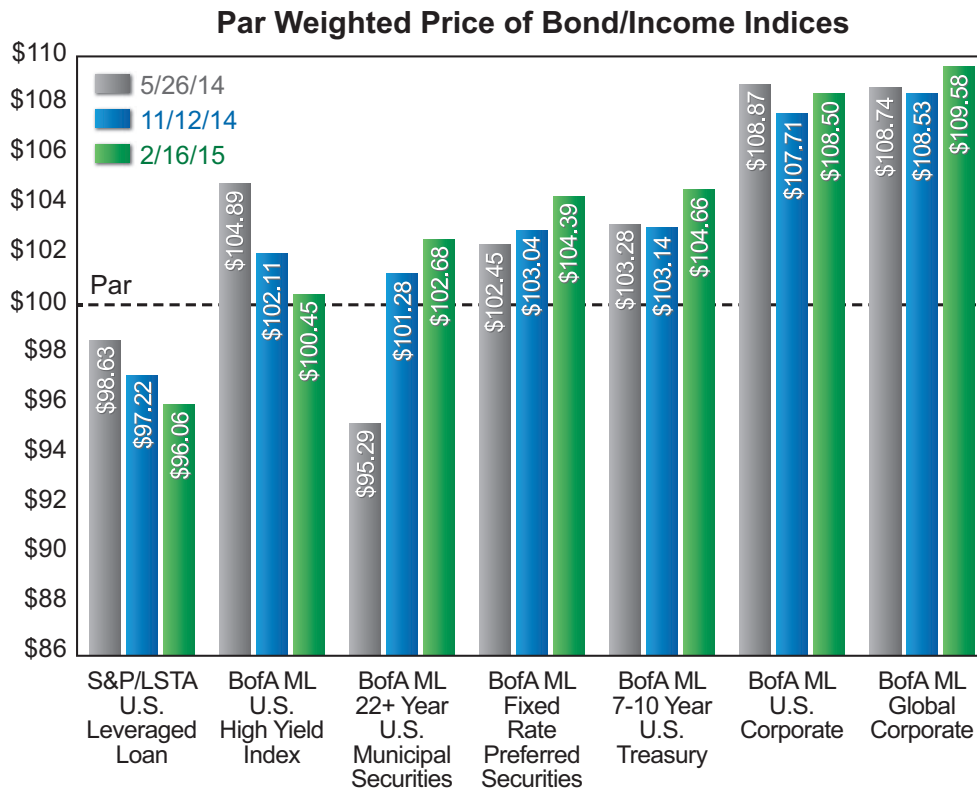


# Treasury Yields Are Up Sharply In The First Half Of February



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

## View from the Observation Deck

1. The yield on the benchmark 10-Year Treasury Note rose from 1.64% on 1/30/15 to 2.13% on 2/17/15 (midday) – an increase of 49 basis points. Its yield stood at 3.03% on 12/31/13.
2. A strong U.S. nonfarm payroll number in January (257,000/accompanied by substantial upward revisions to December's and November's totals), combined with decent corporate earnings (Bloomberg reported that 69.4% of the 395 S&P 500 companies that have reported Q4'14 earnings have topped their estimates) and some hope that Greece's debt situation can be contained, helped push interest rates higher, in our opinion.
3. Today's chart shows that all of the major investment grade bond indices are trading at a premium to par value, with many carrying a higher premium than the two previous dates cited when we last did blog posts on this subject. High Yield Corporate bonds are at a slight premium to par value.
4. Year-to-date through 2/11, Lipper data showed that investors funneled a net \$15.2 billion into investment grade corporate bond funds, according to Reuters. That category stands at an 8.5% premium to par value (see chart).
5. Today's blog post is intended to be an FYI to those investors with a lot of exposure to bonds and bond funds in their investment portfolios. If interest rates continue to trend higher, expect to see bond prices trend lower.

*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.*