Why Credit Now?

Current markets present a unique opportunity

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We believe that now is an incredibly compelling time to invest in Credit. By "Credit", we mean exposure to a public company's abililty to repay its bonds, without any exposure to interest rates. Credit is a distinct asset class that performs differently than fixed income or equity investments. In other words, it is a diversifier that every investor should consider, especially now.

Spreads are wide

Credit spreads are how the market expresses corporate bond prices. The spread represents the incremental yield an investor demands compared to a riskless Government of Canada bond. Increases in the incremental yield - or spread widening - occur where market reacts to negative macroeconomic, market, or issuer events. Credit funds go up in value if incremental yields decrease and credit spreads tighten. For more information on Credit visit ytmcapital.com/credit.

Credit spreads are wide right now. We believe that they are too wide in the context of the economy, the health of corporate Canada, and credit market history. With the exception of COVID, the Great Financial Crisis, and spikes in 2011 and 2016 with similar levels and much worse economic backdrops, spreads have not been this wide in the last 30 years.

Source: Bloomberg

Investors are watching to see if central bank actions will put a dent in inflation without slamming the economic brakes too hard. If the central banks do a credible job - a real possibility - then we see spreads tightening in the coming months.

Running yields are high

A credit fund earns returns when its corporate bond portfolio goes up in value - i.e. spreads tighten - and when the bonds it holds pay interest. That income, less any interest paid on shorted bonds and borrowing costs, is known as a fund's running yield. The combination of running yield and the change in value of its portfolio, less expenses, is the Credit fund's return.

Today's wide spreads combined with high yields on unlevered bonds mean that a Credit fund's running yield can provide a meaningful buffer against any futher widening of credit spreads. ***YTM Capital Credit Opportunities Fund currently has a running yield in excess of 11%, the highest yield since inception.*** In additon to providing a buffer, if we are right about the possibility of tightening spreads, that running yield will propel Credit to strong returns.

This return potential does not exist in fixed income funds facing the risk of continued interest rate increases.

Credit is a proven alternative to traditional fixed income

Now is a great time to consider Credit, but it is a viable alternative to fixed income in all investment environments. Over the last 7 years rates have fallen and rates have risen. In other words, conditions have been both favourable and unfavourable for fixed income, interest rate sensitive strategies.

Based on data available on Morningstar, Canadian investors are able to buy 345 traditional fixed-income mutual funds and ETFs with a 7 year track record or longer*. ***Compared to these 345 fixed income funds our Fund ranks 5th for 7 year return and 3rd for 7 year Sharpe Ratio.*** While the past does not predict the future, those numbers make it clear that Credit is an asset class that deserves consideration as an alternative in all markets.

In addition to the Fund's strong track record and its high current running yield, its recent returns demonstrate that Credit diversifies. ***Over the last 12 months, the Fund had a correlation of 0.25 with the FTSE Canada Universe Bond Index and 0.31 with the S&P/TSX Composite Index.*** If these relationships persist, Credit will perform differently than Canadian fixed income and equity. With the expectation of more volatility staring investors through the windscreen, now is the time to ensure portfolios are diversified.

Why YTM Credit?

Our foundational strategies set apart our Credit approach.

We invest almost exclusively in investment grade bonds

We keep the Fund invested in short maturity bonds

We run virtually no interest rate risk

On June 30, 2022, our Fund had a 98% investment grade issuers weighting, average credit maturity of 2.4 years, and interest rate duration that rounds to zero. Based on multiple decades of experience our approach to Credit produces the best risk-adjusted returns. We have delivered leading results over the last 7 years.

Investors are experiencing a secular move away from long-only fixed income. Alternatives make sense. YTM Credit is an alternative that presents a rich return and diversification opportunity.

Ask us for a custom quantitative analysis using Morningstar Direct that shows the benefit of the Fund to your client portfolios.

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