

BOND RATINGS

Ratings agencies rate the credit quality or default risk of bonds. Each agency of the four major agencies has a similar hierarchy to assess that bond's credit quality. Morningstar assigns bonds to six levels of credit quality and reports the percentage of outstanding bond issues in each. See *Morningstar Fixed-Income Style Box* (October 31, 2016). Bonds with a rating of BBB (on the Morningstar scale), BBB- (on the Standard & Poor's and Fitch scale) or Baa3 (on Moody's) or better are considered "investment-grade." Bonds with lower ratings are considered "speculative" and often referred to as "high-yield" or "junk" bonds. Moody's, Standard & Poor's, and Fitch append their ratings with an indicator to show a bond's ranking within a category. Moody's uses a numerical indicator. E.g., A1 is better than A2. Standard & Poor's and Fitch use a plus or minus indicator. E.g., A+ is better than A.

BOND RATING CATEGORIES BY AGENCY

Investment grade				Non-investment-grade ("high yield" or "junk")					
<i>Agency</i>				<i>Morningstar</i>	<i>Moody's</i>	<i>S&P</i>	<i>Fitch</i>		
<i>Morningstar</i>	<i>Moody's</i>	<i>S&P</i>	<i>Fitch</i>						
AAA	71.7%	Aaa	AAA	AAA	BB	1.4%	Ba1	BB+	BB+
		Aa1	AA+	AA+			Ba2	BB	BB
AA	3.9%	Aa2	AA	AA	B	1.0%	Ba3	BB-	BB-
		Aa3	AA-	AA-			B1	B+	B+
A	7.1%	A1	A+	A+	Not rated	5.4%	B2	B	B
		A2	A	A			B3	B-	B-
BBB	9.5%	A3	A-	A-	Not rated	5.4%	Caa1	CCC+	CCC+
		Baa1	BBB+	BBB+			Caa2	CCC	CCC
		Baa2	BBB	BBB			Caa3	CCC-	CCC-
		Baa3	BBB-	BBB-			Ca	CC	CC
							C	C	C
								D	D

Sources: Morningstar, Moody's, Standard & Poor's, and Fitch