

# Kuhn, Loeb & Co.

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## THE KUHN LOEB BOND INDEX

### Summary of Results Ending December 31, 1974

	<u>Last Month</u>	<u>Last 3 Months</u>	<u>Last Year</u>	<u>Last 2 Years</u>
Kuhn Loeb Bond Index	-0.8%	6.1%	-6.0%	-4.5%
Long-Term Corporate Bond Index	-1.3%	6.3%	-8.1%	-7.2%
Government/Agency Bond Index	1.3%	5.6%	5.7%	9.4%

### Performance During 1974

The total rate of return of the entire corporate bond market during 1974 fell 6.0%. This substantial decline would have been significantly greater had it not been for the fourth quarter rally in the credit markets that retrieved the corporate bond sector from the year-to-date low point in August. For the period January through August, the Kuhn Loeb Bond Index was down 12.4%.

Longer term corporates fared even worse during 1974 by dropping 8.1% as measured by the Long-Term Corporate Bond Index. The Government/Agency Bond Index measured a total return of 5.7% which was 13.8% better than the performance of long-term corporate bonds.

### Performance During Two Year Period 1973-1974

The Kuhn Loeb Government/Agency Bond Index has now outperformed the corporate bond market in each of the past two years. For the period January 1973 to December 1974, the Government/Agency Index stands at 109.4 in contrast to 95.5 for the Kuhn Loeb Bond Index and 92.8 for the Long-Term Bond Index. This differential in performance can be traced to the significantly shorter average life (6 years) and higher quality of government/agency securities.

### Performance Between Rating Categories

Investor focus upon safety and liquidity was demonstrated not only in the government/agency sector, but also in the higher rated corporate issues. As measured by the Long-Term Bond Index, Aaa-rated corporates were off only 3.4%. In contrast, Aa corporates were off 6.8%, single-A's were off 11.4%, and Baa-rated corporates declined 22.2%.

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### Performance Between Industry Categories

It should come as no surprise that long-term utility bonds achieved the lowest return, dropping 9.2%. Industrials outperformed the other sectors by falling only 5.0% while financial issues declined 7.3%. The incremental decline of the utility sector resulted from the problems besetting that industry which was reflected in the rating revisions made during the past year. During 1974, Moody's Investors Services lowered the quality ratings of 40 utility issuers while raising the ratings of only 6. Standard and Poor's determined that 32 issuers merited lower ratings while only 12 utilities deserved upgraded classifications. (Users of the various indices should be aware that a change in the credit of any of the 3,650 issues measured is reflected in the index results as soon as a market response to the change occurs.)

The intra-industry comparisons cited above are based upon the Long-Term Bond Index to minimize the effects of different average maturities which exist for each industry group. Use of the all-inclusive Kuhn Loeb Bond Index leads to results that indicate superior performance on the part of financial issues when, in fact, the yield levels of financial issues increased more than any other sector. All financial issues with an average life of 12.43 years increased in yield 204 basis points while dropping 3.0% in total return. All industrials, on the other hand, increased in yield only 134 basis points while declining 3.4% in total return. This apparent anomaly is explained by the longer average life of 19.08 years for industrial issues. This contrast supports the attractiveness of holding shorter term securities during periods of rising interest rates.

### Redistribution of Market Weighting by Industry

During 1974, a subtle shift occurred within the industrial, utility and financial sectors monitored by the Kuhn Loeb Bond Index. In terms of total market value, utility bonds dropped from 61.9% to 59.6%. In contrast, industrials increased from 25.3% to 26.0% of market value while financial issues increased from 12.8% to 14.4%. The first of the three factors causing this shift was the greater than average decline in market value of utility bonds while financial bonds declined less than the average. Secondly, new issue debt of utilities was relatively light while offerings by the financial sector, especially bank-holding companies, were heavier than normal. Lastly, several issuers, most notably Consolidated Edison, were downgraded below Baa. Issuers rated below Baa are not included in the Kuhn Loeb Bond Index.

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### Definitions

The Kuhn Loeb Bond Index is comprised of all publicly issued, non-convertible, domestic debt of the three major corporate classifications: industrial, utility and financial. Bonds included have a rating of at least a Baa by Moody's Investors Service, a BBB by Standard & Poor's Corporation or, in the case of bank bonds, a BBB by Fitch Investors Service. Commercial paper and all other debt maturing in less than one year are omitted. Only bonds with a minimum outstanding par value amount of \$1,000,000 are used. As of December 31, 1974, 3,650 issues were included in the Index. The Index is divided into seven subindices: industrial, utility, financial, Aaa, Aa, A and Baa.

The Kuhn Loeb Long-Term Corporate Bond Index is comprised of the same issues as the Kuhn Loeb Bond Index except that a minimum maturity of twenty years is specified. As of December 31, 1974, over 1,475 issues were included in the Index.

The Kuhn Loeb U.S. Government/Agency Bond Index is comprised of all publicly issued, non-convertible, domestic debt of the U.S. Government or any agency thereof, quasi-Federal corporation or corporate debt guaranteed by the U.S. Government. U.S. Treasury Bills and all other debt maturing in less than a year are omitted. As of December 31, 1974, over 350 issues were included in the Index.

December 31, 1974

THE KUHN LOEB BOND INDEX

	Industrial	Utility	Financial	Aaa	Aa	A	Baa	Total
<u>Last Twelve Months ending December 31, 1974 using December 31, 1973 as a base of 100.0</u>								
Price Index	88.9 - 11.1%	84.9 - 15.1%	89.4 - 10.6%	90.9 - 9.1%	88.3 - 11.7%	83.8 - 16.2%	76.8 - 23.2%	86.5 - 13.5%
% Coupon Income	8.2%	8.3%	8.2%	8.0%	8.0%	8.5%	9.2%	8.3%
Coupon Reinvested	7.7%	7.4%	7.6%	7.6%	7.4%	7.5%	7.5%	7.5%
Total Return Index	96.6 - 3.4%	92.4 - 7.6%	97.0 - 3.0%	98.5 - 1.5%	95.7 - 4.3%	91.4 - 8.6%	84.4 - 15.6%	94.0 - 6.0%
<u>Last Quarter ending December 31, 1974 using September 30, 1974 as a base of 100.0</u>								
Price Index	103.9	103.9	103.7	105.7	104.9	101.7	102.6	103.9
% Coupon Income	2.1%	2.2%	2.2%	2.1%	2.1%	2.3%	2.5%	2.2%
Coupon Reinvested	2.2%	2.3%	2.2%	2.2%	2.2%	2.3%	2.6%	2.3%
Total Return Index	106.1	106.2	105.9	107.8	107.1	104.0	105.1	106.1
<u>Last Month ending December 31, 1974 using November 30, 1974 as a base of 100.0</u>								
Price Index	98.8 - 1.2%	98.1 - 1.9%	99.2 - .8%	99.4 - .6%	99.0 - 1.0%	97.6 - 2.4%	96.2 - 3.8%	98.5 - 1.5%
% Coupon Income	.7%	.7%	.7%	.7%	.7%	.8%	.8%	.7%
Coupon Reinvested	.7%	.7%	.7%	.7%	.7%	.8%	.8%	.7%
Total Return Index	99.5 - .5%	98.8 - 1.2%	99.9 - .1%	100.1 - .1%	99.7 - .3%	98.4 - 1.6%	97.1 - 2.9%	99.2 - .8%
<u>Number of Issues</u>								
Principal Amount	635	2,661	354	514	1,041	1,564	531	3,650
Total Market Value	37,642	94,823	20,546	47,462	39,767	51,352	14,430	153,011
% of Total Market	31,274	71,531	17,301	38,755	31,884	39,209	10,258	120,107
Average Price	26	60	14	32	27	33	9	100
Average Coupon	83.08	75.44	84.21	81.66	80.18	76.35	71.09	78.50
Average Maturity	7.14	6.72	7.23	6.73	6.71	7.09	7.23	6.89
Yield to Maturity	19.08	22.16	12.43	22.97	18.62	19.11	15.93	19.95
	9.29	9.97	9.87	9.03	9.36	10.35	11.70	9.78

December 31, 1974

THE KUHN LOEB LONG-TERM CORPORATE BOND INDEX

	Industrial	Utility	Financial	Aaa	Aa	A	Baa	Total
Last Twelve Months ending December 31, 1974 using December 31, 1973 as a base of 100.0								
Price Index	86.9 -13.1%	82.8 -17.2%	84.6 -15.4%	88.5 -11.5%	85.2 -14.8%	80.6 -19.4%	70.0 -30.0%	83.9 -16.1%
% Coupon Income	8.8%	9.1%	9.1%	8.7%	8.9%	9.3%	10.3%	9.0%
Coupon Reinvested	8.1%	8.0%	8.1%	8.1%	8.0%	7.9%	7.8%	8.0%
Total Return Index	95.0 - 5.0%	90.8 - 9.2%	92.7 - 7.3%	96.6 - 3.4%	93.2 - 6.8%	88.6 -11.4%	77.8 -22.2%	91.9 - 8.1%
Last Quarter ending December 31, 1974 using September 30, 1974 as a base of 100.0								
Price Index	103.5	103.9	105.3	106.0	104.9	101.0	101.6	103.9
% Coupon Income	3.5%	3.9%	5.3%	6.0%	4.9%	1.0%	1.6%	3.9%
Coupon Reinvested	2.3%	2.4%	2.4%	2.3%	2.3%	2.5%	2.9%	2.4%
Total Return Index	105.9	106.4	107.8	108.4	107.3	103.6	104.5	106.3
Last Month ending December 31, 1974 using November 30, 1974 as a base of 100.0								
Price Index	98.3 - 1.7%	97.7 - 2.3%	98.6 - 1.4%	99.0 - 1.0%	98.5 - 1.5%	96.9 - 3.1%	94.7 - 5.3%	97.9 - 2.1%
% Coupon Income	.8%	.8%	.8%	.7%	.8%	.8%	.9%	.8%
Coupon Reinvested	.8%	.8%	.7%	.7%	.8%	.8%	.9%	.8%
Total Return Index	99.1 - .9%	98.5 - 1.5%	99.4 - .6%	99.7 - .3%	99.2 - .8%	97.7 - 2.3%	95.6 - 4.4%	98.7 - 1.3%
Number of Issues								
Principal Amount	237	1,176	68	275	428	624	154	1,481
Total Market Value	20,290	58,441	3,928	29,868	20,277	27,251	5,263	82,659
% of Total Market	17,380	45,360	3,297	24,676	16,689	21,086	3,586	66,038
Average Price	26	69	5	37	25	32	5	100
Average Coupon	85.66	77.62	83.94	82.62	82.31	77.38	68.14	79.89
Average Maturity	7.91	7.55	8.07	7.40	7.67	7.89	8.02	7.67
Average Yield to Maturity	24.52	28.93	24.50	30.44	26.12	25.72	25.08	27.55
	9.43	9.97	9.82	9.14	9.54	10.45	12.12	9.82

December 31, 1974

THE KUHN LOEB LONG-TERM CORPORATE BOND INDEX

	<u>Industrial</u>	<u>Utility</u>	<u>Financial</u>	<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>Total</u>
Last Twelve Months ending December 31, 1974 using December 31, 1973 as a base of 100.0								
Price Index	86.9 -13.1%	82.8 -17.2%	84.6 -15.4%	88.5 -11.5%	85.2 -14.8%	80.6 -19.4%	70.0 -30.0%	83.9 -16.1%
% Coupon Income	8.8%	9.1%	9.1%	8.7%	8.9%	9.3%	10.3%	9.0%
Coupon Reinvested	8.1%	8.0%	8.1%	8.1%	8.0%	7.9%	7.8%	8.0%
Total Return Index	95.0 - 5.0%	90.8 - 9.2%	92.7 - 7.3%	96.6 - 3.4%	93.2 - 6.8%	88.6 -11.4%	77.8 -22.2%	91.9 - 8.1%
Last Quarter ending December 31, 1974 using September 30, 1974 as a base of 100.0								
Price Index	103.5	103.9	105.3	106.0	104.9	101.0	101.6	103.9
% Coupon Income	3.5%	3.9%	5.3%	6.0%	4.9%	1.0%	1.6%	3.9%
Coupon Reinvested	2.3%	2.4%	2.4%	2.3%	2.3%	2.5%	2.9%	2.4%
Total Return Index	105.9	106.4	107.8	108.4	107.3	103.6	104.5	106.3
Last Month ending December 31, 1974 using November 30, 1974 as a base of 100.0								
Price Index	98.3 - 1.7%	97.7 - 2.3%	98.6 - 1.4%	99.0 - 1.0%	98.5 - 1.5%	96.9 - 3.1%	94.7 - 5.3%	97.9 - 2.1%
% Coupon Income	.8%	.8%	.8%	.7%	.8%	.8%	.9%	.8%
Coupon Reinvested	.8%	.8%	.8%	.7%	.8%	.8%	.9%	.8%
Total Return Index	99.1 - .9%	98.5 - 1.5%	99.4 - .6%	99.7 - .3%	99.2 - .8%	97.7 - 2.3%	95.6 - 4.4%	98.7 - 1.3%
Number of Issues								
Principal Amount	237	1,176	68	275	428	624	154	1,481
Total Market Value	20,290	58,441	3,928	29,868	20,277	27,251	5,263	82,659
% of Total Market	17,380	45,360	3,297	24,676	16,689	21,086	3,586	66,038
Average Price	26	69	5	37	25	32	5	100
Average Coupon	85.66	77.62	83.94	82.62	82.31	77.38	68.14	79.89
Average Maturity	7.91	7.55	8.07	7.40	7.67	7.89	8.02	7.67
Average Yield to Maturity	24.52	28.93	24.50	30.44	26.12	25.72	25.08	27.55
	9.43	9.97	9.82	9.14	9.54	10.45	12.12	9.82

December 31, 1974

THE KUHN LOEB GOVERNMENT/AGENCY BOND INDEX

Last Twelve Months ending December 31, 1974 using December 31, 1973 as a base of 100.0

Price Index	98.5 - 1.5%
% Coupon Income	7.0%
Coupon Reinvested	7.2%
Total Return Index	105.7 5.7%

Last Quarter ending December 31, 1974 using September 30, 1974 as a base of 100.0

Price Index	103.7
% Coupon Income	3.7%
Coupon Reinvested	1.8%
Total Return Index	105.6 1.9% 5.6%

Last Month ending December 31, 1974 using November 30, 1974 as a base of 100.0

Price Index	100.7
% Coupon Income	.7%
Coupon Reinvested	.6%
Total Return Index	101.3 1.3%

Number of Issues	361
Principal Amount	144,697
Total Market Value	138,435
% of Total Market	100
Average Price	95.67
Average Coupon	6.81
Average Maturity	6.03
Average Yield to Maturity	7.61