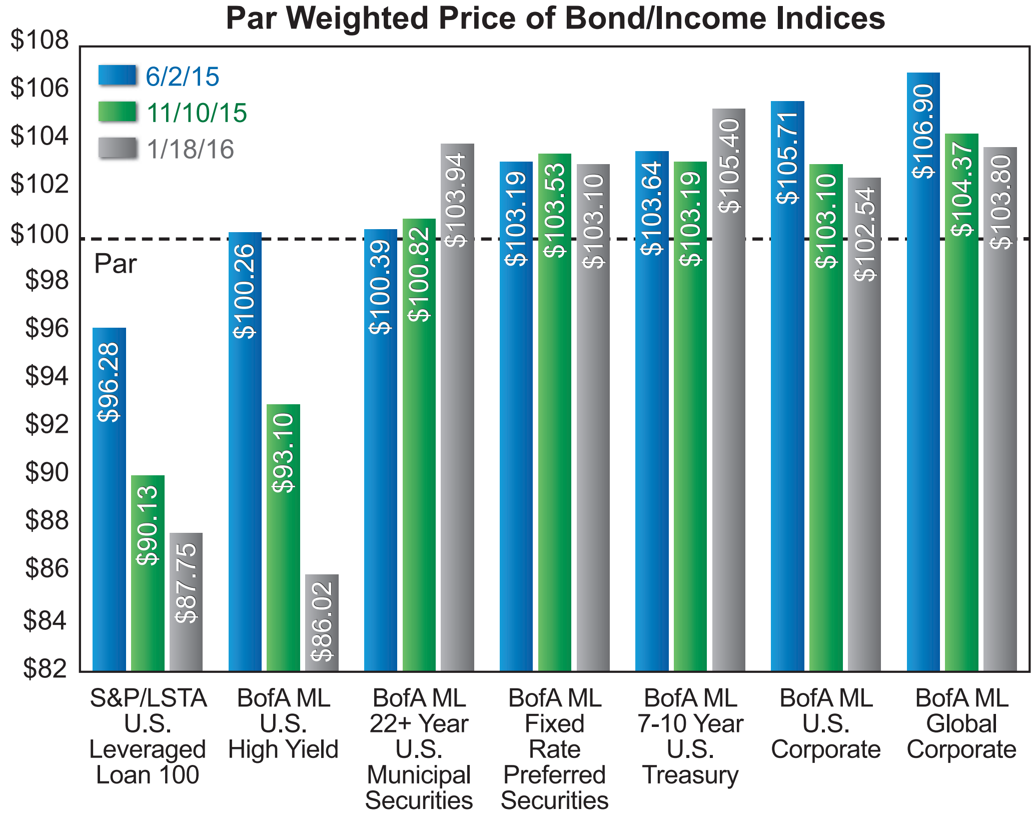
Snapshot Of Bond Valuations



Sources: Bloomberg, BofA Merrill Lynch. Past performance is no guarantee of future results.

View from the Observation Deck

1. Today's blog post is one we do ongoing so that investors can monitor fluctuations in bond prices relative to changes in interest rates and the global economy.
2. Perhaps the most notable change since our last post on 11/12/15 was the increase in the federal funds rate on 12/16/15. It represented the first hike in interest rates by the Federal Reserve since June 2006.
3. The Fed interest rate hike did not translate in higher rates in longer maturity investment grade bonds, such as the 10-Year Treasury Note (T-Note).
4. The yield on the 10-Year T-Note stood at 2.04% on 1/18/16, down 26 basis points from 2.30% on 12/16/15, the day the Fed announced the interest rate hike.
5. The slowdown in global economic growth, due largely to ongoing concerns surrounding the tempering of growth in China and the continued downward trend in oil prices, did result in selling pressure in speculative-grade bonds, in our opinion.
6. While both the high yield corporate bond and leveraged loan (senior loan) markets are exposed to the energy sector, the high yield corporate bond market has three times the exposure than that of leveraged loans, according to S&P Capital IQ.

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 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 S&P/LSTA U.S. Leveraged Loan 100 Index is a market value-weighted index designed to measure the performance of the largest segment of the U.S. syndicated leveraged loan market. The BofA Merrill Lynch 7-10 Year 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 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.