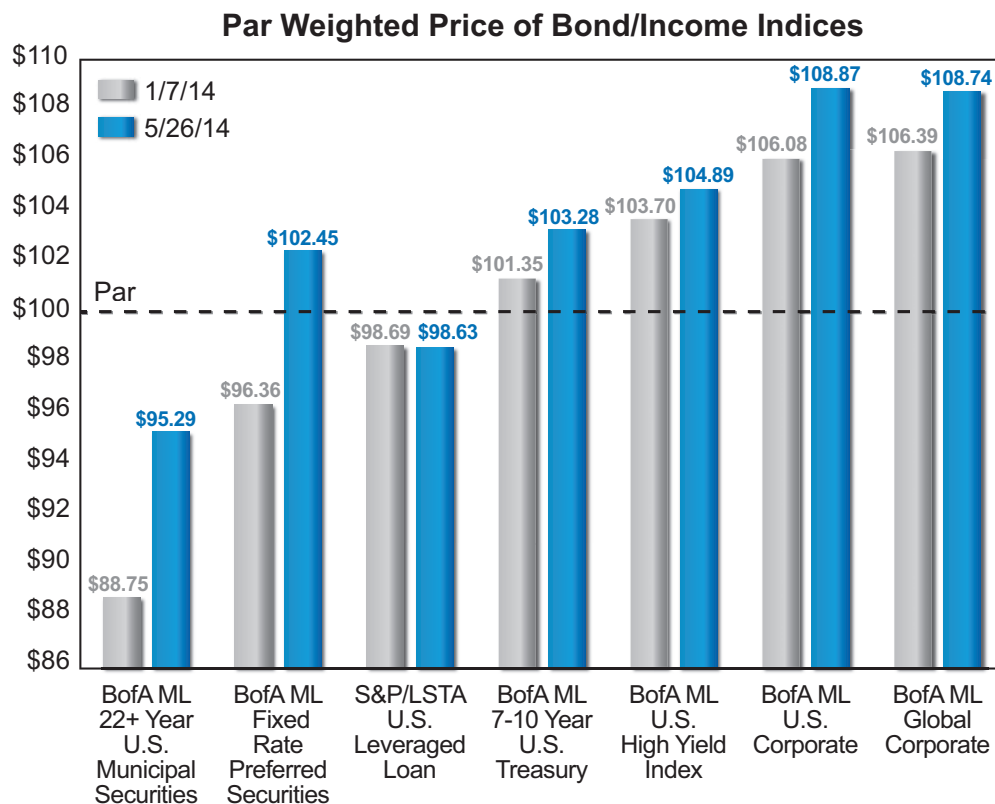


# Keeping An Eye On Bond Prices



Sources: Bloomberg, BofA Merrill Lynch. Past performance is no guarantee of future results.

## View from the Observation Deck

1. Today's blog post is an update of one we did on 1/9/14 (data as of 1/7). Since 1/7/14, bond prices rose in six of the seven major categories featured in the chart.
2. Despite the Federal Reserve tapering its monthly bond buying program from \$85 billion to \$45 billion, investors seemed to be focused on the weaker-than-expected U.S. GDP growth rate (+0.1%) in Q1'14, in our opinion.
3. From 1/7/14-5/26/14, the yield on the benchmark 10-Year Treasury note declined by 41 basis points to 2.53%, less than half its 30-year average of 5.80% (as of April 2014), according to Bloomberg.
4. Ironically, the Consumer Price Index (All Items) jumped from 1.1% in February to 2.0% in April, according to the Bureau of Labor Statistics.
5. How will bond investors react if it becomes apparent that the decline in economic activity in Q1'14 was mostly weather-related?
6. A snapback in GDP growth, more Fed tapering and the potential for additional inflationary pressure could make for a challenging climate for the bond market in the months ahead, in our opinion.
7. Leveraged loan (senior loans) prices were essentially unchanged since 1/7/14. These floating-rate securities, however, tend to be better suited for a rising interest rate climate than their fixed-rate counterparts.

*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 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, in the U.S. domestic market. The BofA Merrill Lynch 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 Leveraged Loan Index tracks the performance of a broad cross section of leveraged loans, including dollar-denominated loans to overseas issuers. The BofA Merrill Lynch 7-10 Year 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. The BofA Merrill Lynch U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The BofA Merrill Lynch 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 BofA Merrill Lynch Global Corporate Index tracks the performance of investment grade corporate debt publicly issued in the major domestic and Eurobond markets.*