



## Vanguard Intermediate-Term Corporate Bond ETF

**BUY**

<VCIT>



Figure 1 -- Source: Morningstar

### Strategy Overview

VCIT is an ETF that seeks to invest in primarily investment-grade corporate debt. Specifically, in the financial, industrial, and utility sectors. Having a higher credit quality also shows that it has significantly less credit risk than its high yield fund counterparts. Although, it is still subject to interest rate risk.

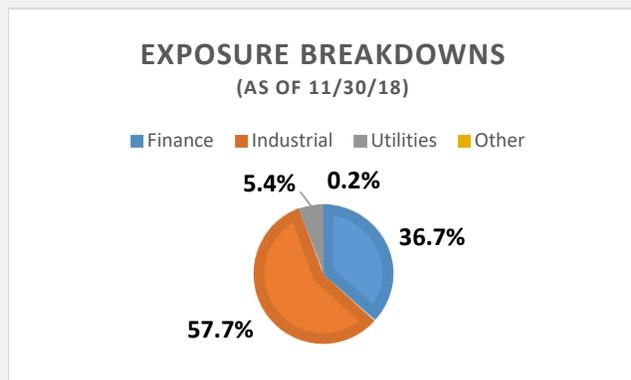


Figure 2 -- Source: Vanguard

### Fund Facts

|                    |               |
|--------------------|---------------|
| <b>Fund Type</b>   | ETF           |
| <b>Asset Class</b> | Fixed Income  |
| <b>Strategy</b>    | IG Corporate  |
| <b>Geo Focus</b>   | United States |

### Key Statistics

|                         |         |
|-------------------------|---------|
| <b>NAV</b>              | \$82.55 |
| <b>Shares</b>           | 68      |
| <b>Mod Duration</b>     | 5.96    |
| <b>WA Credit Rating</b> | BBB     |

### Key Ratios

|                     |       |
|---------------------|-------|
| <b>Sharpe</b>       | .34   |
| <b>Return (3Y)</b>  | 2.23% |
| <b>Std Dev (3Y)</b> | 3.55% |

|                            |       |
|----------------------------|-------|
| <b>Fees &amp; Expenses</b> | 0.07% |
|----------------------------|-------|

## Investment Thesis

The SMIF fixed income team sees opportunity for profit in the investment grade corporate sector as spreads on this sector widened throughout most of 2018. We believe that most of the change in spread was due to the change in the treasury yields, which tells us that corporate financial health had a very little impact on the change. Thus, we want to buy into the investment grade corporate sector now before the spreads begin narrowing to reflect the corporate sector's strong financial health.

## Risks

### Credit Risk

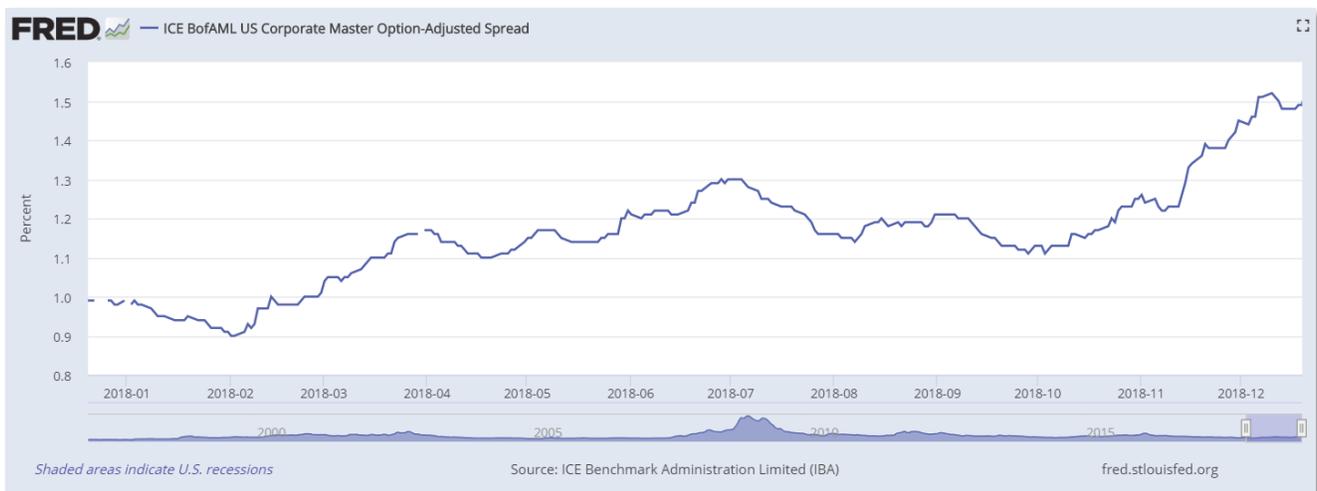
- While VCIT is of a high credit quality above junk status, corporate bonds typically have higher credit risk than securitized and treasury bonds as the inherent risk of the bond comes from the companies' ability to refinance their debt. In contrast to treasury bonds which have the backing of the US government, making them virtually risk-free.

### Interest Rate Risk

- As an intermediate-term bond ETF this fund is subject to higher interest rate risk than shorter maturity corporate investment grade ETFs. Although, the fund is still below the benchmark duration.

### Widening Corporate Spreads

- As you can see from the graph below, the US Corporate Master OAS has been widening since the beginning of this year with its largest peak in November. This US Corporate Master OAS is the option adjusted spread index of the difference between all US investment grade corporate bonds yields with their interpolated/spot Treasury yields. While this is concerning, the fixed income team attributes most of the change in spread due to the change in the treasury, and that corporate profits are still strong and spreads are likely to narrow in the near future to reflect the accurate financial health of the corporate environment.



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