HIGH YIELD BONDS

High yield bonds are debt issued by entities whose credit ratings are below “investment grade” or do not have credit ratings. They may also be issued by organizations with a credit rating that was lowered to below investment grade—by a leading ratings agency—since the bond was issued. These bonds can offer higher yields than investment grade bonds, but they may also have a greater risk of default or of not paying interest in a timely manner.

PRODUCT HIGHLIGHTS

High yield bonds (including non-investment grade bonds, junk bonds or non-rated bonds) are fixed income investments that can be purchased by individual or institutional investors as appropriate for their financial needs—typically as part of a well-diversified investment portfolio. They offer several benefits and risks:

- Potential for a higher coupon payment and yield than investment grade bonds.
- Capital appreciation potential.
- Higher default, downgrade, credit, and liquidity risk than other fixed income asset classes.
- Legal rights that can take precedence over common or preferred stock if the issuer goes through bankruptcy restructuring or liquidity.

THE HIGH YIELD BOND SECTOR

High yield bonds can be issued by U.S. and foreign corporations, governments, and other bond-issuing entities. The high yield bond sector represents a significant portion of the overall fixed income market. In the corporate bond sector alone, $311 billion in high yield debt was issued in 2019. Like many other bonds, high yield bonds pay interest over time and principal at the maturity or call date—and can be traded in the secondary market. High yield bonds may be less liquid than higher-rated bonds, such as treasuries or investment grade corporate bonds.

HIGH YIELD BOND CREDIT RATINGS

Credit rating agencies such as Moody’s, Standard & Poor’s, and Fitch use quantitative tools and qualitative judgments to evaluate the creditworthiness of an issuer. They assign credit ratings to issuers through a grading system shown right.

Credit Ratings

INVESTMENT GRADE	MOODY’S	S&P	FITCH
Highest credit quality: subject to the lowest level of credit risk.	Aaa	AAA	AAA
Very high credit quality: subject to very low credit risk.	Aa	AA	AA
High credit quality: upper-medium grade, subject to low credit risk.	A	A	A
Good credit quality: medium-grade, subject to moderate credit risk, and may possess certain speculative characteristics.	Baa	BBB	BBB
HIGH YIELD			
Speculative: subject to substantial credit risk.	Ba	BB	BB
Highly speculative: subject to high credit risk.	B	B	B
Substantial credit risk: of poor standing, vulnerable to nonpayment.	Caa	CCC	CCC
Very high levels of credit risk: of very poor standing, likely in or near default with some prospect of recovery of principal and interest.	Ca	CC	CC
Exceptionally high levels of credit risk: very highly vulnerable to nonpayment, but has not experienced a payment default.		C	C
Default: lowest rated, little prospect for recovery of principal or interest.	C	D	D

DESCRIPTION	MODIFIER	MODIFIER	MODIFIER
Ranks in the higher end of its generic rating category.	1	+	+
Mid-range ranking.	2		
Ranks in the lower end of its generic rating category.	3	-	-

For more information on these Credit Ratings, visit:

Moody’s | Standard & Poor’s | Fitch

RISKS OF HIGH YIELD BOND INVESTING

As with other fixed income securities, high yield bond prices decline if interest rates rise, the issuer's financial condition worsens, or other changes occur—resulting in potential loss of principal. In addition, high yield bond investors may face the following risks:

- **Credit Risk:** Potential for loss from financial challenges at the issuing organization, including:
  - **Downgrade Risk**: A bond's price may decline if the credit rating on the bond (and issuing organization) is lowered.
  - **Default Risk**: A bond may default if the issuer does not pay the interest or principal as required.
- **Liquidity Risk**: An investor may have difficulty locating a buyer at certain times.

MINIMIZING RISK OF HIGH YIELD BOND INVESTING

While seeking the potential for higher income with high yield bond investments, it is important for most investors to minimize risk. Several strategies are available, including:

- Diversifying across high yield bond issuers, industries, and geographies.
- Monitoring any credit ratings changes or reviews, and industry or company news regarding the bonds held.
- Adjusting portfolio holdings as economic and market conditions change.

Institutional and individual investors can invest in the high yield bond asset class through the purchase of individual high yield bonds as well as mutual funds, exchange-traded funds, and other investment vehicles that can provide diversification for this asset class.

WORKING WITH JANNEY

Depending on your financial needs and personal preferences, you may opt to engage in a brokerage relationship, an advisory relationship or a combination of both. Each time you open an account, we will make recommendations on which type of relationship is in your best interest based on the information you provide when you complete or update your client profile.

When you engage in an advisory relationship, you will pay an asset-based fee which encompasses, among other things, a defined investment strategy, ongoing monitoring, and performance reporting. Your Financial Advisor will serve in a fiduciary capacity for your advisory accounts. For more information about Janney, please see Janney's Relationship Summary (Form CRS) on www.janney.com/crs which details all material facts about the scope and terms of our relationship with you and any potential conflicts of interest.

By establishing a relationship with a Janney Financial Advisor, we can build a tailored financial plan and make recommendations about solutions that are aligned with your best interest and unique needs, goals, and preferences.

Contact us today to discuss how we can put a plan in place designed to help you reach your financial goals.

Investors should conduct a thorough review of a high yield bond prior to investing. Such a review should cover: (1) analysis of the industry or sector, including growth rates, special risks and industry leaders; (2) analysis of the bond issuer and/or the company's position in its industry; new products; management stability; the outlook for growth in revenue and cash flow as captured in Earnings Before Interest, Taxes, Depreciation and Amortization, also called EBITDA; value of corporate assets and the debt maturity schedule; and (3) analysis of the issue, including special provisions in the "bond indenture," covenants protecting the bondholder, use of the money raised in the bond offerings, debt seniority, secondary market liquidity and call provisions.

High yield bonds are subject to the same tax treatment for individuals as investment grade bonds. For advice about your specific situation, consult your personal tax advisor.

In no event should this information be construed as a solicitation or offer to purchase the security. This security may not be suitable for an investor depending on his/her investment objectives, financial situation, and tax status. Certain securities may be subject to redemption prior to maturity. Redemption prior to maturity may have a negative impact on the yield. The information presented herein is taken from sources believed to be reliable, but not guaranteed by Janney Montgomery Scott as to accuracy or completeness. High Yield bonds are subject to the same tax treatment for individuals as investment grade bonds. Please consult your tax professional and/or legal advisor for any tax implications. For investment advice specific to your individual situation, or for additional information, please contact a Janney Financial Advisor.