Will 2015 Be The Year The Fed Tightens?

Barclays Bond Indices

(1-Year, 3- and 5-Year Annualized Total Returns)

	Yield to Worst				Total Returns		
	3/31/15	3/31/14	3/31/12	3/31/10	1-Yr	3-Yr	5-Yr
U.S. Treasury: Intermediate	1.06%	1.17%	0.87%	2.06%	3.22%	1.56%	2.95%
GNMA 30-Year	2.32%	3.20%	2.85%	4.18%	4.95%	2.17%	3.89%
Municipal Bond: Long Bond (22+)	2.87%	4.16%	4.04%	5.11%	10.76%	5.70%	6.90%
U.S. Aggregate	2.06%	2.39%	2.22%	3.47%	5.72%	3.10%	4.41%
Intermediate Corporate	2.31%	2.43%	2.78%	3.92%	4.51%	4.07%	5.24%
Global Aggregate	1.44%	1.97%	2.19%	2.90%	-3.66%	-0.21%	2.31%
U.S. Corporate High Yield	6.18%	5.23%	7.23%	8.47%	2.00%	7.46%	8.59%
EM Hard Currency Aggregate	4.95%	4.81%	5.35%	5.88%	1.30%	4.16%	6.27%

Source: Barclays. Total returns through 3/31/15.

View from the Observation Deck

1. Today's blog post is an update of one we did on 12/11/14 (click here to view). The yield on the benchmark 10-Year Treasury note fell 80 basis points from 3/31/14-3/31/15. It stood at 1.92% on 3/31/15.
2. While the drop in interest rates helped bolster the 1-year total returns for investment grade bonds, speculative-grade and foreign bond returns came in below their respective yields as of 3/31/14 (see gray shaded columns in chart).
3. Economists and investors are all wondering if this will be the year that the Federal Reserve begins to increase short-term interest rates. While nobody knows for sure when the Fed might pull the trigger, investors still have time to prepare, in our opinion.
4. We believe that the information in the chart can help investors establish realistic expectations with respect to fixed-rate bond yields and performance potential moving forward.
5. We encourage investors to spend some time analyzing the figures in the chart.