Bond Fund Investors Shifting Exposure As Expected

**View from the Observation Deck**

1. Today's blog post is short and sweet. Bond mutual fund investors have been reallocating their capital to those niches with the potential to better cope with rising interest rates.

2. The chart shows the 86 basis point rise in the 10-Year T-Note from its 2013 low of 1.63% on 5/2/13 to 2.49% on 6/28.

3. The bars in yellow reflect the net inflows for Q2’13. Investors clearly opted for shortening their duration exposure via bank loan (senior loan) and short-term bond funds, as well as tapping foreign debt funds.

4. Convertibles, which are hybrid securities that bridge the stock and bond markets, are plunked right in the middle (with positive net flows) just where you might expect them to be.

5. With high yield corporate bond yields hitting historical lows in 2013, it is not a shock to learn that some investors would seek to take profits, especially for anyone who bought in after the end of the financial crisis.

6. We spend a good deal of time comparing the present to the past to see if the markets are behaving as one would expect. For now, the bond market sure looks like it is.

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