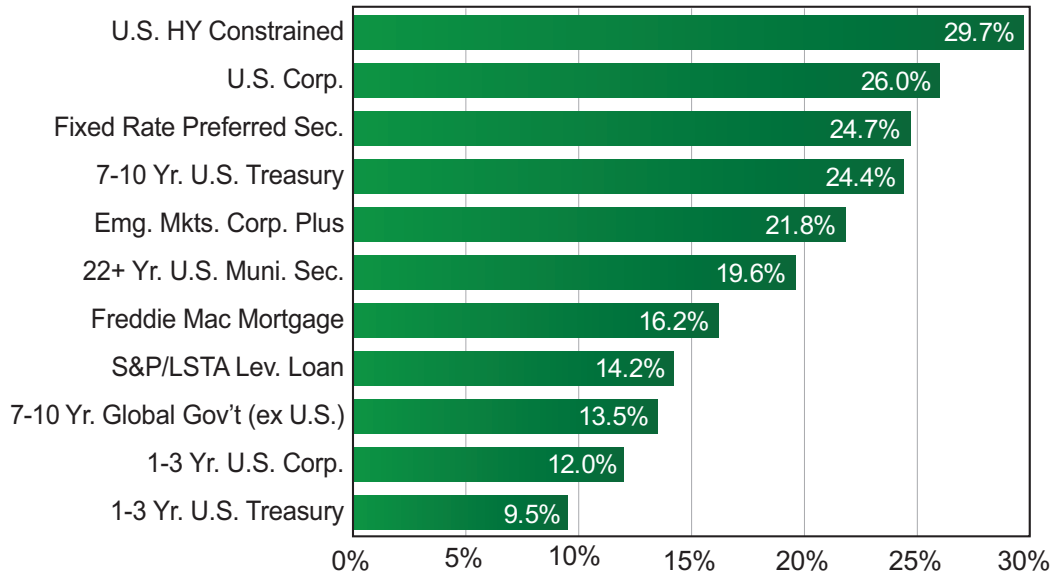


The Federal Funds Target Rate Has Come Full Circle

Bond Index Cumulative Total Returns (12/15/15-4/14/20)



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

View from the Observation Deck

1. To help mitigate the economic fallout from the coronavirus (COVID-19) pandemic, the Federal Reserve ("Fed") aggressively cut the federal funds target rate (upper bound) on 3/16/20, dropping it from 1.25% to 0.25%. It had made other cuts prior to that move.
2. The last time the rate stood at 0.25% was on 12/15/15, according to Bloomberg. If you recall, the Fed kept its benchmark lending rate at 0.25% for seven years (12/16/08-12/15/15), and then raised it nine times to 2.50% in an attempt to normalize it.
3. For comparative purposes, the federal funds target rate (upper bound) averaged 2.88% for the 30-year period ended 4/14/20, according to Bloomberg.
4. The cumulative total returns in the chart indicate that bonds issued by U.S. corporations, which inherently carry a higher degree of credit risk, outperformed the other major categories in the period.
5. Retail investors have been big buyers of bonds over the past decade or so. From 12/31/08-2/28/20, investors funneled a net \$1.727 trillion into taxable and municipal bond mutual funds, according to the Investment Company Institute.

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 BofA 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 BofA 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 BofA 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 BofA 1-3 Year U.S. Corporate Index is a subset of the ICE BofA U.S. Corporate Index including all securities with a remaining term to maturity of less than 3 years. The ICE BofA 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 BofA 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 BofA 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 BofA 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 BofA 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. The ICE BofA Freddie Mac Mortgage Backed Securities Index is a subset of the ICE BofA U.S. Mortgage Backed Securities Index including all generics representing pools issued by Freddie Mac.

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