Bonds Have Already Endured A Rise In Interest Rates

View from the Observation Deck

1. The yield on the benchmark 10-Year Treasury note (10-Yr. T-Note) bottomed on 7/24/12 at 1.39%, according to data from Bloomberg. It stood at 2.29% at the close of 5/19/15, or a net increase of 90 basis points.

2. Since 7/24/12, the highest yield attained by the 10-Yr. T-Note was 3.03%, set on 12/31/13. So investors have already had a taste of how high and how quickly interest rates can rise.

3. The bond index total returns featured in the chart reflect how the various bond categories responded to the rise in interest rates since 7/24/12.

4. As indicated in the chart, the highest returns were primarily posted by debt securities issued by corporations.

5. Investors are naturally curious as to when the Federal Reserve might begin to raise short-term lending rates. Until that answer is known, investors should keep an eye on the 10-Yr. T-Note as well, in our opinion.

Source: Bloomberg. Past performance is no guarantee of future results.

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. The BofA Merrill Lynch 22+ Year U.S. Municipal Securities Index tracks the performance of U.S. dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market. The S&P/LSTA Leveraged Loan Index tracks the performance of a broad cross section of leveraged loans, including dollar-denominated loans to overseas issuers. 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. High Yield Constrained Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. 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. The BofA Merrill Lynch Global Corporate Index tracks the performance of investment grade corporate debt publicly issued in the major domestic and Eurobond markets. The BofA Merrill Lynch All Convertibles All Qualities Index is a widely used index that measures the performance of U.S. dollar-denominated convertible securities not currently in bankruptcy with a total market value greater than $50 million at issuance.