

How Some Major Bond Indices Have Fared Over The Past Five Years

Bond Index Yields vs. Bond Index Returns

Bond Index	Yield to Maturity (as of 6/17/11)	5-Year Total Return (Annualized thru 6/17/16)
7-10 Year U.S. Treasury	2.59%	4.72%
7-10 Year Global Government (Ex U.S.)	2.66%	5.89%*
U.S. Corporate	3.67%	5.01%
22+ Year U.S. Municipal Securities	5.36%	7.70%
Fixed Rate Preferred Securities	6.79%	7.11%
U.S. High Yield Constrained	7.47%	5.60%

Source: BofA Merrill Lynch. Past performance is no guarantee of future results.

View from the Observation Deck

1. Today's blog post is a simple exercise we can do to quickly assess how the various major bond categories are performing.
2. We are using a five-year time frame because it has historically been characterized as a long-term holding period for securities.
3. Bonds tend to perform well when interest rates decline. From 6/17/11 through 6/17/16, the yield on the benchmark 10-Year Treasury Note declined by 134 basis points to 1.61%, according to Bloomberg.
4. The yield to maturity column shows what the major indices were yielding at the start (6/17/11) of the five-year period featured in the chart.
5. When investing in a bond portfolio structure, such as an open-end mutual fund or exchange-traded fund, that does not have a stated maturity date like an individual bond, one of the goals should be to earn a total return that is at least commensurate with the portfolio's yield.
6. As indicated in the chart, five of the six major bond indices posted annualized total returns that exceeded their respective yields on 6/17/11. The only one that lagged invests in U.S. high yield corporate bonds. High yield corporate bonds issued by energy and mining companies, in particular, have succumbed to some selling pressure following the steep decline in crude oil and commodity prices over the past two years.
7. Investors funneled an estimated net \$28.09 billion into Taxable Bond mutual funds and exchange-traded funds for the 12-month period ended May 2016, according to Morningstar. That figure was \$39.67 billion for the Municipal Bond category.

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 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 7-10 Year Global Government (Ex U.S.) Index includes all securities with a remaining term to final maturity greater than or equal to 7 years and less than 10 years, and excludes those denominated in U.S. dollars. 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 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 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.