A 20-Year Snapshot of Bond Yields

ICE BofA Bond Index Yields & CPI Rates

Index	YTM (12/11/20)	YTM (20-Year Avg.)	YTM (20-Year High)	YTM (20-Year Low)
CPI Rate*	1.2%	2.1%	5.6%	-2.1%
7-10 Yr. U.S. Treasury	0.76%	3.19%	5.86%	0.43%
Freddie Mac Mortgage Backed Sec.	1.03%	3.71%	6.97%	0.91%
22+ Yr. U.S. Municipal Sec.	3.50%	4.85%	7.09%	3.49%
U.S. Corporate	1.91%	4.42%	9.00%	1.90%
Fixed Rate Preferred Sec.	4.21%	6.57%	18.90%	4.21%
U.S. High Yield Constrained	5.17%	8.60%	22.38%	5.15%
Global Corporate	1.46%	3.81%	7.50%	1.46%

Source: Bloomberg. Yields reflect yield to maturity (YTM) calculations from 12/11/00-12/11/20.
*CPI (Consumer Price Index) monthly data points from 11/30/00-11/30/20.

View from the Observation Deck

1. Bond yields remain at artificially low levels due in large part to the Federal Reserve's ("Fed") accommodative monetary policy over the past dozen years or so.
2. The absence of any significant inflationary pressure has played a role as well, in our opinion. In fact, the U.S. was actually battling deflation back in 2009, as evidenced by the -2.1% Consumer Price Index (CPI) rate cited in the table above.
3. As of November 2020, the CPI rate stood at 1.2% on a trailing 12-month basis, well below its 2.1% average rate over the past two decades and its 3.0% average since the start of 1926, according to data from the Bureau of Labor Statistics.
4. While all of the bond indices in the table were yielding below their respective 20-year averages as of 12/11/20, the one that stands out is high yield corporate bonds, arguably the riskiest of the bond categories in the table.
5. As of 12/11/20, the ICE BofA U.S. High Yield Constrained Index yield stood 343 basis points below its 20-year average of 8.60%, the biggest spread of any category by far. This indicates that investors have been willing to assume more risk to garner a higher return. Their capital flows into speculative-grade bonds has pushed the index's yield down to 5.17%.
6. For comparative purposes, the average yield on the 10-year Treasury-note for the 50-year period ended 12/11/20 was 6.18%, according to Bloomberg. That is 100 basis points higher than the 5.17% yield on ICE BofA U.S. High Yield Constrained Index.
7. The Fed has stated that it would welcome some higher inflation moving forward. Stay tuned.