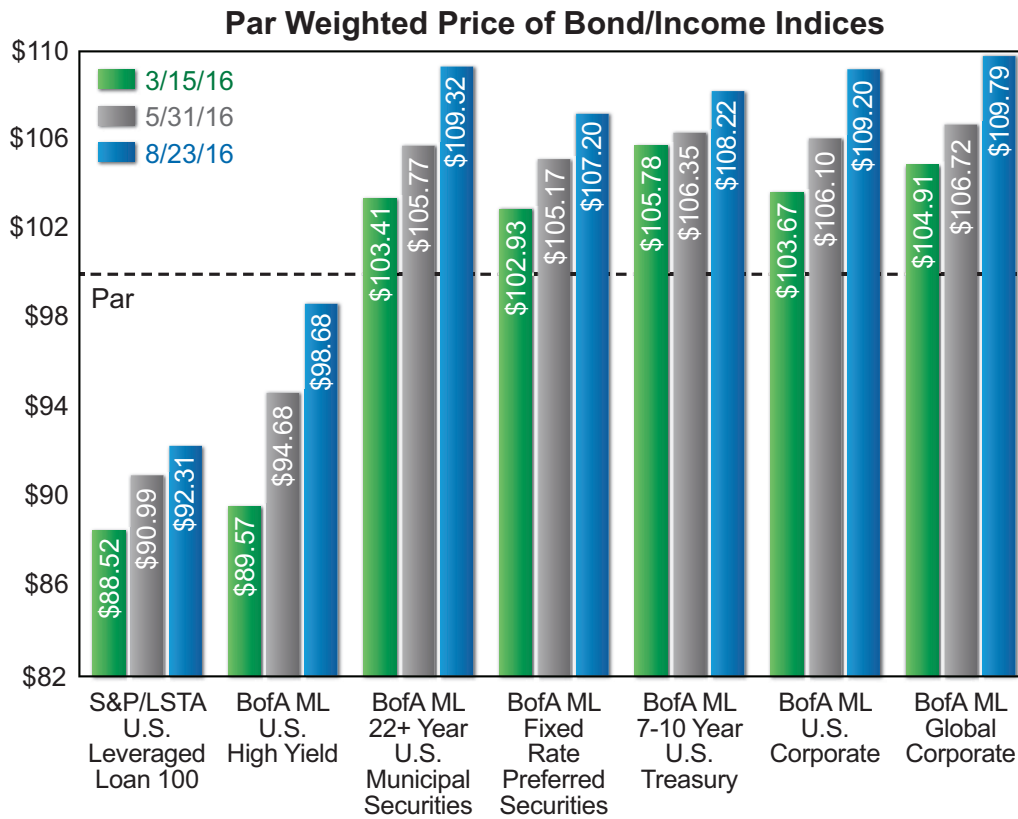


A Snapshot of Bond Valuations



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 3/15/16 through 8/23/16 (chart period), the yield on the benchmark 10-year Treasury note (T-Note) declined 42 basis points, from 1.97% to 1.55%, according to Bloomberg. It was as low as 1.36% (7/8/16) in the period.
3. The current interest rate climate has helped push bond prices higher in all seven of the major index categories featured in the chart, in our opinion.
4. Leveraged loans (senior loans) and high yield corporate bonds, which are still priced at a discount to par value (see chart), have likely benefitted from the rebound in energy and commodity prices since these industries are heavily represented in those indices. Energy and commodity prices hit their respective near-term lows on 2/11/16, according to Bloomberg.
5. Year-to-date through July, investors funneled an estimated net \$12.52 billion into High Yield Bond mutual funds and exchange-traded funds (ETFs), while liquidating an estimated net \$5.36 billion from Bank Loan (leveraged loan/senior loan) mutual funds and ETFs, according to Morningstar. It is not surprising that investors have favored fixed-rate high yield corporate bonds over leveraged loans in the current low interest rate climate (see point #2), in our opinion.

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.