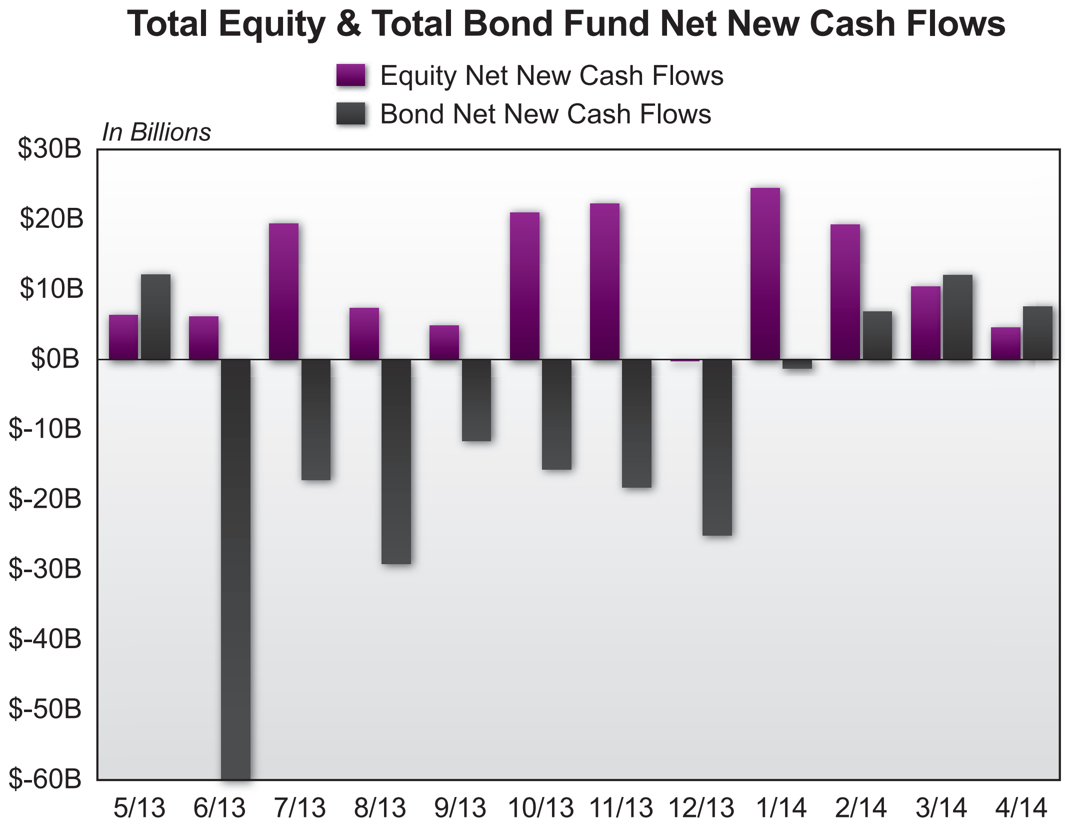
The Great Rotation Out Of Bond Funds On Hold



Source: Investment Company Institute (ICI)

View from the Observation Deck

1. From 2008 (financial crisis) through 2012, investors liquidated a net $537.33 billion from equity mutual funds, compared to net cash inflows totaling $1.05 trillion for bond mutual funds, according to the ICI.
2. In 2013, the yield on the benchmark 10-Year Treasury note rose from a calendar year low of 1.63% on 5/2 to 3.03% on 12/31, or a gain of 140 basis points.
3. ICI data showed that equity mutual funds reported net cash inflows totaling $159.78 billion in 2013, while bond funds reported net cash outflows totaling $80.46 billion.
4. The monthly net cash flows featured in the chart capture the change in investor sentiment, but only up to January 2014. Net cash flows to bond funds turned positive again in February 2014.
5. Due in part to the disappointing real U.S. GDP growth rate (-1.0%) in Q1'14, the yield on the 10-Year Treasury note declined from 3.03% on 12/31/13 to 2.65% on 4/30/14. It stood at 2.60% on 6/9/14.
6. While the anticipated "Great Rotation" out of bond funds due to rising interest rates appears to be on hold for now, we expect that economic growth will not only resume moving forward – we expect it to accelerate.
7. Investors should not grow complacent with respect to interest rates, in our opinion.

The chart and performance data referenced are for illustrative purposes only and not indicative of any actual investment.