BOND MUTUAL FUNDS

Investing when Interest Rates are Rising

- OLLI Investment Forum
- February 23, 2022
- Jim Dann

Duration

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

The term is used in several ways, probably the most common of which is called "modified duration." It measures the prospective price change in a bond given a 1% change in interest rates.

- In inflationary periods, with interest rates rising, the lower the duration figure you have, the greater protection you will have from loss in the price of your bonds.

Usually, the longer the term of a bond, the higher its duration will be. Example:

Bond Fund	Duration	YTD return
USAA T-E Long Term	6.13	-3.5%
USAA T-E Intermediate Term	4.54	-2.9%
USAA T-E Short Term	2.63	-1.9%

Taxable Bond Funds

- Fidelity lists 1,931 Actively-Managed and Index Taxable Bond Funds.

- Its "Fidelity Picks" limit those to a universe of 51, in 12 categories.

- We'll start with those and trim down.

But first, we need a Benchmark. Let's use Fidelity Total Bond Fund (FTBFX).

- An Intermediate Core Plus Bond Fund with assets of $15.7 billion
- YTD: -3.42%
- Duration: 6.13

Now, let's look at those 12 Categories

- Hi-Yield (7)
- Corporate (4)
- Multisector (6)
- Inflation-Protected (2)
- Intermediate Core Plus (6)
- Bank Loan (6)
- Emerging Markets (3)
- Intermediate Government (4)
- Short Term (6)
- Intermediate Core (3)
- Short Government (1)
- UltraShort (3)

How have those various categories fared in the current environment of rising interest rates?

Year to Date Returns --

• Corporate Bond Funds	Loss of 5.5%+
• 5 of 7 Hi-Yield Funds	Loss of 4%+
• Inflation-Protected Bonds	Loss of 3.5%
• 8 of 9 Intermediate Bonds	Loss of 3.4%+
• 4 of 5 Multisector Bonds	Loss of 3.0%+
• Intermediate Gov't Bonds	Loss of 2.0%+
• Short-Term Bonds	Loss of 1.0%+

- *All losses less than 1% were either in **Bank Loans** or **UltraShort Bonds**.*

So, I’ll focus on those two –

Ultra Short and Bank Loan Funds*

*but with due regard to the Swoboda Axiom

Two Ultra Short Funds to Consider

T Rowe Price Ultra Short (TRBUX)

PIMCO Ultra Short (PSHAX)

T Rowe Price Ultra Short (TRBUX)

- Morningstar 5 Star Silver
- Expense ratio 0.31%
- SEC Yield 0.70%
- Growth of $10,000 over 10 years: $11,398
- YTD return -0.31%
- 3 yr. return 1.98%   5 yr. return 2.01%
- Duration 0.57

PIMCO Ultra Short (PSHAX)

- Morningstar 4 Star Bronze
- Expense ratio 0.72%
- SEC Yield 0.52%
- Growth of $10,000 over 10 years: $11,679
- YTD return -0.35%
- 3 yr. return 1.21%
- 5 yr. return 1.50%
- Duration 0.26

Now, three bank loan funds to consider:

T Rowe Price Floating Rate (PRFRX)

Fidelity Floating Rate High Income (FFRHX) and

Victory Floating Rate Class A (RSFLX)

T Rowe Price Floating Rate (PRFRX)

- Morningstar 4 Star Gold
- Expense Ratio 0.76%
- SEC Yield 3.38%
- Growth of $10,000 over 10 years: $14,712
- YTD return -0.12%
- 3 yr. return 3.84% 5 yr. return 3.72%
- Duration 0.40

Fidelity Floating Rate High Income (FFRHX)

- Morningstar 4 Star Silver
- Expense ratio 0.67%
- SEC Yield 3.07%
- Growth of $10,000 over 10 years: $14,638
- YTD return -0.23%
- 3 yr. return 3.95% 5 yr. return 3.74%
- Duration 0.16

Victory Floating Rate Class A (RSFLX)

- Morningstar 5 Star Neutral
- Expense ratio 1% with 2.25% load
- SEC Yield 4.34%
- Growth of $10,000 over 10 years: $15,338
- YTD return   -0.78%
- 3 yr. return 4.59%   5 yr. return 4.16%
- Duration 0.95

Brief takeaways:

- Duration is a key to bond analysis, especially in times of interest rate fluctuation. The lower the duration, the less risk is involved.
- With interest rates rising this year, only ultra short and bank loan bond funds have kept their losses under 1%.
- These may be places to park cash, but are obviously not immune from loss of capital.
- As with other investments, there are tradeoffs between risk and reward. Ultra Shorts have less risk, Bank Loans have more potential reward.
- Money Market funds may serve as well as alternatives.

Disclaimer

- As always, please do not make any investment decisions based on an Investment Forum presentation. I am not an investment professional and make no warranties expressed or implied as to the appropriateness of the funds discussed here for your individual needs and portfolios. This should just be a starting point for your own research and analysis.

- Questions?