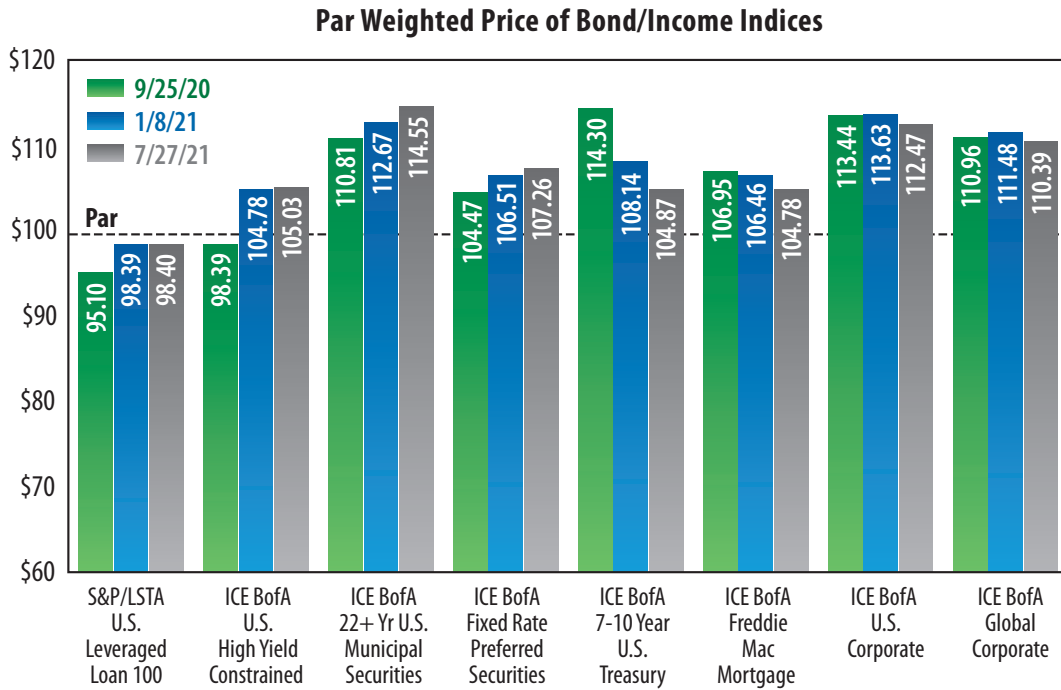


A Snapshot Of Bond Valuations



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

View from the Observation Deck

1. Today's blog post is one we do ongoing so that investors can monitor fluctuations in bond prices relative to changes in interest rates. The dates in the chart mark some recent posts.
2. Since 9/25/20 (green bars in chart), the Federal Reserve ("Fed") has kept the federal funds target rate (upper bound) at 25 basis points (bps).
3. For the 30-year period ended 7/27/21, the federal funds target rate (upper bound) averaged 2.59%, according to Bloomberg.
4. With respect to the Fed's guidance on monetary policy, Fed Chairman Jerome Powell commented in July 2021 that conditions in the labor market have a long way to go before the Fed would be compelled to change its ultra-easy monetary policy, according to CNBC.
5. The yield on the benchmark 10-year Treasury note (T-note) rose from 0.66% at the close on 9/25/20 to 1.24% at the close on 7/27/21, or an increase of 58 basis points, according to Bloomberg.
6. For comparative purposes, here are the closing yields as of 7/27/21 for the indices featured in the chart: 3.87% (U.S. Leveraged Loan 100); 4.62% (U.S. High Yield Constrained); 3.33% (22+ Yr. Municipal Securities); 4.07% (Fixed Rate Preferred Securities); 1.13% (7-10 Yr. U.S. Treasury); 1.32% (Freddie Mac Mortgage); 2.01% (U.S. Corporate); and 1.55% (Global Corporate), according to Bloomberg.
7. As indicated in the chart, the decline in the ICE BofA 7-10 Year U.S. Treasury Index from \$114.30 to \$102.43 was clearly the most dramatic move between 9/25/20 and 7/27/21.
8. The trailing 12-month Consumer Price Index (CPI) rate stood at 5.4% in June 2021 (most recent data), according to the Bureau of Labor Statistics. That is up significantly from 1.4% in December 2020. Bonds appear to be pricing in the scenario that Fed Chairman Powell is advocating – the spike in inflation will be transitory. We'll see.
9. For the 12-month period ended 6/30/21, retail investors funneled an estimated net \$860.72 billion into bond mutual funds and exchange-traded funds (includes municipal bonds), according to Morningstar.

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 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 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 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 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 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 Global Corporate Index tracks the performance of investment grade corporate debt publicly issued in the major domestic and Eurobond markets. 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 information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.