A Snapshot of Bond Valuations

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. The yield on the benchmark 10-year Treasury note rose from 1.58% at the close of 8/31/16 to 2.12% on 8/31/17, or an increase of 54 basis points (bps), according to Bloomberg. Over that 12-month period, it was as low as 1.54% (9/6/16) and as high as 2.63% (3/13/17).

3. Since 8/31/16, the Federal Reserve increased the federal funds target rate (upper bound) 75 bps, from 0.50% to 1.25%.

4. Leveraged loans (senior loans) and high yield corporate bonds, both of which carry speculative-grade ratings, posted price gains for the 12-month period ended 8/31/17, as measured by the indices featured in the chart. All five investment-grade bond indices in the chart reflected price declines over the period.

5. Despite the rise in interest rates since 8/31/16, investors have boosted the amount of capital flowing into bond mutual funds. Year-to-date through 7/31/17, bond funds reported net inflows totaling $156.4 billion, up 90% from the $82.3 billion in net inflows over the same period a year ago, according to Investment Company Institute.

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. Leverage 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 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. LIBOR, or ICE LIBOR, is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.

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