The ETF Angle

July 2025 Dynamic Prudent Yield Update

ETF Research

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Exchange-Traded Funds
United States
Other Financials

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Prudent Yield adds preferreds

Following our rules-based fixed income strategy, for July the BofA Dynamic Prudent Yield strategy re-allocates capital to preferred stocks. Over the last 12 months, the strategy returned 6.9%, the US Aggregate Bond Index 6.2%, Global Fixed Income Markets Index 8.8%, and iShares 20+ Year Treasury Bond ETF 0.2%.

Today, the ETFs used in the strategy have an average yield of 5.2%. We highlight returns, relevant benchmarks, and 1-rated ETFs on page 4.

A stabilizing bond market boosts every sector

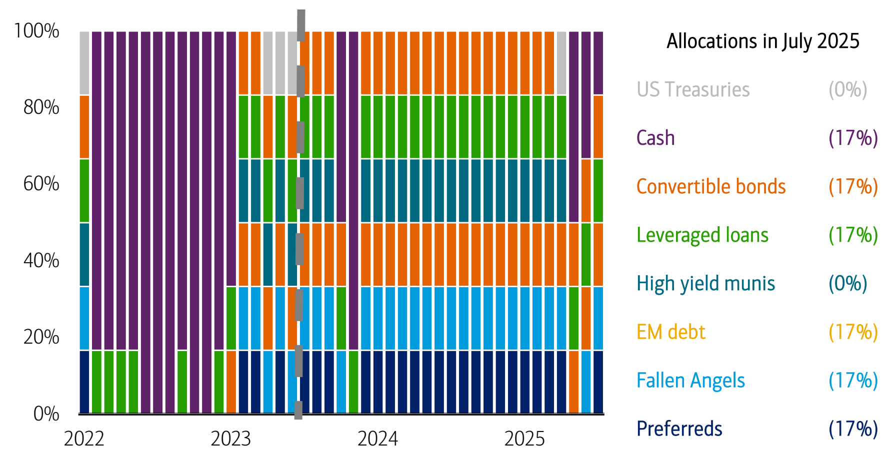
In June the bond market rallied, volatility declined, and credit spreads tightened. Returns were positive in every sector: convertible bonds rallied the most (+4.0%) and both fallen angel corporates (+2.4%) and EM debt (+1.9%) added to strong 2025 gains.

The strategy is nearly fully invested after the spring bout of volatility (Exhibit 2). Only high yield municipal bonds are below their moving average.

Flows at the mid-point show CLO strength, upside for EM

At the mid-point of 2025, investors have rotated out of leveraged loans and into CLO ETFs. June saw substantial inflows into both CLO and EM debt funds in our coverage. However, EM debt ETFs have attracted relatively few assets YTD, despite their strong returns, a divergence that could close if the US dollar continues to weaken.

Exhibit 2: Dynamic Prudent Yield rotates from cash to preferreds
Historical allocation of Dynamic Prudent Yield Strategy, 2022-2025



Source: BofA Global Research, Bloomberg, ICE Data Services LLC. Note: weights rounded from 16.7%. Allocation is hypothetical through July 2023. See linked report in sidebar for more details.

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Exhibit 1: Prudent Yield returns
Total returns for indexes in Prudent Yield

Category	Index	MTD return	YTD return
Dynamic Prudent Yield Strategy (Index)		1.6%	2.3%
Preferred stock	P0P0	1.8%	1.6%
Fallen Angels	H0FA	2.4%	4.6%
High yield munis	LMEHTR	0.6%	-0.2%
EM debt	DXEM	1.9%	4.7%
Leveraged loans	SPBDAL	0.8%	2.8%
Convertible bonds	VXA0	4.0%	6.5%
Cash	G0B1	0.3%	2.1%
UST	TLT	2.7%	2.9%
AGG	AGG	1.5%	4.0%
Global Fixed Income	GFIM	2.0%	7.3%

Source: BofA ETF Research, Bloomberg; MTD returns 5/31/2025-6/30/2025

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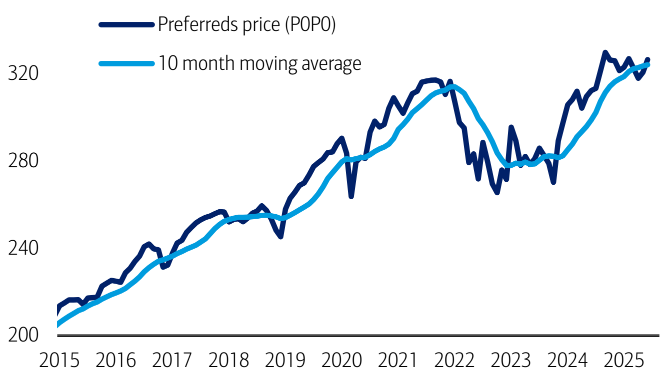
For details on the Dynamic Prudent Yield Strategy see: *The RIC Report: A new bond strategy for the end of 60/40.*

Monthly updates can be received via email immediately after publishing by subscribing to "The ETF Angle".

We include a table of all our 1-rated Prudent Yield ETFs on page 3. These ETFs may be used interchangeably to invest in the strategy. Back tested returns and trading signals are based on total return indexes for the relevant sectors (see page 2).

Dynamic Prudent Yield sectors

Exhibit 3: Preferred stocks are 0.7% above 10-month moving average
Preferreds index level vs. 10-month moving average



Source: BofA ETF Research, Bloomberg, ICE Data Services LLC

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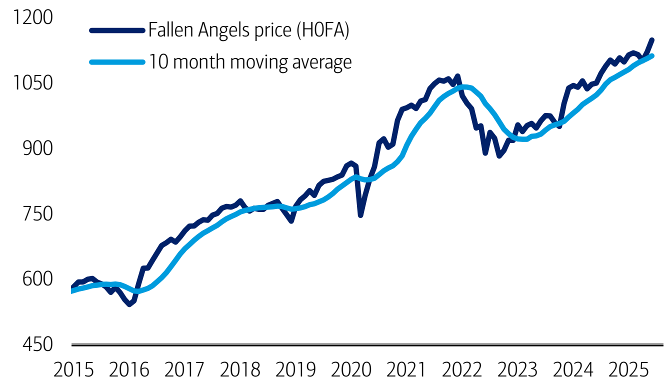
Exhibit 4: Fallen Angels are 3.3% above 10-month moving average
Fallen Angels index level vs. 10-month moving average



Source: BofA ETF Research, Bloomberg, ICE Data Services LLC

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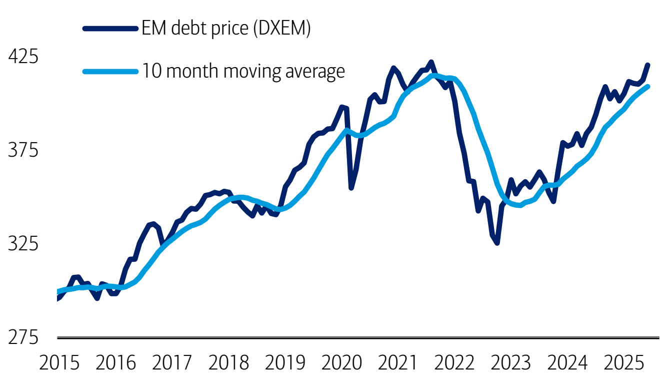
Exhibit 5: EM Debt is 2.8% above 10-month moving average
EM Debt index level vs. 10-month moving average



Source: BofA ETF Research, Bloomberg, ICE Data Services LLC

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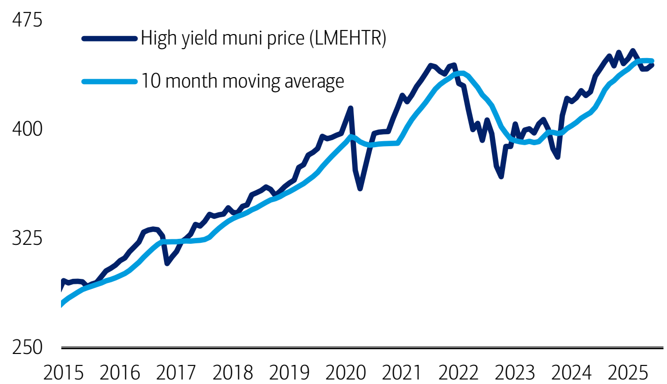
Exhibit 6: High Yield Munis are -0.6% below 10-month moving average
High Yield Muni index level vs. 10-month moving average



Source: BofA ETF Research, Bloomberg, ICE Data Services LLC

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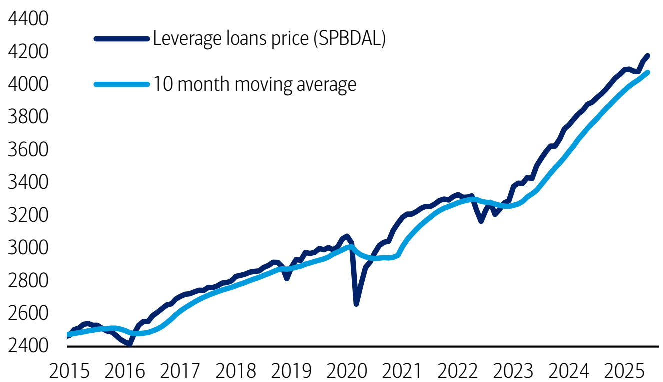
Exhibit 7: Leveraged loans are 2.5% above 10-month moving average
Leveraged loan index level vs. 10-month moving average



Source: BofA ETF Research, Bloomberg, ICE Data Services LLC

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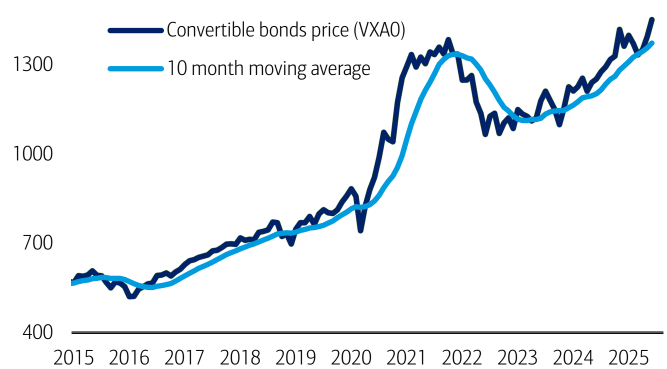
Exhibit 8: Convertibles are 5.7% above 10-month moving average
Convertible bond index level vs. 10 month-moving average



Source: BofA ETF Research, Bloomberg, ICE Data Services LLC

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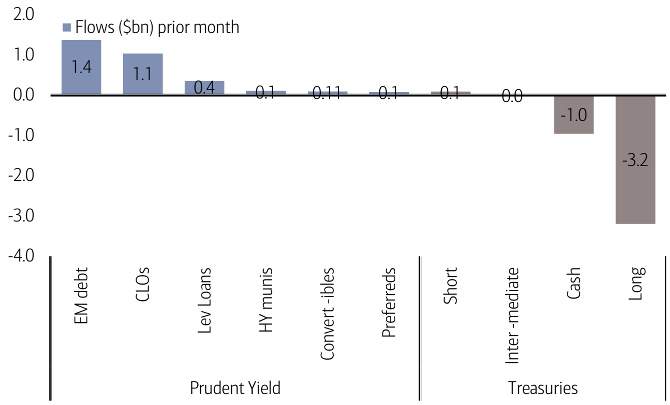
Prudent Yield ETF Flows

Exhibit 9: Prudent Yield ETF June flows were +$3.0bn
Prior month flows, $bn, ETFs in BofA Coverage



Source: BofA Global Research, Bloomberg

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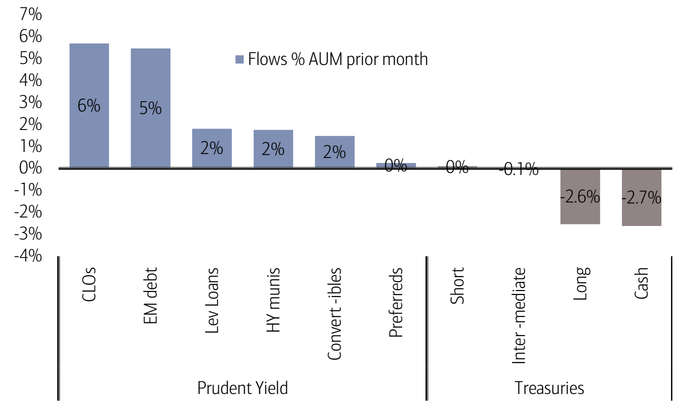
Exhibit 10: Prudent Yield June flows % of AUM were 3% on average
Flows as a % of Jan 2025 AUM, prior month, ETFs in BofA Coverage



Source: BofA Global Research, Bloomberg

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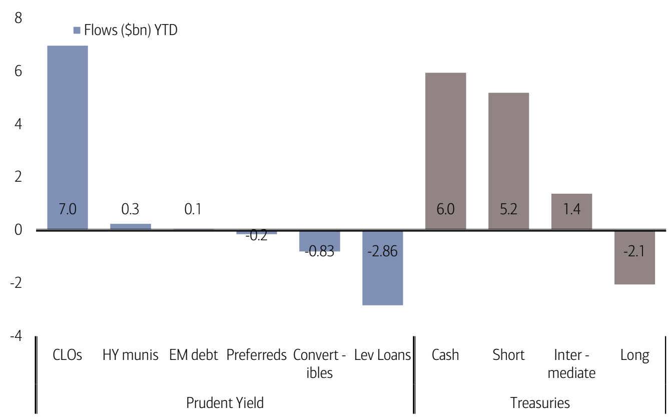
Exhibit 11: In 2025 investors have added to CLOs and cash, and sold loans and long-term Treasury bonds
Year to date flows, $bn, ETFs in BofA Coverage



Source: BofA Global Research, Bloomberg

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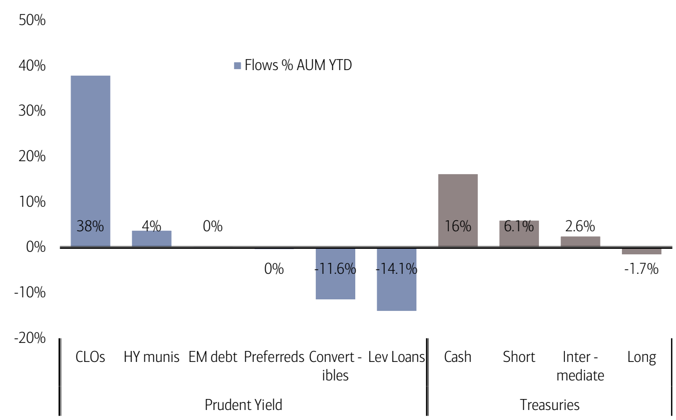
Exhibit 12: Prudent Yield flows year to date in % AUM terms
Flows as a % of AUM, LTM, ETFs in BofA Coverage



Source: BofA Global Research, Bloomberg

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Fixed income sector returns

Exhibit 13: Returns table for Dynamic Prudent Yield Strategy, 1-rated ETFs, and relevant benchmarks

Month to date, year to date, roll 12m, 6m, 3m, and since inception returns for Dynamic Prudent Yield, sector ETFs, and benchmarks

Category	ETF	MTD	YTD	Rolling 12m	Rolling 6m	Rolling 3m	Since inception
Dynamic Prudent Yield Strategy (Index based)		1.6%	2.3%	6.9%	2.3%	1.8%	12.7%
20+ Year US Treasury	TLT	2.7%	2.9%	0.2%	2.9%	-2.0%	-7.2%
US Aggregate Bond Index	AGG	1.5%	4.0%	6.2%	4.0%	1.3%	8.9%
Global Fixed Income	GFIM	2.0%	7.3%	8.8%	7.3%	4.3%	9.7%
Cash	BIL	0.3%	2.1%	4.6%	2.1%	1.0%	10.2%
Preferred stock	PFXF	1.9%	1.8%	7.0%	1.8%	4.1%	13.0%
	PFFD	1.2%	-0.9%	1.9%	-0.9%	0.5%	10.3%
	PFF	2.1%	0.4%	3.7%	0.4%	1.6%	12.8%
Fallen Angels	ANGL	2.6%	4.9%	10.2%	4.9%	3.1%	19.2%
	FALN	2.7%	4.4%	10.3%	4.4%	3.0%	21.0%
High yield munis	HYD	0.9%	-1.5%	1.4%	-1.5%	-0.8%	6.6%
	FMHI	0.7%	-1.3%	0.7%	-1.3%	-1.3%	7.5%
	HYMB	0.7%	-1.3%	1.7%	-1.3%	-0.6%	8.0%
EM debt	HYEM	1.8%	4.7%	10.6%	4.7%	2.7%	23.3%
	EMHY	2.5%	5.7%	13.0%	5.7%	3.7%	27.6%
	VWOB	2.5%	6.3%	10.6%	6.3%	3.4%	18.4%
	XEMD	2.0%	6.6%	12.3%	6.6%	4.2%	23.2%
	EMBD	2.3%	5.8%	10.5%	5.8%	3.6%	19.8%
Leveraged loans	SRLN	1.1%	2.9%	7.9%	2.9%	3.1%	17.8%
	JAAA	0.4%	2.3%	5.9%	2.3%	1.5%	15.2%
Convertible bonds	ICVT	3.7%	7.0%	17.2%	7.0%	8.3%	23.4%
	CWB	3.8%	7.0%	17.0%	7.0%	8.4%	23.1%

Source: BofA Global Research, Bloomberg. Total returns as of last trading day of the month. Dynamic Prudent Yield Strategy uses indexes and trading rule described in appendix section below. Inception = 6/30/2023.

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Exhibit 14: Returns for Dynamic Prudent Yield benchmark indexes

Month to date, year to date, roll 12m, 6m, 3m, and since inception returns for Dynamic Prudent Yield, index benchmarks

Category	Index	MTD return	YTD return	Rolling 12m	Rolling 6m	Rolling 3m	Since inception
Dynamic Prudent Yield Strategy (Index based)		1.6%	2.3%	6.9%	2.3%	1.8%	12.7%
Preferred stock	P0P0	1.8%	1.6%	4.6%	1.6%	1.2%	16.2%
Fallen Angels	H0FA	2.4%	4.6%	9.4%	4.6%	3.0%	19.2%
High yield munis	LMEHTR	0.6%	-0.2%	1.8%	-0.2%	-0.9%	10.0%
EM debt	DXEM	1.9%	4.7%	8.6%	4.7%	2.4%	17.0%
Leveraged loans	SPBDAL	0.8%	2.8%	7.3%	2.8%	2.3%	19.2%
Convertible bonds	VXA0	4.0%	6.5%	15.9%	6.5%	8.9%	23.1%
Cash	G0B1	0.3%	2.1%	4.7%	2.1%	1.1%	10.4%
UST	TLT	2.7%	2.9%	0.2%	2.9%	-2.0%	-7.2%
AGG	AGG	1.5%	4.0%	6.2%	4.0%	1.3%	8.9%
Global Fixed Income	GFIM	2.0%	7.3%	8.8%	7.3%	4.3%	9.7%

Source: BofA Global Research, Bloomberg. Total returns as of last trading day of the month. Dynamic Prudent Yield Strategy uses indexes and trading rule described in appendix section below. Inception = 6/30/2023

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Appendix

The Dynamic Prudent Yield Strategy is a fixed income investing strategy based on BofA's Research Investment Committee's Prudent Yield framework. The Dynamic Prudent Yield Strategy is based on a switching rule that will signal a trade into (out of) cash and US Treasuries. The switching rule seeks to signal when owning high quality sectors may be advantageous for risk adjusted returns based on market conditions (price relative to 10m moving average).

The Dynamic Prudent Yield Strategy is constructed of 9 sectors:

- Six of the sectors are defined in our Prudent Yield framework: Convertible Bonds, Fallen Angels, US HY Municipal Bonds, EM Debt, and Leveraged Loans.
- US High Yield Corporates are used as a way to extend the Strategy to 1987 but are not explicitly defined in our Prudent Yield framework as data for more prudent forms of fixed income have become available.
- The remaining two sectors are "safe haven" sectors that investors typical allocate to in times of market stress or flights to quality.

Determining weights for Dynamic Prudent Yield Strategy

The Dynamic Prudent Yield Strategy is designed with the needs of buy-and-hold investors in mind. We use a simple methodology such that investors trade less frequently, and weights are easily calculated. This method may not be suitable for all investor types.

As of 2023, six Prudent Yield sectors are assigned two potential weights: 16.67% or 0%, contingent on meeting inclusion criteria (explained below). If an individual sector does not meet our defined criteria, then the weight is allocated into US Treasuries or cash. This simple weighting strategy is like an equal weight strategy, making it easier for investors to implement.

Our strategy's back test begins in 1987 when there was limited data availability. Sectors were added to our strategy as data became available. We selected particular indexes for Dynamic Prudent yield based on 1.) pure exposure that closely reflects the market and investable products for the underlying sectors; 2.) data availability and history.

Our weighting methodology remained the same as sectors were added to the strategy: equal weight, with a binary option to allocate to treasuries or cash.

- For example, 5 Prudent Yield sectors have data available in October 1997. Each sector is assigned a potential weight of 20%, potentially 0% if monthly criteria are not met.

A sector's monthly inclusion into the Dynamic Prudent Yield Strategy is determined by the sector's price (value of total return index) relative to its 10m moving average.

- If the sector's total return index end of month closing price is trading above its 10m moving average at month end, it is included in the Dynamic Prudent Yield Strategy starting on the first trading day of the next month.
- If the sector's total return index end of month closing price is trading below its 10m moving average at month end, it is excluded from the Dynamic Prudent Yield Strategy starting on the first trading day of the next month.

If an sector is excluded from the Dynamic Prudent Yield Strategy in a single month, its potential weight is reassigned as follows:

- If the US Treasury Total Return Index is trading above its 10m moving average, the potential weight of an excluded sector will be assigned to US Treasuries.

- For example, if the High Yield Corporates Total Return Index (HY) is trading below its 10m moving average and the US Treasuries Index is trading above its 10m moving average, the 20% potential weight for HY will be allocated to US Treasuries for that month.

- If the US Treasury Total Return Index is trading below its 10m moving average, the potential weight of an excluded sector will be assigned to cash (3m Treasury bill).
    - Continuing with the example, if HY Total Return index is trading below its 10m moving average and the US Treasuries Index is trading below its 10m moving average, the 20% potential weight for HY will be allocated to cash for that month.

- If all prudent yield sectors and US Treasury total return indices are trading below their respective 10m moving average in a particular month, the Dynamic Prudent Yield Strategy is entirely allocated to cash.

If a sector's total return index is above its 10m moving average by month end, weights will be reassigned. In this example, if the HY Total Return Index rises above its 10m moving average by month end, but the US Treasury Total Return Index does not, the Dynamic Prudent Yield Strategy allocates 20% to HY out of the prior month cash allocation. Once the US Treasury Total Return Index rises above its 10m moving average by month end, the entire weight from cash will be allocated to US Treasuries. The Dynamic Prudent Yield Strategy will not allocate to US Treasuries and Cash at the same time.

The Dynamic Prudent Yield Strategy assumes rebalance on the first day of a given month, based on closing data from the month prior.

Dynamic Prudent Yield Strategy inputs

Exhibit 15: Underlying index information for Dynamic Prudent Yield Strategy

Index ticker, inclusion dates for index inputs

Category	Sector	Index	Date available	Data used
Prudent Yield	High Yield Corporates	H0A0 Index	August 1986-Present	August 1986 – September 1997, replaced by H0FA from September 1997-Present.
	Preferred	P0P0 Index	December 1996-Present	December 1996-Present
	Fallen Angels	H0FA Index	December 1996-Present	December 1996-Present
	EM Debt	DXEM Index	December 1998-Present	December 1998-Present
	High Yield Municipal Bonds	LMEHTR Index	December 1995-Present	December 1995-Present
	Leveraged Loans	SPBDAL Index	December 1996-Present	December 1996-Present
	Convertibles	VXA0 Index	November 1987-Present	November 1987-Present
"Safe Haven"	3m Treasury Bill (Cash)	Ibbotson 3m Treasury Bill Index	Jan 1926-Present	December 1986-December 1992
	3m Treasury Bill (Cash)	G0B1 Index	December 1992-Present	December 1992-Present
	US Treasuries	G8O2 Index	March 1973-Present	August 1986-Present

Source: BofA Global Research

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Dynamic Prudent Yield Returns

The ***Dynamic Prudent Yield Strategy*** is comprised of the sectors and computed using the returns above. Investing in Dynamic Prudent Yield requires using ***ETFs*** that may produce varying results relative to the index. Differences in results comes from fund construction: Funds may apply different rulesets to capture the performance of an asset class.

Exhibit 16: Prudent Yield ETFs
Top rated funds in Prudent Yield ETF categories, cash, and US Treasuries

Ticker	Name	Rating	Sub-Category	AUM ($bn)	Expense ratio	Price
CWB	SPDR Bloomberg Convertible Securities ETF	1-FV	Convertible Bonds	3.88	0.40%	82.45
ICVT	iShares Convertible Bond ETF	1-FV	Convertible Bonds	2.53	0.20%	89.86
HYEM	VanEck Emerging Markets High Yield Bond ETF	1-FV	Emerging Market Bonds	0.40	0.40%	19.71
EMHY	iShares J.P. Morgan EM High Yield Bond ETF	1-FV	Emerging Market Bonds	0.44	0.50%	38.79
VWOB	Vanguard Emerging Markets Government Bond ETF	1-FV	Emerging Market Bonds	5.20	0.15%	65.09
XEMD	BondBloxx JP Morgan USD Emerging Markets 1-10 Year Bond ETF	1-FV	Emerging Market Bonds	0.40	0.29%	43.03
EMBD	Global X Emerging Markets Bond ETF	1-FV	Emerging Market Bonds	0.23	0.39%	23.18
FALN	iShares Fallen Angels USD Bond ETF	1-FV	Fallen Angels	1.82	0.25%	26.99
ANGL	VanEck Fallen Angel High Yield Bond ETF	1-FV	Fallen Angels	2.95	0.25%	29.11
JAAA	Janus Henderson AAA CLO ETF	1-FV	Leveraged Loans & CLOs	21.80	0.20%	50.57
PAAA	PGIM AAA CLO ETF	1-FV	Leveraged Loans & CLOs	3.51	0.19%	51.26
SRLN	SPDR Blackstone Senior Loan ETF	1-FV	Leveraged Loans & CLOs	6.92	0.70%	41.32
HYMB	SPDR Nuveen Bloomberg High Yield Municipal Bond ETF	1-FV	Municipal Bonds	2.63	0.35%	24.69
FMHI	First Trust Municipal High Income ETF	1-FV	Municipal Bonds	0.75	0.70%	46.74
HYD	VanEck High Yield Muni ETF	1-FV	Municipal Bonds	3.32	0.32%	50.08
PFF	iShares Preferred and Income Securities ETF	1-FV	Preferreds	13.78	0.46%	30.47
PFFD	Global X US Preferred ETF	1-FV	Preferreds	2.26	0.23%	18.74
PFXF	VanEck Preferred Securities ex Financials ETF	1-FV	Preferreds	1.79	0.40%	17.03
TLT	iShares 20+ Year Treasury Bond ETF	1-NV	US Treasuries	48.41	0.15%	87.93
BIL	SPDR Bloomberg 1-3 Month T-Bill ETF	1-NV	Cash	42.24	0.14%	91.44

Source: BofA ETF Research, Bloomberg

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We recommend a group of 1-FV rated ETFs to choose from to implement Dynamic Prudent Yield. These ETFs scored highly in our model, and offer advantages in efficiency, technical, and fundamental criteria relative to other ETFs in its category. Top rated funds may have material differences from one another within a similar category but are deemed among the most well-constructed funds. ETF fund ratings are designed to be used for 12-18 months, but investors should be aware of potential ratings changes that will be reflected in the table above.

The tax advantages of high yield municipal bonds may noy be suitable for all investors. tax free accounts we recommend allocating the HY muni portion equally among the other sections.

Returns for ETFs and the Dynamic Prudent Yield Strategy are calculated at month end.

ETFs mentioned in Exhibit 1 are subject to change. We may rotate among 1-rated ETFs to highlight various investment options.

Considerations for replicating Dynamic Prudent Yield Strategy

The average holding period for an asset in our Dynamic Prudent Yield Strategy is 16 months, with 63% of the short term trading activity coming from rotations out of US Treasuries and cash. The strategy is designed to rebalance monthly, but weights would have changed only 35% of the time. On average, 33% of the portfolio would have been reallocated when investors needed to rebalance. Since 1987 there would have been 129 short term taxable events and 59 long term taxable events.

Different end of month timing, data lags, and poor data quality/availability may produce different performance results for investors trying to replicate this strategy.

Intramonth "flash crashes" or intramonth bull market "rips" may lessen the effectiveness of this strategy due to timing of rebalance.

Analysis does not include different fee structures of ETFs. Fees can vary among products and impact performance.

The analysis of Dynamic Prudent Yield Strategy in this report is backtested and does not represent the actual performance of any account or fund. Backtested performance depicts the hypothetical backtested performance of a particular strategy over the time period indicated. In future periods, market and economic conditions will differ and the same strategy will not necessarily produce the same results. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. In fact, there are frequently sharp differences between backtested returns and the actual results realized in the actual management of a portfolio. Backtested performance results are created by applying an investment strategy or methodology to historical data and attempts to give an indication as to how a strategy might have performed during a certain period in the past if the product had been in existence during such time. Backtested results have inherent limitations including the fact that they are calculated with the full benefit of hindsight, which allows the security selection methodology to be adjusted to maximize the returns. Further, the results shown do not reflect actual trading or the impact that material economic and market factors might have had on a portfolio manager's decision-making under actual circumstances. Backtested returns do not reflect advisory fees, trading costs, or other fees or expenses.

Analyst Certification

I, Jared Woodard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

BofA Securities is currently acting as financial advisor to HPS Investment Partners LLC in connection with its proposed sale to Blackrock Inc, which was announced on December 3, 2024.

BofA Securities is currently acting as advisor to EQT AB in connection with its proposed acquisition of a stake in Acronis International GmbH, which was announced on August 7, 2024.

Disclosures

Important Disclosures

Exchange-Traded Funds Investment Rating Distribution: Global Group (as of 30 Jun 2025)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	133	22.93%	Buy	89	66.92%
Hold	436	75.17%	Hold	322	73.85%
Sell	11	1.90%	Sell	7	63.64%

[R1] Exchange-traded funds (ETFs), or the ETF providers, that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only ETFs. An ETF rated 1-FV is included as a Buy; an ETF rated 2-FV, 3-FV, 1-NV, 2-NV, 3-NV, 1-UF or 2-UF is included as a Hold; and an ETF rated 3-UF is included as a Sell.

EXCHANGE-TRADED FUNDS (ETF) INVESTMENT OPINION KEY: Opinions reflect both an Outlook Rating and a Category Rating. OUTLOOK RATINGS reflect the analyst's assessment of the ETF's attractiveness relative to other ETFs within its category (including sector, region, asset class, thematic, and others). There are three outlook ratings: 1 - the ETF is more attractive than covered peers in the same category over the next 12 months; 2 - the ETF is similarly attractive to covered peers in the same category over the next 12 months; and 3 - the ETF is less attractive than covered peers in the same category over the next 12 months. CATEGORY RATINGS, indicators of the analyst's view of the ETF's category and which incorporate published views of BofA Global Research department analysts, are: FV - Favorable view, NV - Neutral view and UF - Unfavorable view.

Price Charts for the securities referenced in this research report are available on the Price Charts website, or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: BondBloxx JPM EMD, FallenAngel USD ETF, FT Muni High Income, Global X EM Bond, Global X US Pref, iShares Convert ETF, iShares Long UST, iShares Preferred, iSharesJP EM HY Bnd, JH AAA CLO ETF, PGIM AAA CLO ETF, SPDR BBG HY Muni, SPDR Blg Barc CB ETF, SPDR Blks Loan ETF, SPDR T-Bill ETF, VanEck EM HY Bond, VanEck HY Muni, VanEck Pref x Fin, Vanguard EM Govt Bnd, VE Vec FA HY ETF.

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