

How Bonds Have Fared In This Millennium

ICE BofA U.S. Bond Indices (Yields and Average Annualized Total Returns)

Index	2000 - 2009		2010 - 2019		2020 - 5/14/21	
	Avg. Yield	Avg. Annual TR	Avg. Yield	Avg. Annual TR	Avg. Yield	Avg. Annual TR
7-10 Year U.S. Treasury	4.69%	6.72%	2.22%	4.42%	0.93%	3.50%
Freddie Mac Mortgage	5.36%	6.54%	2.63%	3.25%	1.47%	2.28%
22+ Yr. U.S. Municipal Sec.	5.31%	6.51%	4.60%	5.84%	3.65%	5.68%
Fixed Rate Preferred Sec.	7.56%	3.22%	5.97%	7.43%	4.68%	4.86%
U.S. Corporate	5.91%	6.56%	3.45%	5.59%	2.36%	4.43%
U.S. High Yield Constrained	10.68%	6.66%	7.07%	7.48%	6.13%	5.94%

Source: Bloomberg and Bank of America. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. Today's blog post shows how some traditional U.S. fixed-rate bond indices have performed in this millennium.
2. There are six major bond index categories in the table spanning government, tax-free and corporate debt securities.
3. We break it down by decade to highlight the dramatic change in yields and corresponding total returns since the start of 2000.
4. We believe the information in the table and the text can help investors establish realistic expectations with respect to what can be earned on fixed-rate bonds and their performance potential moving forward.
5. For comparative purposes, the average rate of inflation by decade, as measured by the Consumer Price Index (Headline Rate), was as follows: 2.6% (2000-2009); 1.8% (2010-2019); and 1.6% (2020-4/30/21), according to the Bureau of Labor Statistics.
6. As most investors are aware, the Federal Reserve has been very easy with respect to monetary policy for inordinately lengthy periods over the past two decades. Here is what the federal funds target rate (upper bound) has averaged by decade: 2.98% (2000-2009); 0.73% (2009-2019); and 0.46% (2019-5/14/21), according to Bloomberg.
7. While we focused on monthly averages in the table above, we would also like to show where the respective index yields stood on 5/14/21. They were as follows: 1.46% (7-10 Yr. U.S. Treasury); 1.36% (Freddie Mac Mortgage); 3.45% (22+ Yr. U.S. Municipal Securities); 4.23% (Fixed Rate Preferred Securities); 2.23% (U.S. Corporate); and 4.81% (U.S. High Yield Constrained), according to Bloomberg.
8. At a base level, investors holding fixed-income in their portfolio should have a goal of achieving a total return that is either close to the yield they are earning or higher.

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 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. 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 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 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 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.

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