Yield On Preferred Securities Still Attractive On A Relative Basis

View from the Observation Deck

1. The Federal Reserve just announced that it intends to further taper its bond buying program from $75 billion per month to $65 billion beginning in February.

2. Bond investors appear to be taking the news in stride as the yield on the 10-Year Treasury (T-Note) continues to hover near the 2.70% level. It’s down approximately 33 basis points in 2014.

3. For those investors specifically looking for income opportunities that carry an investment grade rating, we offer the snapshot in the chart above.

4. As of 1/29/14, the yield to maturity on the BofA Merrill Lynch Fixed Rate Preferred Securities Index was 6.10%, compared to 3.16% on their U.S. Corporate Index and 1.47% on their U.S. Treasury Index.

5. The 6.10% yield positions preferred securities in the vicinity of high yield corporate bonds, which are speculative-grade securities.

6. As of 1/29/14, the par weighted price (par is $100) on the Fixed Rate Preferred Securities Index was $97.35, compared to $107.10 on the U.S. Corporate Index and $104.01 on the U.S. Treasury Index.

7. Investors seeking high current income have fewer investment grade choices these days despite the spike in interest rates in 2013. Preferred securities are one of those choices.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. Past performance is no guarantee of future returns. The BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of investment grade fixed rate U.S. dollar denominated preferred securities issued in the U.S. domestic market. The BofA Merrill Lynch U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market. The BofA Merrill Lynch U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.