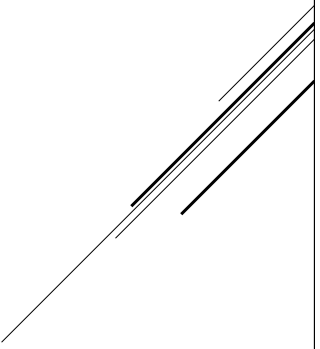


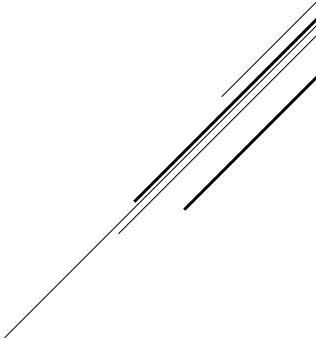
BOND MARKET: TREASURY SECURITIES



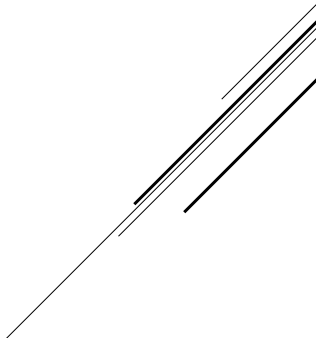
WHAT WILL YOU LEARN?

- ▶ What are the main features of the different types of longer-term Treasury debt instruments?
 - ▶ Treasury notes and bonds
 - ▶ Treasury inflation-protected securities (TIPS)
- 

U.S. TREASURY DEBT SECURITIES

- ▶ Debt securities that are issued by the U.S. Treasury are backed by the full faith and credit of the U.S. government.
 - ▶ Typically viewed as having no default risk.
 - ▶ Treasury securities are used to develop benchmark rates.
- 

U.S. TREASURY DEBT SECURITIES

- ▶ **Treasury notes** and **Treasury bonds** are coupon securities.
 - ▶ Make semi-annual coupon payments and the principal (face value) at maturity.
 - ▶ The most recently auctioned Treasury issues for each maturity are called **on-the-run issues**. Prior issues are referred to as **off-the-run issues**.
- 

TREASURY ISSUES

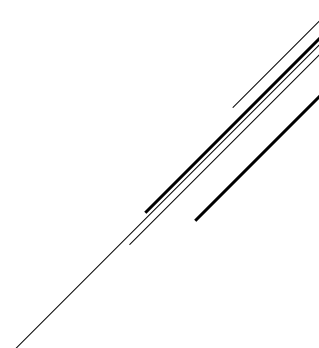
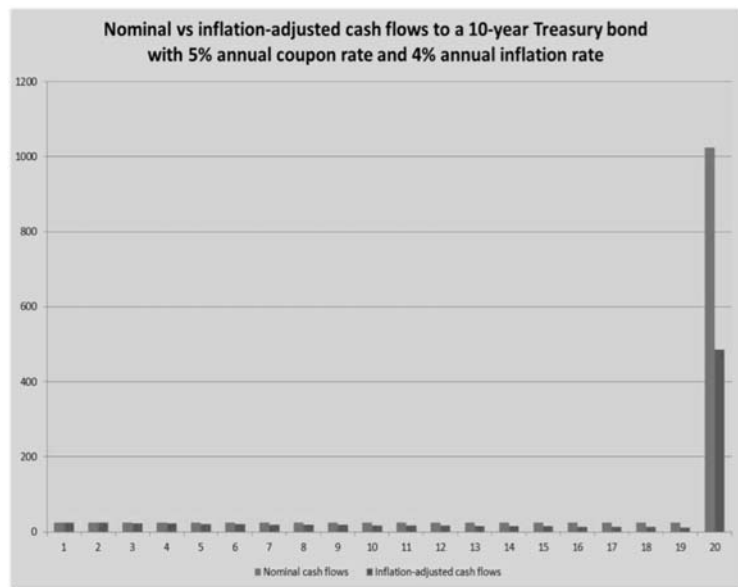
MATURITY	COUPON	BID	ASKED	CHG	ASK YLD
May 15, 2016	5.125	101.4219	101.4375	-0.0547	0.401
May 15, 2017	4.500	104.8125	104.8281	-0.0859	0.774
Nov 30, 2017	0.625	99.5313	99.5469	-0.0391	0.873
May 31, 2020	1.375	99.8516	99.8672	-0.1719	1.407
May 15, 2023	1.750	99.2969	99.3125	-0.2578	1.851
Nov 15, 2040	4.250	127.7422	127.7734	-0.5156	2.706
Feb 15, 2045	3.625	93.3906	93.4219	-0.4375	2.805

Compiled from data obtained from Wall Street Journal January 25, 2016

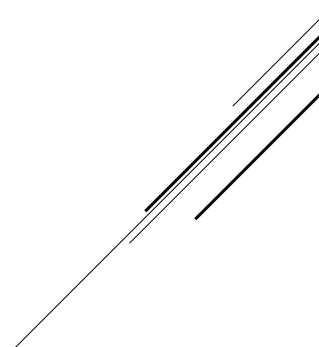
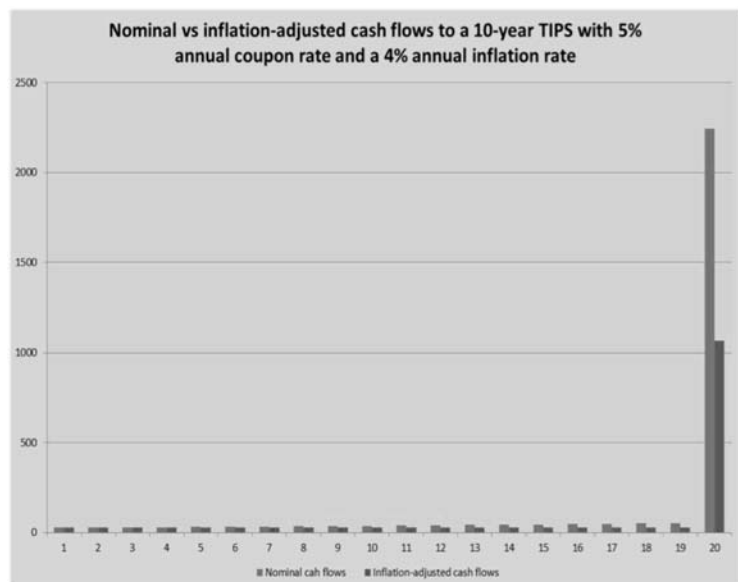
U.S. TREASURY DEBT SECURITIES

- ▶ **TIPS** are Treasury inflation-protected securities. Principal is adjusted in proportion to the increases in Consumer Price Index.
- ▶ They provide a constant stream of income in real (inflation-adjusted) dollars.
- ▶ The yield on TIPS should be interpreted as the real or inflation-adjusted interest rate.

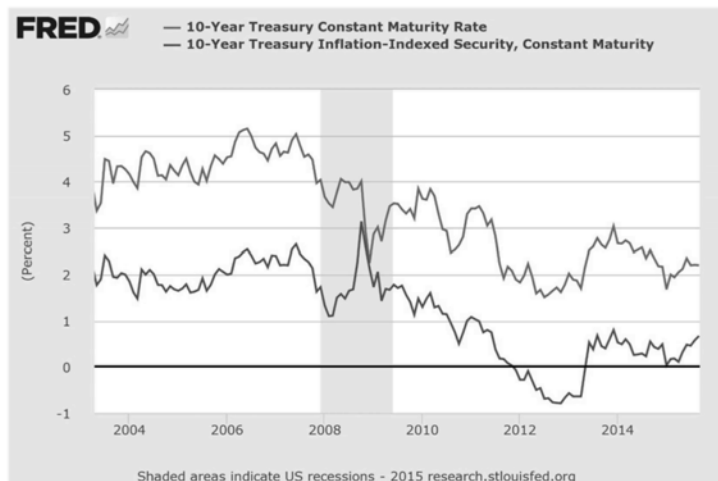
EXAMPLE: 10-YEAR T-BOND



EXAMPLE: 10-YEAR TIPS



10-YEAR TIPS VERSUS BOND YIELDS



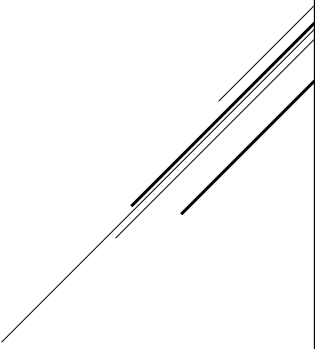
SUMMARY

- ▶ Overview of the longer-term Treasury debt instruments
 - ▶ Treasury notes
 - ▶ Treasury bonds
 - ▶ TIPS
- ▶ You can view a review of bond valuation in one of the optional videos.
- ▶ Supplemental video on Treasury strips

BOND MARKET: EVERYTHING ELSE

A series of parallel diagonal lines in the bottom right corner of the slide, consisting of a thin line, a medium line, and a thick line.

WHAT WILL YOU LEARN?

- ▶ What are the main features of other types of long-term debt instruments?
 - ▶ Corporate bonds
 - ▶ Mortgage bonds
 - ▶ Municipal bonds
 - ▶ International bonds
- 
- A series of parallel diagonal lines in the bottom right corner of the slide, consisting of a thin line, a medium line, and a thick line.

CORPORATE BONDS

- ▶ Firms can borrow directly from the public by issuing corporate bonds.
- ▶ They pay semi-annual coupon payments and the face value at maturity to the bond holder.
- ▶ Bond contract is called the **bond indenture**.
- ▶ Corporate bonds are subject to default risk. They are rated by credit rating agencies.

Most Active Investment Grade Bonds

Issuer Name	Symbol	Coupon	Maturity	Moody's/S&P/Fitch	High	Low	Last	Change	Yield%
ANHEUSER-BUSCH INBEV FIN INC	BUD4327588	4.900%	02/01/2046	//	104.29100	99.92700	101.14100	0.283000	
MORGAN STANLEY	MS4175944	3.700%	10/23/2024	A3/BBB+/A	99.90800	98.71100	99.64100	0.074000	3.747976
ANHEUSER-BUSCH INBEV FIN INC	BUD4327481	3.650%	02/01/2026	//	101.98554	99.41400	99.85800	-1.300000	
MORGAN STANLEY	MS4270142	4.000%	07/23/2025	A3/BBB+/	103.31700	100.82600	101.37000	-0.179000	3.826413
BANK MONTREAL MEDIUM TERM SENIOR NTS BOO	BMO.AM	2.500%	01/11/2017	Aa3//AA-	101.38200	101.31100	101.31100	0.035000	1.116568
GOLDMAN SACHS GROUP INC	GS4248965	3.750%	05/22/2025	A3/BBB+/A	101.72589	99.36600	99.92600	0.326000	3.758970
ANHEUSER-BUSCH INBEV FIN INC	BUD4327587	4.700%	02/01/2036	//	102.83800	98.77500	99.66500	0.218000	
DEUTSCHE BK AG GLOBAL MEDIUM TERM NTS B	DB4211694	1.875%	02/13/2018	A3//A-	99.57325	98.96400	99.26200	-0.285000	2.246139
BANK AMER CORP	BAC3953005	3.300%	01/11/2023	Baa1/BBB+/A	99.65100	96.80000	97.95400	-1.303080	3.635363
VISA INC	V4319927	3.150%	12/14/2025	A1/A+/	102.67200	99.88400	100.61300	-0.108000	3.075978

Most Active High Yield Bonds

Issuer Name	Symbol	Coupon	Maturity	Moody's/S&P/Fitch	High	Low	Last	Change	Yield%
SPRINT CORP	SFTBF4176280	7.875%	09/15/2023	Caa1/B+/B+	65.45000	63.00000	65.45000	2.700000	15.822496
SPRINT CAP CORP	SFTBF3703042	6.900%	05/01/2019	Caa1/B+/B+	71.50000	67.52500	71.00000	2.000000	19.269380
SPRINT NEXTEL CORP	SFTBF3669338	6.000%	12/01/2016	Caa1/B+/B+	98.72529	96.00000	97.23000	0.118000	9.471539
SPRINT CORP	SFTBF4214707	7.625%	02/15/2025	Caa1/B+/B+	63.25000	61.00000	63.00000	3.000000	15.309901
Reynolds Group Issuer LLC	RYGR3881272	9.875%	08/15/2019	Caa2//	97.56250	95.00000	97.25000	1.000000	10.824435
MENS WEARHOUSE INC	MW4264876	7.000%	07/01/2022	B2/CCC+/	66.00900	61.25000	65.60000	3.350000	15.681647
WHITING PETE CORP	WLL4228919	6.250%	04/01/2023	Ba3/BB-/	58.56250	56.00000	56.25000	3.250000	17.032083
LENNAR CORP	LEN.GT	6.500%	04/15/2016	Ba2/BB/BB+	101.10000	101.02000	101.07000	0.180000	1.533501
ICAHN ENTERPRISES LP	IEP4121535	5.875%	02/01/2022	Ba3/BBB-/	91.75000	88.18300	89.90900	0.909000	8.023522
Crestwood Midstream Partners LP	CMLP4080017	6.000%	12/15/2020	B1/BB/	64.25000	63.50000	63.75000	0.000000	17.283357

FINRA Trace Bond Market Activity January 25, 2016

JUNK BONDS FINALLY CAPITULATE TO LOWER OIL PRICE ENVIRONMENT

Major high yield ETFs are down double-digits since the summer



CORPORATE BONDS

- ▶ Floating rate bonds
- ▶ Secured bond
- ▶ Debentures vs. subordinated debentures
- ▶ High-yield bonds
- ▶ Callable bond
- ▶ Convertible bond

ASSET-BACKED SECURITIES

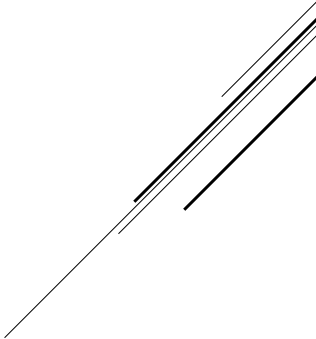
- ▶ Securitization is the creation of securities that are generically called asset-backed securities (ABS) or bond classes that are backed by a pool of loans or receivables
- ▶ **Mortgage-backed securities**
 - ▶ A simple mortgage-backed bond pays interest and principal from a pool of mortgages as the cash flows are paid by the mortgage holders
- ▶ Student loans, car loans

DAVID BOWIE BONDS

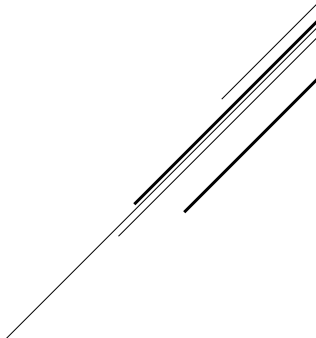


- ▶ David Bowie sold \$55 million of bonds in 1997 that were tied to future royalties.

MUNICIPAL BONDS AND FEDERAL AGENCY DEBT

- ▶ Municipal bonds are issued by state and local governments.
 - ▶ Interest income is tax-exempt.
- 

INTERNATIONAL BONDS

- ▶ Eurobond market
 - ▶ Eurodollar bonds, euroyen bonds
 - ▶ Sovereign debt is the obligation of a country's government.
 - ▶ Emerging market debt
 - ▶ Greek sovereign debt, Italian government debt
- 

SUMMARY

- ▶ Key features of long-term debt instruments such as
 - ▶ Corporate bonds
 - ▶ Mortgage bonds
 - ▶ Municipal bonds
 - ▶ International bonds
- ▶ You can view a review of bond valuation in one of the optional videos.

