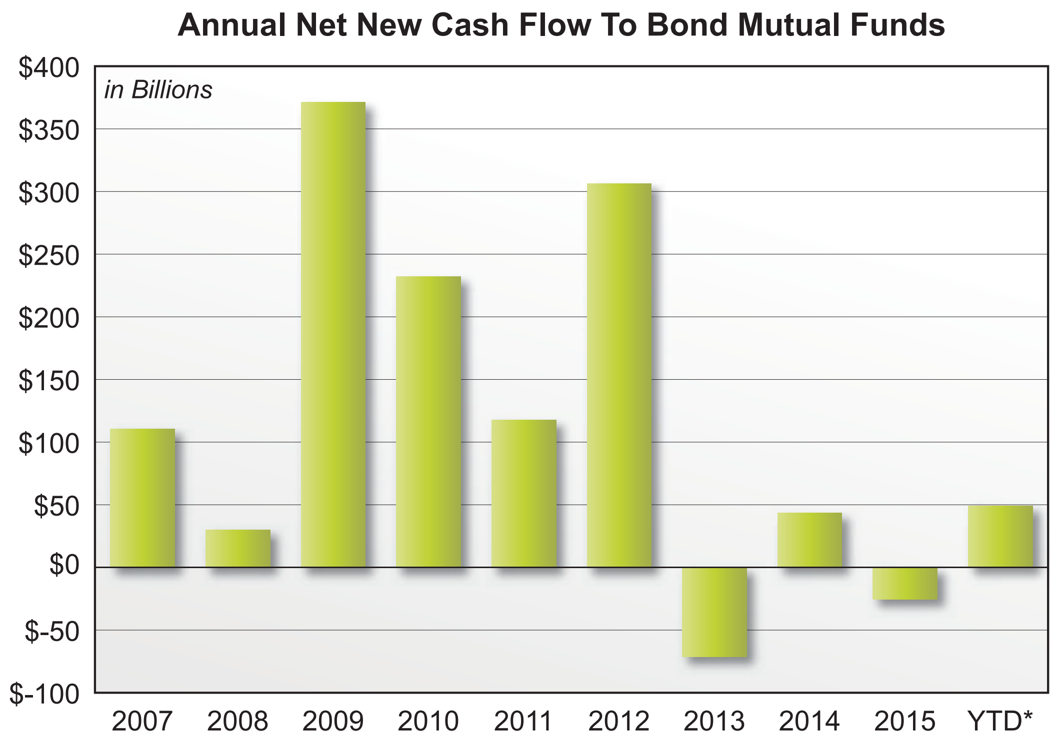
# Still Waiting For The Great Rotation Out Of Bond Mutual Funds




*Source: Investment Company Institute (ICI). *YTD thru May 2016.*

## View from the Observation Deck

1. As indicated in the chart, with the exception of 2013 and 2015, investors have had a big appetite for bond funds since 2007, which was just one-year prior to the punishing 2008-2009 financial crisis.
2. Investors funneled huge amounts of capital into bond funds from 2009 through 2012. While some investors may have been looking to take advantage of falling interest rates, others were seeking a safe haven from stocks, in our opinion.
3. Bonds tend to perform well when interest rates decline. From 12/29/06 through 5/31/16, the yield on the benchmark 10-Year Treasury Note (T-Note) declined by 285 basis points to 1.85%, according to Bloomberg.
4. We nearly experienced the start of the great rotation in 2013, when the yield on the 10-Year T-Note spiked 127 basis points from 1.76% (12/31/12) to 3.03% (12/31/13). Interest rates, however, reversed course early in 2014 and trended lower following the poor GDP showing in Q1'14. The initial report was -2.1% annualized, but it was later revised to -0.9%, according to the Bureau of Economic Analysis.
5. What is interesting about 2013 was the fact that bond investors were big sellers of investment grade bond funds, including government funds, but were buyers of high yield bond funds, which may have implied investors were willing to own risk assets in an effort to capture more yield. Investors poured a net $55.6 billion into the High Yield category in 2013, according to the ICI.
6. In 2015, bond investors liquidated a net $25.5 billion. The biggest outflows (-$37.0 billion) came from the High Yield category, which came under some selling pressure due to the plunge in energy and commodity prices, in our opinion.
7. Looks like the great rotation out of bond funds could be on hold until interest rates trend higher.

*This chart is for illustrative purposes only and not indicative of any actual investment.*