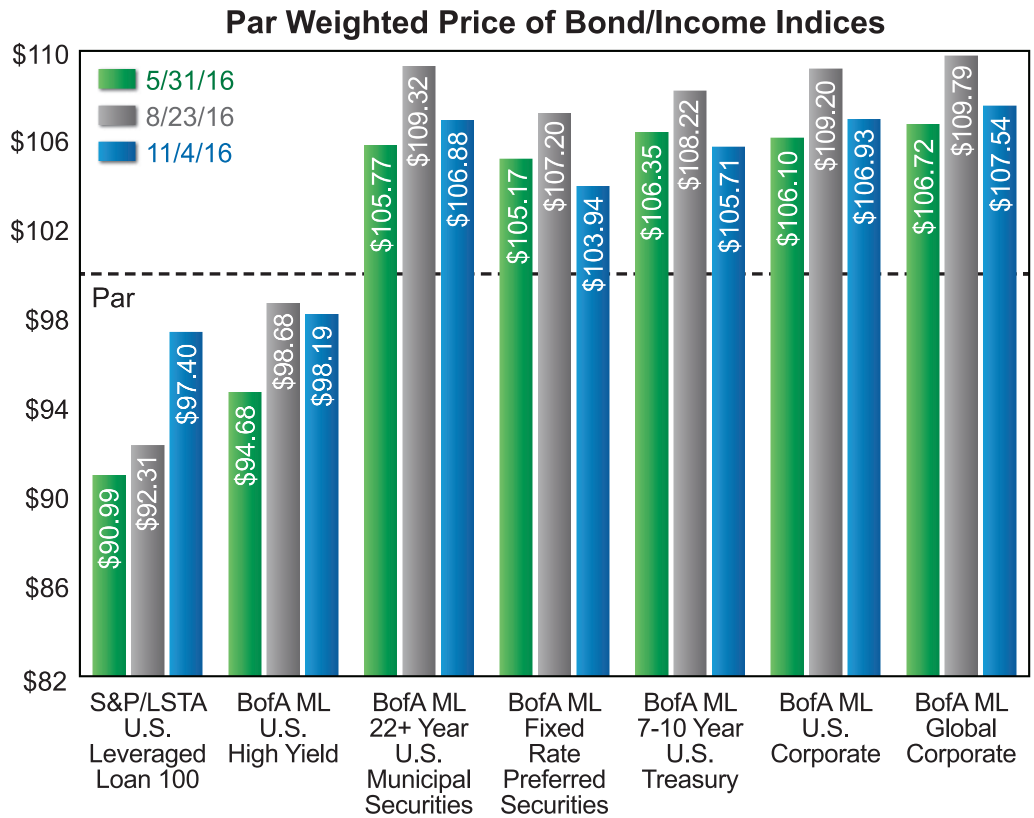
# A Snapshot of Bond Valuations




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

## View from the Observation Deck

1. Today's blog post is one we do on an ongoing basis so that investors can monitor fluctuations in bond prices relative to changes in interest rates and the global economy.
2. From 5/31/16 through 11/4/16 (chart period), the yield on the benchmark 10-year Treasury note (T-Note) declined by seven basis points, from 1.85% to 1.78%, according to Bloomberg. It was as low as 1.36% (7/8/16) in the period.
3. Unlike in previous posts, where we discussed how most bond categories were benefitting from a low interest rate climate, the takeaway from today's post is more about the future.
4. Investors, particularly those that are seasoned, tend to keep an eye out for signals that could potentially tip them off as to where the markets may be headed.
5. Leveraged loans (senior loans) may be poised to benefit from such a signal, in our opinion. The signal is that interest rates could be headed higher (not shown in chart), at least with respect to short-term rates.
6. The income distributed by leveraged loans, which are issued by corporations and tend to be speculative-grade in quality, floats with the direction of short-term interest rates. Loans are typically indexed to a benchmark, such as the 3-month LIBOR (London Interbank Offered Rate).
7. The 3-month LIBOR rate rose from 0.69% on 5/31/16 to 0.88% on 11/4/16, according to Bloomberg. Rates may be headed higher in the U.S. as well. The Federal Reserve last raised the federal funds rate by 25 basis points on 12/16/15. We believe that the Fed is prepared to raise rates again, perhaps at its next meeting (December 13-14).
8. If interest rates do rise moving forward, it could put downward pressure on fixed-rate bond prices. We intend to keep a close eye on the direction of interest rates moving forward.

*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 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 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. LIBOR, or ICE LIBOR, is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.*