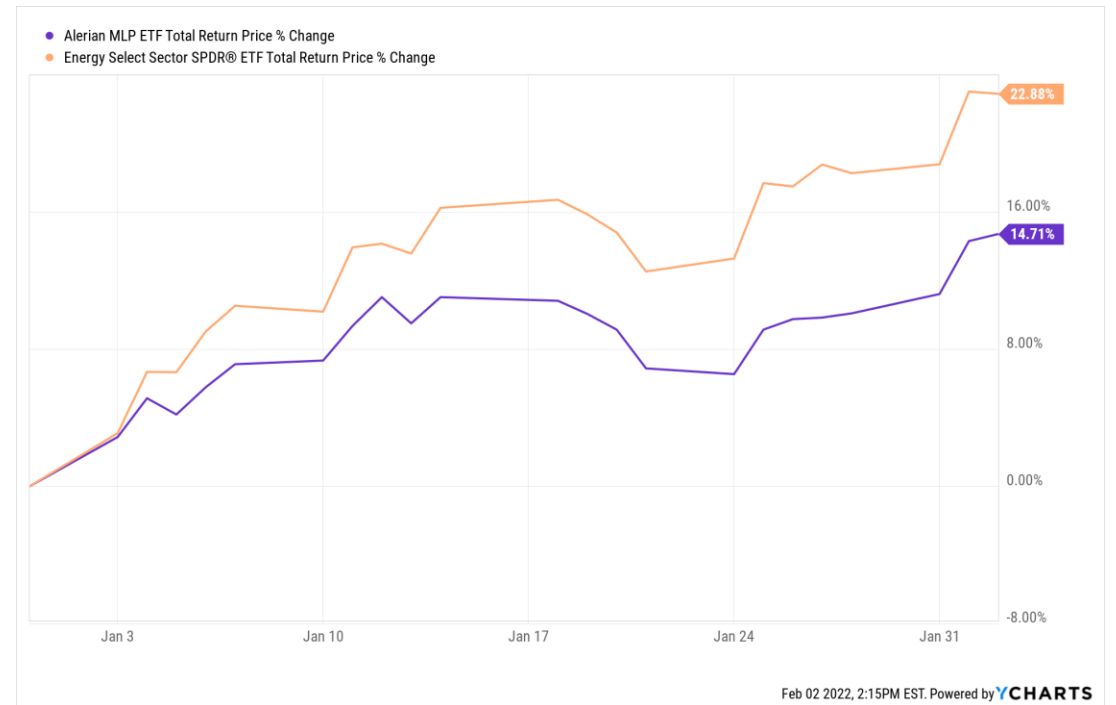
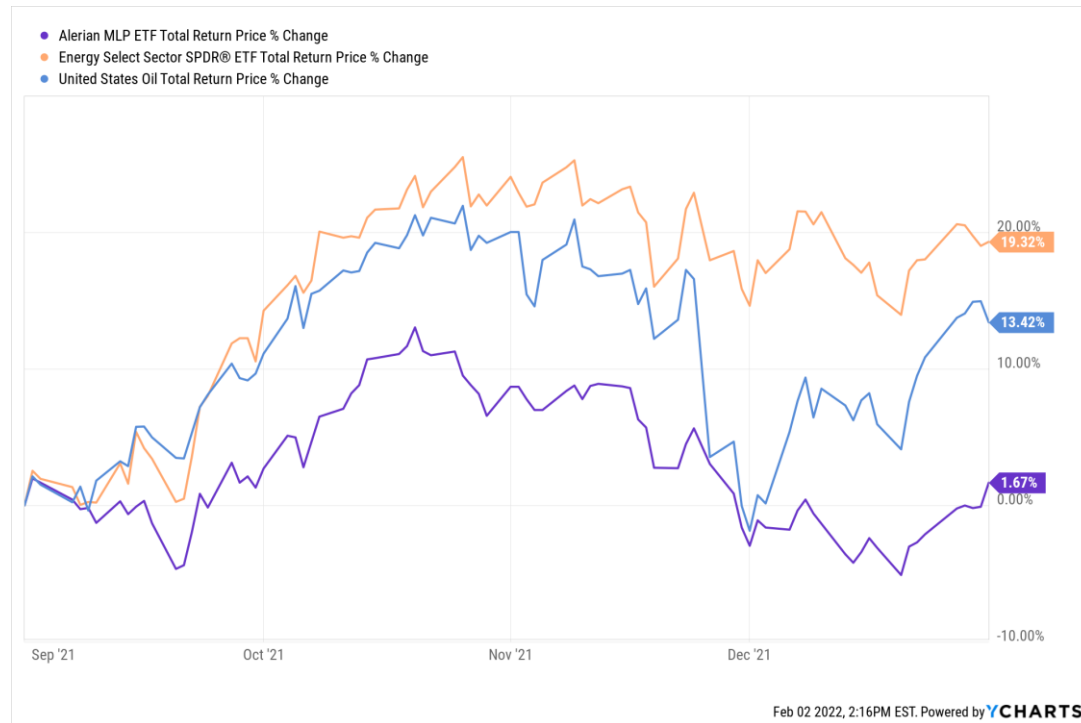
MLPs

AMLMP 30 Day SEC Yield: 7.06%

AMLMP YTD Performance: 14.71%

Max Drawdown: -77.24%

P/E: 9.2X

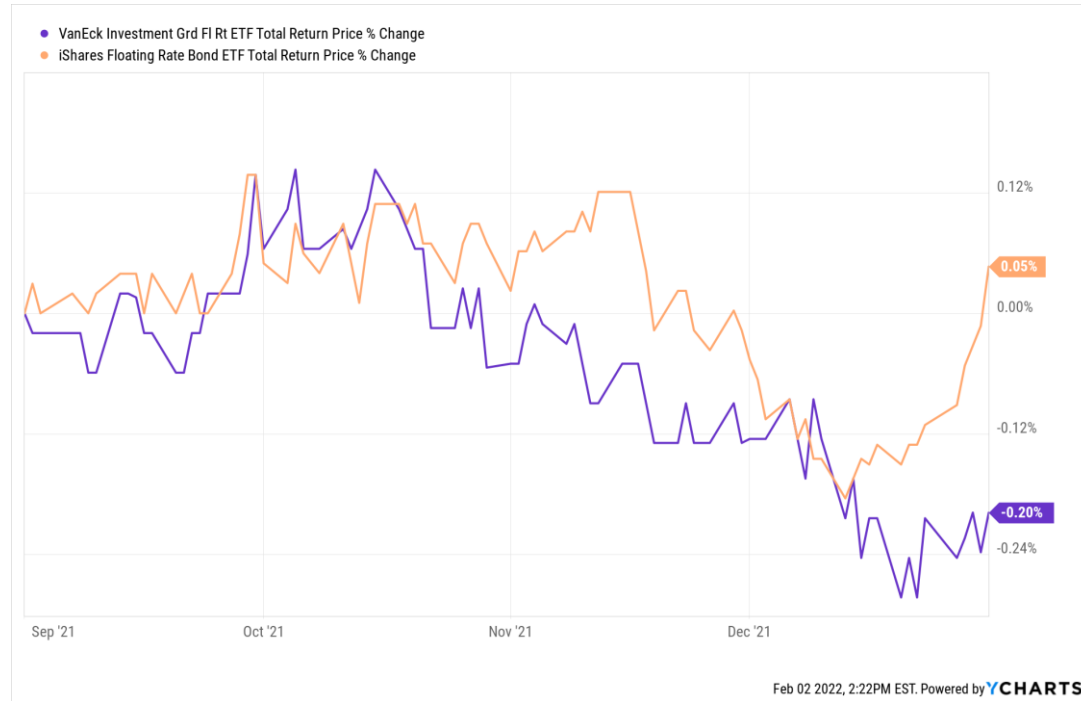


Floating Rates

FLOT 30 Day SEC Yield: 0.42%

FLOT YTD Performance: -0.01%

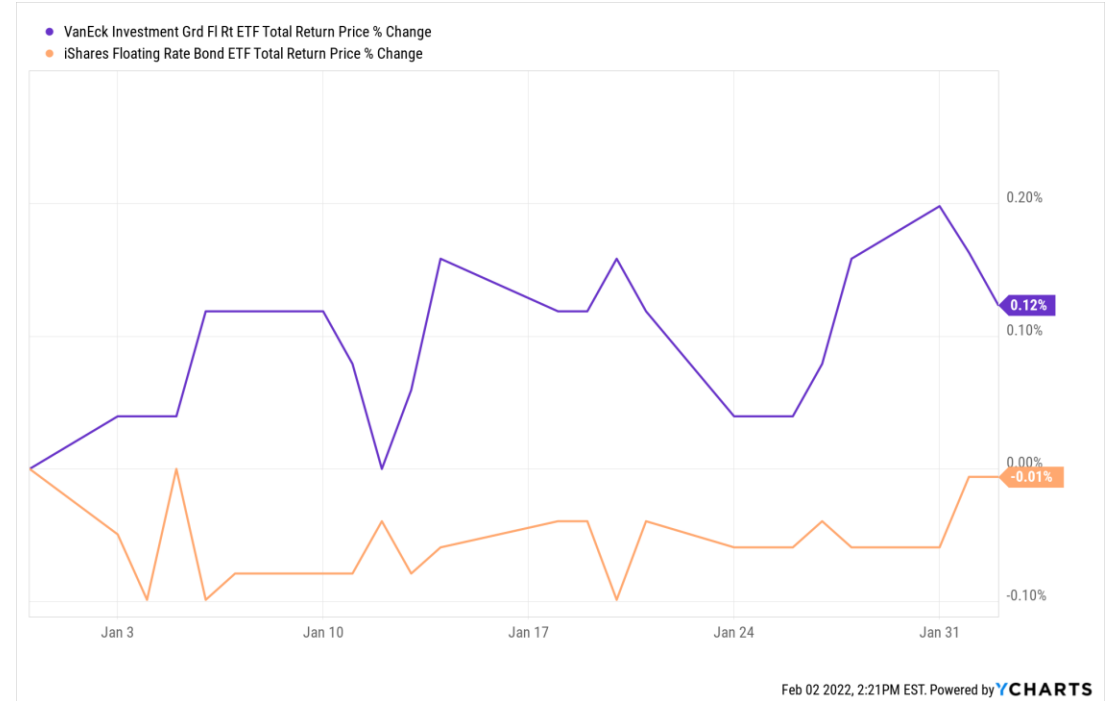
Max Drawdown: -13.54%



FLTR: 30 Day SEC Yield: 0.60%

FLTR YTD Performance: 0.12%

Max Drawdown: -17.84%

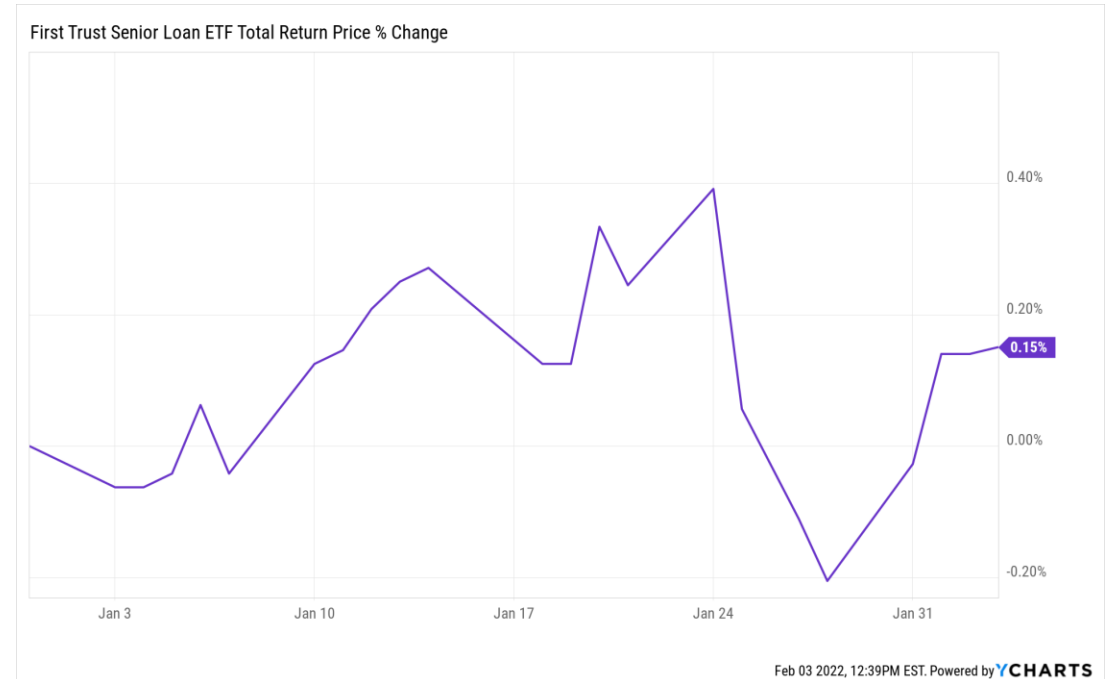
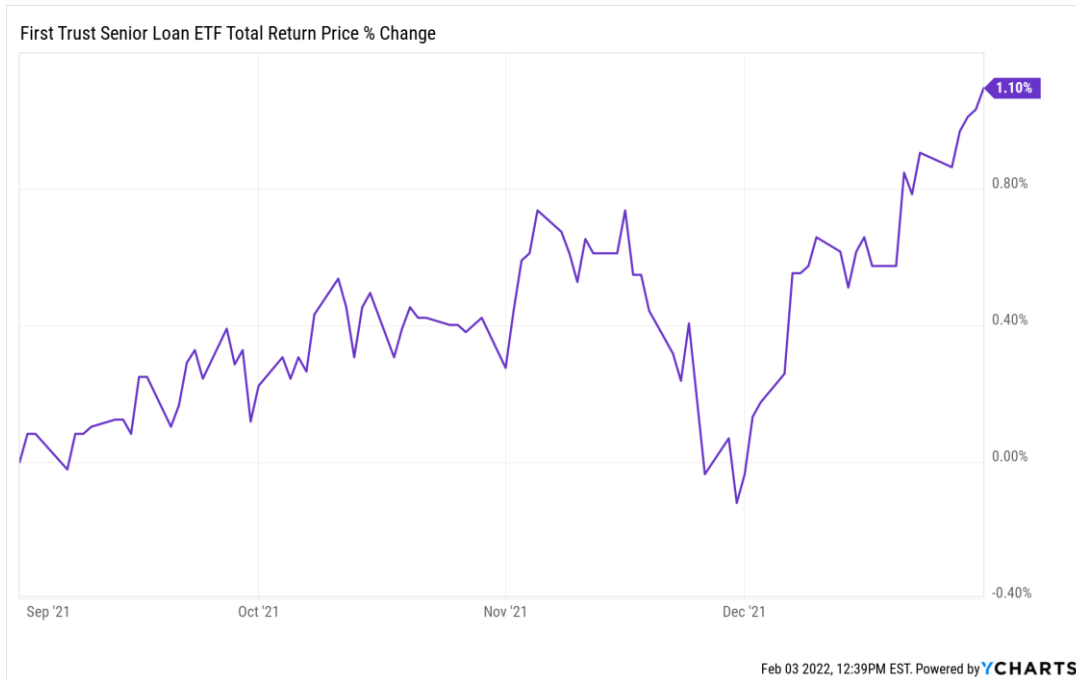


Senior Loans

FTSL 30 Day SEC Yield: 3.21%

FTSL: YTD Performance: 0.15%

Max Drawdown: -22.67%



Takeaways

Asset	End 2021 Performance	YTD Performance	Yield	Duration
AGG	-3.54%	-1.90%	1.74%	6.6 yrs
SHY	-0.70%	-0.67%	0.76%	1.9 yrs
TLT	0.02%	-3.35%	1.98%	19.2 yrs
LQD	-1.26%	-3.14%	2.69%	9.6 yrs
JNK	0.35%	-2.22%	4.42%	3.5 yrs
VTIP	1.19%	-0.78%	4.7%	2.48 yrs
VYM	6.29%	0.92%	2.74%	
PFF	1.54%	-4.69%		
AML	1.67%	14.71%	7.06%	
FLOT	0.05%	-0.01%	0.42%	
FLTR	-0.20%	0.12%	0.60%	
FTSL	1.10%	0.15	3.21%	

Conclusions

- Over the past four months, and since the Fed has effectively become incrementally more hawkish and rates have moved higher, it has paid to go out the risk curve from a credit quality standpoint.
- Senior loans, high dividend stocks and MLPs are the only investments with a positive total returns for both periods. More risky corporate debt (junk) has also relatively performed well.
- For those not willing to go out the risk curve, TIPs remain attractive especially given the recent declines. Yes, CPI has likely peaked and that means the yield on TIPS will decline over time, but if they are being held for income, CPI will remain elevated for some time and the yield should be solid, especially compared to other alternatives.
- At the peak of the rate hike cycle (and we're not there yet) then buying duration will be the move, but that's likely months away (or not quarters or possibly years).