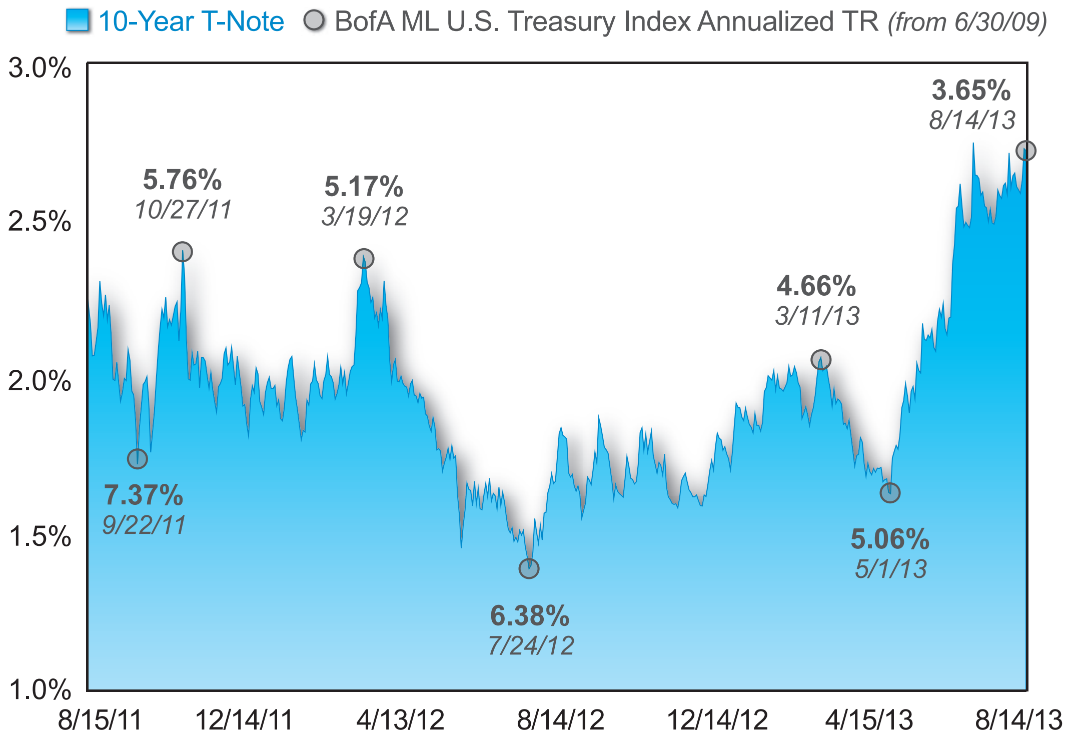
The Clock Is Ticking And Returns Are Diminishing

10-Year T-Note Yield & BofA Merrill Lynch U.S. Treasury Index Annualized Total Returns



Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. While today's message is intended for those investors who still own packaged products with a high exposure to Treasuries, it may also be applicable to some degree to other investment-grade debt securities.
2. We believe that many investors felt compelled to seek refuge in Treasuries during the financial crisis in 2008. Trading up in credit quality while in the midst of an economic contraction is understandable, in our opinion.
3. But the recession has been over since June 2009, according to the National Bureau of Economic Research. From 6/09-6/13, the U.S.'s annualized GDP growth rate was 2.0%, according to the Bureau of Economic Analysis.
4. The Fed has strived to keep interest rates artificially low since it began cutting the federal funds target rate in September 2007. It has increased its balance sheet holdings from around $800 billion in 2008 to $3.5 trillion today.
5. The clock is ticking for investors because the Federal Reserve is contemplating the tapering of its $85 billion per month bond-buying stimulus program. Since 5/1/13, the yield on the 10-Year T-Note is up over 100 basis points.
6. The chart shows the fluctuation in the yield on the 10-Year T-note over the past two years. It is clear that when the yield trends higher the annualized returns decline.
7. Once the Federal Reserve announces its timeline for the tapering of its bond-buying efforts, holders of Treasuries should brace for the possibility of higher interest rates and further erosion of any unrealized gains, in our opinion.

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 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.