

# 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
<b>U.S. Treasury: Intermediate</b>	1.06%	1.17%	0.87%	2.06%	3.22%	1.56%	2.95%
<b>GNMA 30-Year</b>	2.32%	3.20%	2.85%	4.18%	4.95%	2.17%	3.89%
<b>Municipal Bond: Long Bond (22+)</b>	2.87%	4.16%	4.04%	5.11%	10.76%	5.70%	6.90%
<b>U.S. Aggregate</b>	2.06%	2.39%	2.22%	3.47%	5.72%	3.10%	4.41%
<b>Intermediate Corporate</b>	2.31%	2.43%	2.78%	3.92%	4.51%	4.07%	5.24%
<b>Global Aggregate</b>	1.44%	1.97%	2.19%	2.90%	-3.66%	-0.21%	2.31%
<b>U.S. Corporate High Yield</b>	6.18%	5.23%	7.23%	8.47%	2.00%	7.46%	8.59%
<b>EM Hard Currency Aggregate</b>	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.

*This chart is for illustrative purposes only and not indicative of any actual investment. Past performance is no guarantee of future results. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The U.S. Treasury: Intermediate Index includes public obligations of the U.S. Treasury with maturities ranging from 1 to 9.9999 years. The GNMA 30-Year Index covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by the Government National Mortgage Association (GNMA). The U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. The U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM Passthroughs), ABS, and CMBS. The U.S. Intermediate Corporate Index is a broad-based benchmark with maturities ranging from 1 to 9.9999 years that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market. The U.S. Corporate High-Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-three different local currency markets. The Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes U.S. Dollar, Euro, and British Pound-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.*