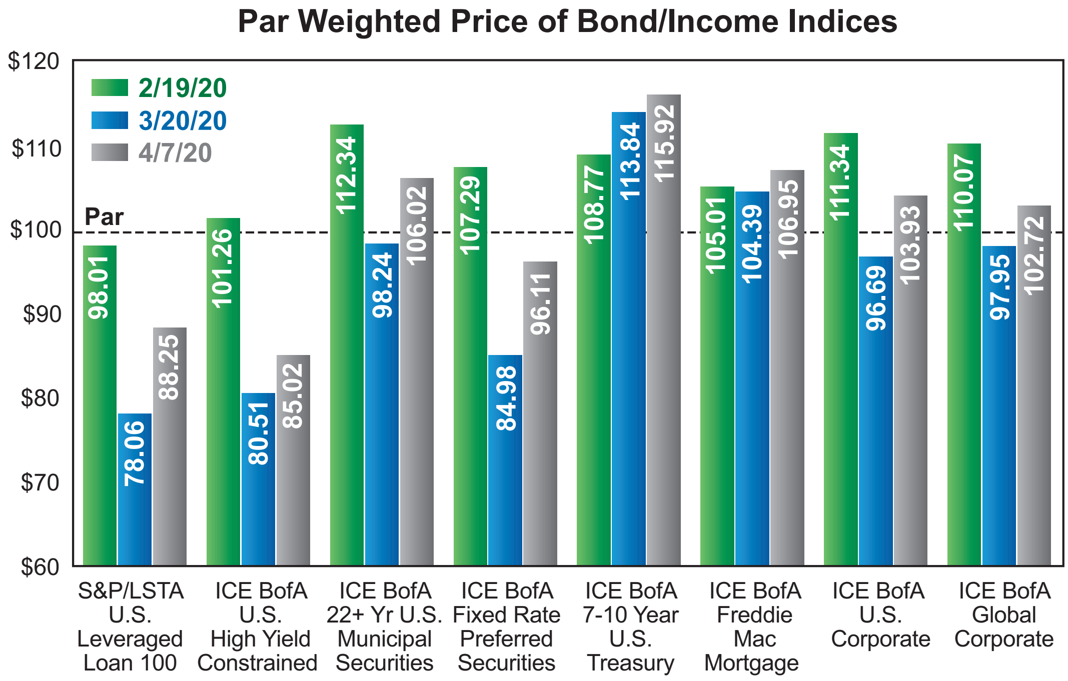
A Snapshot Of Bond Valuations



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. A lot of activity, both positive and negative, has happened in a relatively brief period of time (see chart).
2. Since 2/19/20 (peak in the stock market), the Federal Reserve ("Fed") has decreased the federal funds target rate (upper bound) by 150 basis points (bps), from 1.75% to 0.25%, according to Bloomberg. For the 30-year period ended 4/7/20, the federal funds target rate (upper bound) averaged 2.88%.
3. The yield on the benchmark 10-year Treasury note declined from 1.57% at the close on 2/19/20 to 0.85% at the close on 3/20/20 and continued lower to 0.71% at the close on 4/7/20, according to Bloomberg. All in, it was an 86 basis point (bps) plunge.
4. For comparative purposes, here are the closing yields as of 4/7/20 for the indices featured in the chart: 8.12% (U.S. Leveraged Loan 100); 9.49% (U.S. High Yield Constrained); 3.99% (22+ Yr. Municipal Securities); 5.81% (Fixed Rate Preferred Securities); 0.68% (7-10 Yr. U.S. Treasury); 1.56% (Freddie Mac Mortgage); 3.63% (U.S. Corporate); and 3.11% (Global Corporate), according to Bloomberg.
5. 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.
6. The coronavirus (COVID-19) pandemic has triggered unusually high levels of volatility in the bond market over the past two months. The only categories that have weathered the storm to date are government-backed securities, but that may be changing.
7. The Fed, in an unprecedented move, announced this morning (4/9/20) another stimulus program valued at $2.3 trillion to help shore up the hardest-hit parts of the financial markets, including purchasing some debt recently downgraded to below investment-grade status as well as certain collateralized loan obligations, according to Bloomberg.

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 BofAML 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 BofAML 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 ICE BofAML 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 BofAML 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 BofAML 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 BofAML Global Corporate Index tracks the performance of investment grade corporate debt publicly issued in the major domestic and Eurobond markets. 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.