

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

- 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.
- 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.
- 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.
- 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.
- 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%.
- 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.
- The Fed has stated that it would welcome some higher inflation moving forward. Stay tuned.

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 ICE BofA 7-10 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government with a remaining term to maturity between 7 to 10 years. The ICE BofA Freddie Mac Mortgage Backed Securities Index is a subset of the ICE BofA U.S. Mortgage Backed Securities Index including all generics representing pools issued by Freddie Mac. The ICE BofA 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 with a remaining term to maturity greater than or equal to 22 years. The ICE BofA 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 ICE BofA 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 ICE BofA 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 ICE BofA Global Corporate Index tracks the performance of investment grade corporate debt publicly issued in the major domestic and Eurobond markets. The Consumer Price Index (CPI) tracks prices paid by consumers for a market basket of consumer goods and services.

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