A Snapshot Of Bond Valuations

Par Weighted Price of Bond/Income Indices

View from the Observation Deck

1. Today’s blog post is one we do on an ongoing basis so that investors can monitor fluctuations in bond prices relative to changes in interest rates and the global economy.
2. From 11/10/15 through 3/15/16 (chart dates), the yield on the benchmark 10-Year Treasury Note (T-Note) declined 37 basis points, from 2.34% to 1.97%, according to Bloomberg. It reached as low as 1.66% (2/11/16) in the period.
3. The Federal Reserve announced on 3/16/16 its decision to keep its federal funds target rate range at 0.25% to 0.50%. It hiked rates for the first time in a decade (6/30/06) back on 12/16/15.
4. The Fed cited concern over weaker global growth and financial market turbulence as reasons to leave the target rate range unchanged. We believe these observations help explain the decline in the yield on the 10-Year T-Note.
5. With the exception of leveraged loans (senior loans) and high yield corporate bonds, both of which have been negatively impacted by the weakness in the energy and commodity sectors, the other major bond indices remain priced at a premium to par value.
6. For the two-month period ended February 2016, investors funneled a net $4.47 billion into taxable bond funds and exchange-traded funds (ETFs) and another $10.69 billion into municipal bond funds and ETFs, according to Morningstar.

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 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.