

# Cash Flow and Carey



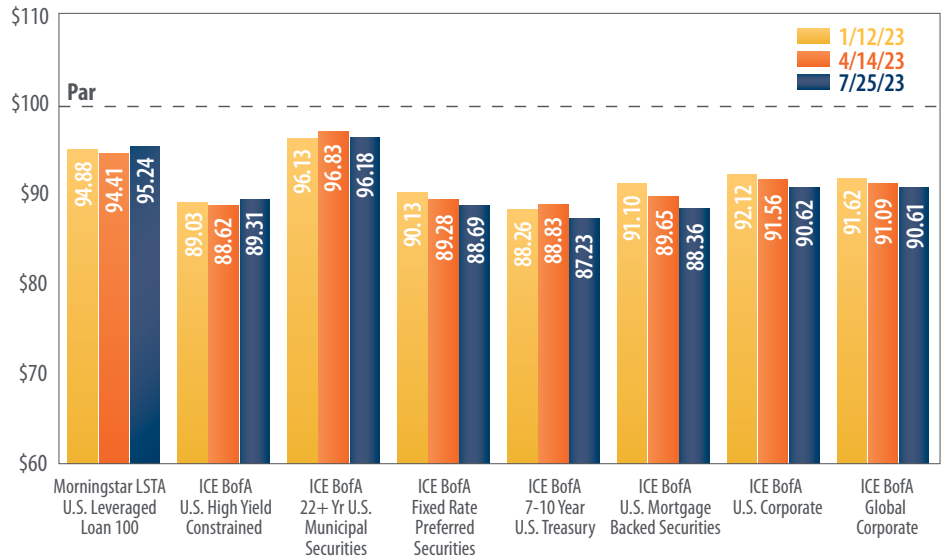
**Robert Carey, CFA**  
Chief Market Strategist

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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 Morningstar 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 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 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 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. Mortgage Backed Securities Index tracks the performance of U.S. dollar denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies 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 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.

## A Snapshot of Bond Valuations

### Par Weighted Price of Bond/Income Indices



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

### View from the Observation Deck

Today's blog post is intended to provide insight into bond prices relative to changes in interest rates. The dates in the chart are from prior posts we've written on this topic.

#### Each of the eight bond indices we track remain below par value.

Over the past 18 months, the Federal Reserve ("Fed") announced a total of 11 increases to the federal funds target rate (upper bound), sending it soaring from 0.25% where it stood on 3/16/22, to 5.50% as of 7/26/23. As many investors are aware, bond prices and yields typically move in opposite directions. Therefore, an increase or decrease in bond prices could be an indication that yields have fallen or risen, respectively, over the period. While not captured by the time frame in today's chart, seven of the eight bond indices referenced stood above their par values as of 12/15/21 ([Click here](#) to see our post that covers that time frame). For comparison, all eight were below their par values as of 7/25/23.

#### The trailing 12-month rate of change in the Consumer Price Index (CPI) stood at 3.0% as of 6/30/23, down significantly from its most recent peak of 9.1% on 6/30/22.

While the decrease in the CPI is a welcome relief to bond investors and consumers alike, inflation still hovers above the Fed's stated goal of 2.0% as well as its 30-year average of 2.5% (through 6/30/23). In our view, the additional 0.25% increase in the federal funds rate on 7/26/23 is evidence that the Fed is committed to their inflation goal. Investors will want to take note; if the Fed continues to tighten, we expect bond valuations may suffer.

### Takeaway

With inflation's recent retreat, all eight of the indices we track in today's chart currently reflect positive real yields (yield minus inflation). While this is welcome news, we think bond investors would be wise to keep a close watch on the Fed's next moves. As the chart reveals, the fixed income indices we track have been priced below their par values for some time. Should monetary policy tighten further, we would expect to see further price pressures across this group.