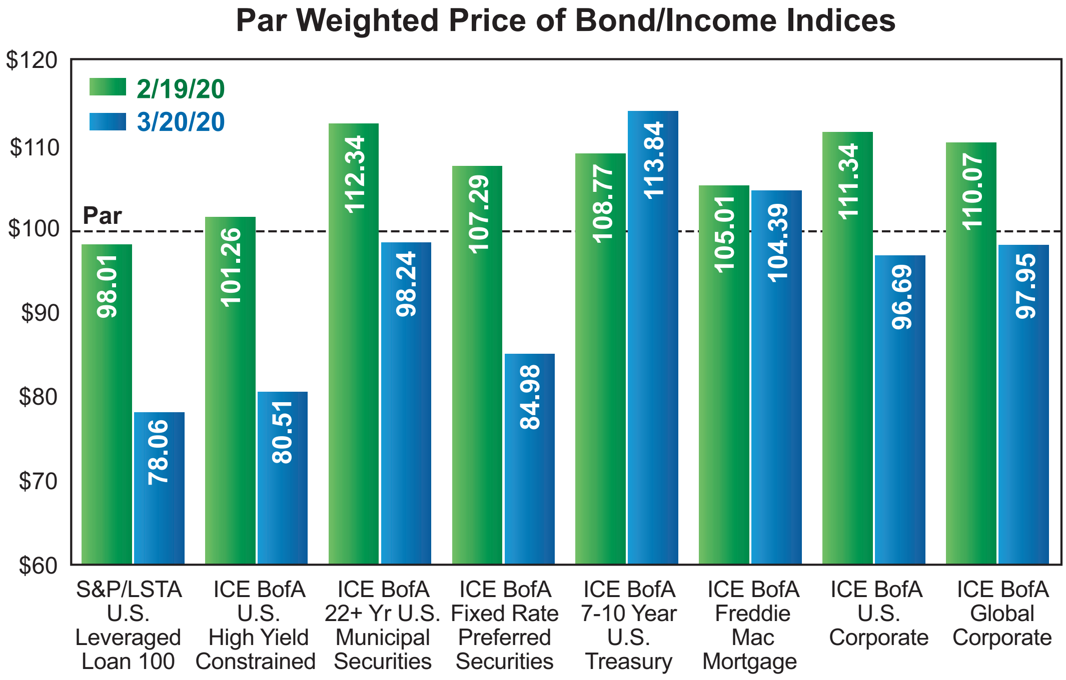
A Snapshot Of Bond Valuations



Source: Bloomberg, Bank of America. **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. This one features activity from the all-time high in the stock market on 2/19/20 through 3/20/20 (1 month).
2. The yield on the benchmark 10-year Treasury note fell from 1.57% at the close on 2/19/20 to 0.85% at the close on 3/20/20, or a decline of 72 basis points (bps), according to Bloomberg.
3. Since 2/19/20, the Federal Reserve ("Fed") has decreased the federal funds target rate (upper bound) by 150 bps, from 1.75% to 0.25%, according to Bloomberg. For the 30-year period ended 3/20/20, the federal funds target rate (upper bound) averaged 2.90%.
4. With respect to the Fed's about-face on monetary policy, the plunge in the federal funds target rate (upper bound) to 0.25% means the Fed is now back to where it held rates from the end of 2008 through the end of 2015. That signals a problem is at hand.
5. While the Fed was battling the financial crisis in 2008, and for several years thereafter, the problem today is COVID-19, a coronavirus pandemic. The manner in which the Trump administration, and some governors, have chosen to mitigate the anticipated escalation of the virus is by literally shutting down large chunks of the economy to enable millions of people to shelter in their homes. The Fed is also doing what it can to inject much needed liquidity into the debt markets.
6. As indicated in the chart above, despite the plunge in interest rates, there was tremendous selling pressure in the bond market over the past month. The only categories that weathered the storm were government-backed securities.