BANK OF AMERICA MERRILL LYNCH
GLOBAL WEALTH & INVESTMENT MANAGEMENT

Merrill Lynch Outlook 2013
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"Are interest rates likely to rise?"

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I think interest rates will rise a bit in 2013, not uniformly though. Short-term rates, like money market rates will probably stay near zero. The Federal Reserve is telling us that it plans to keep short-term rates near zero through at least the middle of 2015. But intermediate-term rates, long-term rates, they'll probably rise on the order of half a percentage point, but even that won't be uniform. And, of course as yields rise, bond prices decline.

Bonds in 2013

- **Avoid bonds whose yields could rise during the year**
- **Yield increases could be greater for Treasuries than corporates**
- **Moving down in credit quality could bring higher yields with less risk of price declines**

So, you want to avoid bonds that are going to go up a lot in yield during the year. We're actually thinking that the yield increases will be greater for Treasury securities than for corporate securities. So, investors who are willing to move a bit down in credit quality from Treasury securities can get higher yields and less risk of price decreases because of yield increases in the future.

That's where we suggest that most individual investors have a good bit of their portfolio. Whether you're in investment grade bonds or high yield bonds will really depend on your tolerance for risk.

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