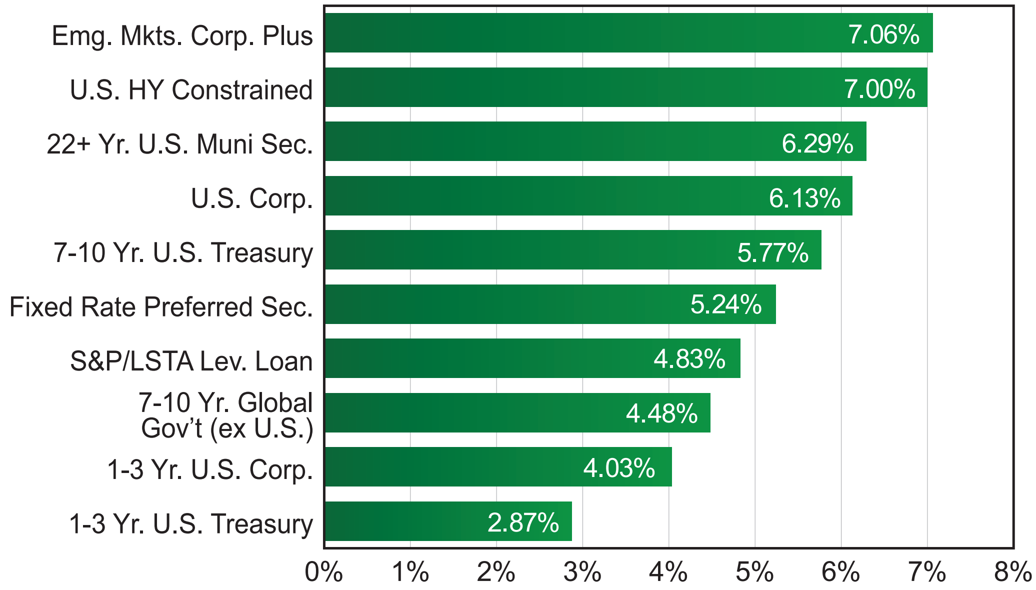
How Bonds Have Fared This Millennium

Bond Index Average Annualized Total Returns *(12/31/99-8/20/19)*



Source: Bloomberg. Past performance is no guarantee of future results. Index returns reflect the performance of ICE BofAML Indices except for the S&P/LSTA Leveraged Loan Index.

View from the Observation Deck

1. The quick answer is that bonds have performed quite well since the turn of the century thanks to the steep decline in interest rates and yields.
2. The yield on the benchmark 10-year Treasury note (T-note) closed at 6.44% on 12/31/99, according to data from Bloomberg. On 8/20/19, it stood at 1.56%, or a decline of 488 basis points.
3. To put this steep drop into perspective, understand that the 6.44% yield as of 12/31/99 was actually in line with the historical norm. The average yield on the 10-year T-note for the 50-year period ended 8/20/19 was 6.34%.
4. For comparative purposes, the federal funds target rate (upper bound) fell from 5.50% on 12/31/99 to 2.25% on 8/20/19, or a decline of 325 basis points, according to Bloomberg. The 5.50% rate on 12/31/99 was also essentially in line with its 50-year average of 5.20%.
5. Investors have poured a lot of their capital into bond mutual funds this millennium. From 12/31/99-6/30/19, bond mutual funds reported net inflows totaling $1.92 trillion, according to the Investment Company Institute. Over that same period, equity mutual funds reported net outflows totaling $225.67 billion.
6. With interest rates and yields much lower today than at the end of 1999, bond investors should not expect the kind of average annual returns shown in the chart moving forward, in our opinion. If interest rates, however, remain at these low levels for an extended period of time then bond investors may still be able to generate positive total returns, albeit modest ones.

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 ICE BofAML U.S. High Yield Constrained Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The S&P/LSTA U.S. Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market. The ICE BofAML Emerging Markets Corporate Plus Index tracks the performance of U.S. dollar and euro denominated emerging markets non-sovereign debt publicly issued in the major domestic and eurobond markets. The ICE BofAML 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 ICE BofAML 1-3 Year U.S. Corporate Index is a subset of the ICE BofAML U.S. Corporate Index including all securities with a remaining term to maturity of less than 3 years. The ICE BofAML 1-3 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government with a remaining term to maturity of less than 3 years. The ICE BofAML 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 with a remaining term to maturity greater than or equal to 22 years. The ICE BofAML 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 ICE BofAML 7-10 Year Global Government (ex U.S.) Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency with a remaining term to maturity between 7 to 10 years, excluding those denominated in U.S. dollars. The ICE BofAML 7-10 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government with a remaining term to maturity between 7 to 10 years.