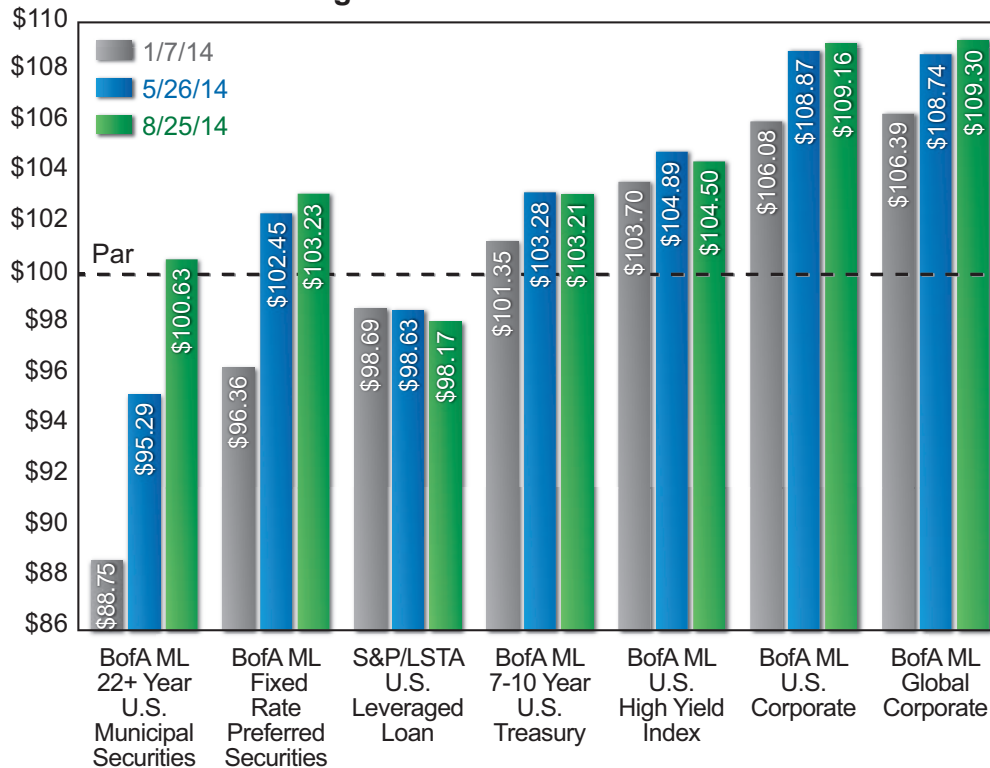


It's Time For Another Look At The Bond Market

Par Weighted Price of Bond/Income Indices



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 and 5/27/14. Since 5/27/14, bond prices rose in four of the seven major categories featured in the chart. The other three dipped slightly.
2. Investment-grade bonds, in particular, appear to have benefitted the most from the 65 basis point decline in the yield on the 10-Year Treasury Note (T-Note) in 2014 (thru 8/25).
3. Despite the strong rebound in real GDP growth in the U.S. in Q2'14 (+4.0% annualized), investors have shied away from speculative-grade debt, such as leveraged loans (bank/senior loans) and high yield corporate bonds.
4. Bank loan and high yield corporate bond funds (open-end) reported net outflows totaling \$1.9 billion and \$7.9 billion, respectively, in July, according to data from Morningstar.
5. Year-to-date through July, net outflows for bank loan and high yield corporate bond funds (open-end) totaled \$175 million and \$784 million, respectively.
6. Investors are having to navigate through some mixed signals. So far in 2014, it looks as though the economic weakness in Europe trumps the U.S. recovery, in our opinion.
7. Weakness in Europe has pushed European gov't bond yields to such low levels that yields on U.S. bonds look attractive by comparison.
8. The yield on the 10-Yr T-Note in the U.S. is around 2.39%, compared to 0.95% and 1.29% for Germany and France's 10-Year gov't securities.
9. We intend to continue monitoring the comments from the Federal Reserve and the events in Europe.

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.