

# Bonds Back in Favor?

Some Basics  
Some Choices

OLLI Investing Potpourri

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## Disclaimer:

- I am not an investment advisor and have no professional credentials in finance or investing.
- Please, do not make any investment decisions relying just on the information and views presented here.
- You should perform your own research and analysis before proceeding.



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“The best way to measure your investing success is not whether you’re beating the market, but by whether you’ve put in place a financial plan and a behavioral discipline that are likely to get you where you want to go.”

Benjamin Graham  
The Intelligent Investor

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Real Estate	Small Cap Equity	Real Estate	Large Cap Equity	Small Cap Equity	Emerging Market Equity	Cash Equivalent	Large Cap Equity	Small Cap Equity	Large Cap Equity	Cash Equivalent	Large Cap Equity
	27.73%	38.82%	15.02%	1.38%	21.31%	37.28%	1.87%	31.49%	19.96%	28.71%	1.46%	26.29%
	Emerging Market Equity	Large Cap Equity	Large Cap Equity	U.S. Fixed Income	High Yield	Developed ex-U.S. Equity	U.S. Fixed Income	Small Cap Equity	Large Cap Equity	Real Estate	High Yield	Developed ex-U.S. Equity
	18.23%	32.39%	13.69%	0.55%	17.13%	24.21%	0.01%	25.52%	18.40%	26.09%	-11.19%	17.94%
	Developed ex-U.S. Equity	Developed ex-U.S. Equity	U.S. Fixed Income	Cash Equivalent	Large Cap Equity	Large Cap Equity	High Yield	Developed ex-U.S. Equity	Emerging Market Equity	Small Cap Equity	U.S. Fixed Income	Small Cap Equity
	16.41%	21.02%	5.97%	0.05%	11.96%	21.83%	-2.08%	22.49%	18.31%	14.82%	-13.01%	16.93%
	Small Cap Equity	High Yield	Small Cap Equity	Real Estate	Emerging Market Equity	Small Cap Equity	Global ex-U.S. Fixed	Real Estate	Global ex-U.S. Fixed	Developed ex-U.S. Equity	Developed ex-U.S. Equity	High Yield
	16.35%	7.44%	4.89%	-0.79%	11.19%	14.65%	-2.15%	21.91%	10.11%	12.62%	-14.29%	13.44%
	Large Cap Equity	Real Estate	High Yield	Developed ex-U.S. Equity	Real Estate	Global ex-U.S. Fixed	Large Cap Equity	Emerging Market Equity	Developed ex-U.S. Equity	High Yield	Large Cap Equity	Emerging Market Equity
	16.00%	3.67%	2.45%	-3.04%	4.06%	10.51%	-4.38%	18.44%	7.59%	5.28%	-18.11%	9.83%
	High Yield	Cash Equivalent	Cash Equivalent	Small Cap Equity	Developed ex-U.S. Equity	Real Estate	Real Estate	High Yield	U.S. Fixed Income	Cash Equivalent	Global ex-U.S. Fixed	Real Estate
	15.81%	0.07%	0.03%	-4.41%	2.75%	10.36%	-5.63%	14.32%	7.51%	0.05%	-18.70%	9.67%
	U.S. Fixed Income	U.S. Fixed Income	Emerging Market Equity	High Yield	U.S. Fixed Income	High Yield	Small Cap Equity	U.S. Fixed Income	High Yield	U.S. Fixed Income	Emerging Market Equity	Global ex-U.S. Fixed
	4.21%	-2.02%	-2.19%	-4.47%	2.65%	7.50%	-11.01%	8.72%	7.11%	-1.54%	-20.09%	5.72%
	Global ex-U.S. Fixed	Emerging Market Equity	Global ex-U.S. Fixed	Global ex-U.S. Fixed	Global ex-U.S. Fixed	U.S. Fixed Income	Developed ex-U.S. Equity	Global ex-U.S. Fixed	Cash Equivalent	Emerging Market Equity	Small Cap Equity	U.S. Fixed Income
	4.09%	-2.60%	-3.09%	-6.02%	1.49%	3.54%	-14.09%	5.09%	0.67%	-2.54%	-20.44%	5.53%
	Cash Equivalent	Global ex-U.S. Fixed	Developed ex-U.S. Equity	Emerging Market Equity	Cash Equivalent	Cash Equivalent	Emerging Market Equity	Cash Equivalent	Real Estate	Global ex-U.S. Fixed	Real Estate	Cash Equivalent
	0.11%	-3.08%	-4.32%	-14.92%	0.33%	0.86%	-14.57%	2.28%	-9.04%	-7.05%	-25.10%	5.01%

**Table 2. Global Asset Classes 2014-2023**

(Sorted by highest to lowest 10 year average return)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
Large Caps 13.69%	Large Caps -4.38%	Large Caps 11.38%	Large Caps 21.83%	Large Caps -4.38%	Large Caps 31.49%	Large Caps 18.40%	Large Caps 28.28%	Large Caps -18.11%	Large Caps 24.31%
Small Caps 4.89%	Small Caps -4.41%	Small Caps 21.31%	Small Caps 14.65%	Small Caps -11.01%	Small Caps 25.62%	Small Caps 19.96%	Small Caps 14.18%	Small Caps -20.44%	Small Caps 15.25%
Real Estate 11.46%	Real Estate 13.95%	Real Estate 7.73%	Real Estate 6.66%	Real Estate 7.30%	Real Estate 4.39%	Real Estate 0.34%	Real Estate 39.23%	Real Estate -25.10%	Real Estate 7.13%
Dev ex-US Equity -4.32%	Dev ex-US Equity -3.04%	Dev ex-US Equity 2.75%	Dev ex-US Equity 24.21%	Dev ex-US Equity -14.09%	Dev ex-US Equity 22.49%	Dev ex-US Equity 7.59%	Dev ex-US Equity 7.35%	Dev ex-US Equity -14.29%	Dev ex-US Equity 12.06%
Hedge Funds 4.13%	Hedge Funds -0.71%	Hedge Funds 1.26%	Hedge Funds 7.12%	Hedge Funds -3.19%	Hedge Funds 9.31%	Hedge Funds 6.36%	Hedge Funds 13.03%	Hedge Funds -10.23%	Hedge Funds 7.89%
High Yield Corporate 2.45%	High Yield Corporate -4.47%	High Yield Corporate 17.13%	High Yield Corporate 7.50%	High Yield Corporate -2.08%	High Yield Corporate 14.32%	High Yield Corporate 7.11%	High Yield Corporate 3.63%	High Yield Corporate -11.19%	High Yield Corporate 5.26%
US Fixed Income 5.97%	US Fixed Income 0.55%	US Fixed Income 2.66%	US Fixed Income 3.54%	US Fixed Income 0.01%	US Fixed Income 8.72%	US Fixed Income 7.51%	US Fixed Income -2.17%	US Fixed Income -13.01%	US Fixed Income -19.59%
Emerging Markets -2.19%	Emerging Markets -14.92%	Emerging Markets 11.19%	Emerging Markets 37.28%	Emerging Markets -14.57%	Emerging Markets 18.44%	Emerging Markets 18.31%	Emerging Markets -5.04%	Emerging Markets -20.09%	Emerging Markets 6.09%
Cash Equiv. 0.04%	Cash Equiv. 0.05%	Cash Equiv. 0.33%	Cash Equiv. 0.86%	Cash Equiv. 1.87%	Cash Equiv. 2.28%	Cash Equiv. 0.67%	Cash Equiv. -0.10%	Cash Equiv. 1.46%	Cash Equiv. -0.04%
Global ex-US Fixed -3.09%	Global ex-US Fixed -6.02%	Global ex-US Fixed 1.49%	Global ex-US Fixed 10.51%	Global ex-US Fixed -2.15%	Global ex-US Fixed 5.09%	Global ex-US Fixed 10.11%	Global ex-US Fixed -5.05%	Global ex-US Fixed -18.70%	Global ex-US Fixed 4.08%



**Generally, bonds are recommended for the portfolios especially of older investors because they are less volatile than stocks, and older investors generally want greater certainty as they age.**

**In the past, advisors often recommended a proportion of bonds in a portfolio equivalent to the age of the investor. So if you're 70, some would recommend that 70% of your portfolio should be in bonds.**



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## But -- other late life bond substitutes --

- **Pension?** Perhaps you already have a guaranteed stream of income for the future that lessens the need for bonds.
- **Home Equity?** Do you own your house, or otherwise have sizable home equity? That may be available to tap in case of need as you age.
- **Long-term care insurance** -- Provides a cushion against the nursing home and other costs that created a nest egg need for later years.
- **Other substantial resources?** Do other investments provide a sufficient cushion even in case of market collapse?

## Some other Reasons to Consider Bonds:

- Diversification
- Ballast
- Rebalancing Need
- Simply to Take Advantage of a Potential Good Risk/Reward Opportunity





## ***Some Fundamentals:***

A bond delivers return to its owner from 2 sources:

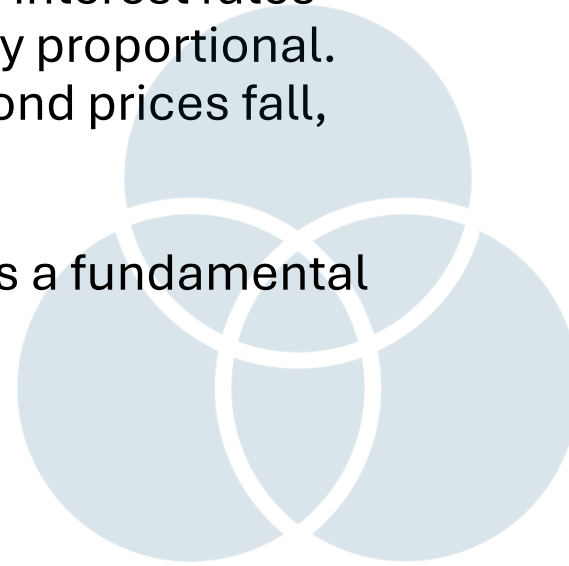
(1) interest payments known as coupons, whose rate is set at the time the bond is issued, and

(2) changes in the price of the bond as it trades in the market.



- The relationship between interest rates and bond prices is inversely proportional. When interest rates rise, bond prices fall, and vice versa.

- This inverse relationship is a fundamental principle of bond investing.



Because bond prices typically rise when interest rates fall, the best way to earn a high total return from a bond or bond fund is to buy it when interest rates are high but about to come down.

If you buy bonds toward the end of a period when rates are rising, you can lock in high coupon yields and also enjoy the increase in the market value of your bond once rates start to come down.



Historically, bonds have shown consistent positive performance after Fed pauses in rate hikes. This performance is often linked to the subsequent loosening of monetary policy, leading to falling interest rates.

From August 1984 to December 2021, the average U.S. bond market total returns following the end of a rate hike cycle was roughly 8% after six months and 13% after one year.

Morningstar, Apr. 2024





Based on the Fed's economic projections and policy commentary, the tightening cycle is likely complete unless high inflation reignites. Since October 2023, following a pause in rate increases, the bond market has performed exceptionally well.

Falling rates offer the potential for capital appreciation and increased [diversification](#) benefits for bond investors.”

Morningstar Apr. 2024



“The all-important starting yields are higher than they’ve been for a long time and interest rates are likely ready to come down, starting in the second half of 2024 and continuing into next year. That’s the combination we’ve been waiting for. This is perhaps the most excited and bullish I’ve been on US core bonds in 15 years.”

David Braun, PIMCO

“Right now, the average yield on the Bloomberg US Aggregate Bond Index is up to around 5%, and the yield for investment-grade corporate bonds is roughly 6%. Those starting yields are a big reason why bonds should deliver attractive total returns during the rest of 2024 and beyond, regardless of where interest rates go.

If the Federal Reserve lowers interest rates, which it’s expected to do, the interest payments on those bonds will be supplemented by higher market prices, which could boost the total return of the bonds closer to the average historical return of US stocks. Even if the Fed does something unexpected and leaves rates alone or raises them further, starting coupon yields are high enough to still deliver a positive return to bondholders.”

Jeff Moore, Fidelity



# A Note on Yields Four Different Ways to Measure Them

1) 30-day SEC Yield -- The income that's been earned over the past 30 days as annualized. Also called "current yield." It's the most useful standard.

2) Trailing 12-month yield (TTM) -- A one-year lookback. The income earned over the past 12 months, annualized.

3) Yield to Maturity – The overall annual interest rate you will earn if you buy a bond and hold it to maturity.

4) Yield to Worst. Some bonds, especially ones with longer terms, are "callable," or can be called in for payment prior to the maturity date. This yield is the lowest yield an investor can expect on a callable bond.

- **In comparing bonds and bond funds, make sure you are comparing apples to apples and not to oranges. And given a choice between the 30-day yield and TTM, the 30-day would be preferable.**



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	ANNUALIZED RETURN
Mid	Municipal 8.72%	Municipal 3.76%	High Yield 17.13%	Emerging Market 9.32%	Cash 1.86%	Corporate 14.54%	Corporate 9.89%	High Yield 5.26%	Cash 1.50%	High Yield 13.44%	High Yield 6.58%
ans	Corporate 7.46%	Emerging Market 1.23%	Bank Loans 10.88%	High Yield 7.50%	Gov't 1.43%	Emerging Market 14.42%	Global 9.20%	Bank Loans 3.54%	Bank Loans -0.68%	Bank Loans 13.20%	Emerging Market 5.65%
	Emerging Market 5.53%	Gov't 1.18%	Emerging Market 10.19%	Global 7.39%	Municipal 1.41%	High Yield 14.32%	High Yield 7.05%	Municipal 0.96%	Municipal -6.57%	Emerging Market 10.45%	Bank Loans 4.64%
	Gov't 2.52%	Cash 0.03%	Corporate 6.11%	Corporate 6.42%	Bank Loans -0.62%	Bank Loans 10.65%	Emerging Market 5.88%	Cash 0.05%	Gov't -7.73%	Corporate 8.52%	Corporate 4.13%
to	High Yield 2.46%	Corporate -0.68%	Global 2.09%	Municipal 5.83%	Global -1.20%	Municipal 7.70%	Gov't 5.73%	Corporate -1.04%	High Yield -11.18%	Municipal 5.78%	Municipal 3.93%
at	Bank Loans 0.99%	Bank Loans -2.75%	Gov't 1.05%	Bank Loans 3.31%	High Yield -2.08%	Global 6.84%	Municipal 5.62%	Emerging Market -1.51%	Corporate -15.76%	Global 5.72%	Gov't 2.48%
	Global 0.59%	Global -3.15%	Cash 0.27%	Gov't 1.14%	Corporate -2.51%	Gov't 5.20%	Bank Loans 2.84%	Gov't -1.69%	Global -16.25%	Cash 5.26%	Global 2.40%
S	Cash 0.03%	High Yield -4.43%	Municipal -0.12%	Cash 0.84%	Emerging Market -4.61%	Cash 2.25%	Cash 0.58%	Global -4.71%	Emerging Market -16.45%	Gov't 4.30%	Cash 1.42%
o	S&P 500 13.69%	S&P 500 1.38%	S&P 500 11.96%	S&P 500 21.83%	S&P 500 -4.38%	S&P 500 31.49%	S&P 500 18.40%	S&P 500 28.71%	S&P 500 -18.11%	S&P 500 26.29%	S&P 500 9.69%

STANDARD DEVIATION

INDEX DEFINITIONS

# Recapping -- Fixed Income Market Segments over 20 years

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High Yield – Annualized Return 6.58%

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Emerging Markets – 5.65%

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Bank Loans – 4.64%

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Corporate – 4.13%

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Municipal – 3.93%

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Government – 2.48%

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Global – 2.40%

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Cash – 1.42%

# Slicing and Dicing Bond Categories

## Length of Term

- Long, Intermediate, Short, Ultra Short

## Asset Class

- Corporate, Municipal, Government, etc.

## SubSectors

- e.g., Mortgage-Backed Securities, Asset-Backed Bonds, Muni General Obligation Notes, etc.

## Ratings

- AAA, AA, A, BBB etc.

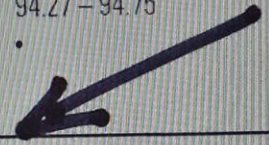
## Three Total Bond ETFs to Consider

- 1) Vanguard Total Bond Market Index Fund ETF (BND) (passive)
- 2) Fidelity Total Bond Fund ETF (FBND) (actively managed)
- 3) iShares Core Aggregate Bond ETF (AGG) (passive)

Apr 2024 May Jun 92.00

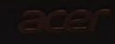
USD | NYSE Arca | End of Date data as of Jun 28, 2024

<b>NAV</b> 94.44	<b>Open Price</b> 94.57	<b>Bid / Ask / Spread</b> 93.74 / 94.00 / 0.
<b>Volume / Avg</b> 518.0 / 4.6 Mil	<b>Day Range</b> 94.27 - 94.75	<b>Year Range</b> 87.80 - 95.59



**Morningstar's Analysis** Our Take **Comparables** Archive

<b>SPDR® Blmbg High Yi...</b>	<b>FlexShares HY Val-Sc...</b>	<b>iShares 0-5 Year High...</b>	<b>iShares Fallen A</b>
JNK	HYGV	SHYG	FALN
▲▲	▲▲▲	▲▲▲▲	▲▲▲▲



ETF	MStar	Exp. Ratio	SEC Yield	10 yr. Perf.	YTD	1 yr.	3 yrs.	2022	Avg. Credit Rating	Morn. Risk Score
BND	3 Star Gold	0.03%	4.63%	11,871	-0.59%	2.56%	-3.02%	-13.11	AA	19
FBND	4 Star Gold	0.36%	5.19%	12,220	-1.00%	2.92%	-2.14%	-12.73	A+	21
AGG	3 Star Gold	0.03%	4.64%	11,843	-0.71%	2.58%	-3.05%	-13.02	AA-	20

## Now, Three Total Bond Mutual Funds to Consider

- 1) Dodge and Cox Income (DODIX)
- 2) PIMCO Income (PONAX)
- 3) Hartford Strategic Income (HSNIX)

Fund	MStar	Exp. Ratio	SEC Yield	10 Yr. Perf.	YTD	1 yr.	3 yrs.	2022	Avg. Credit Rating	Morn. Risk Score
DODIX	5 Star Gold	0.41%	4.67%	13,188	0.18%	4.28%	-1.35%	-10.86	AA-	19
PONAX	4 Star Silver	0.90%	5.71%	15,084	1.62%	6.47%	0.69%	-8.18	A+	15
HSNIX	4 Star Silver	0.64%	6.44%	14,673	3.28%	8.82%	-0.52%	-12.77	BBB+	17



# High Yield Bonds – Still “Junk”?

- Definition: Dollar-denominated, fixed-rate, taxable corporate bonds that are non-investment grade (i.e., below BBB).
- Became popular in the 1980”s as “junk bonds.”
- But – per Kiplinger’s fixed-income expert Jeff Kosnett, the market is much higher quality now than 15 or 20 years ago. So “it’s a lot less junky.”
- Risk of default is exaggerated, with defaults only at about 2%.
- Not as affected by interest rate changes as Treasuries and investment grade bonds.
- High yield bonds regularly outgain diversified bond indexes.

## Three High Yield Bond ETFs to Consider

- 1) iShares High Yield Systematic Bond ETF (HYDB) (actively-mg'd.)
- 2) Fidelity High Yield Factor ETF (FDHY) (actively-managed)
- 3) xTrackers Short Duration High Yield ETF (PHYL) (passive)

ETF	M Star	Exp. Ratio	SEC Yield	10 yr. Perf.	YTD	1 yr.	3 yrs.	2022 %-age loss	Avg. Credit Rating	Morn. Risk Score
HYDB	5 Star Gold	0.35%	7.28%	N/A	3.54%	11.7%	2.49%	-10.00	B+	23
FDHY	3 Star Silver	0.45%	6.87%	N/A	3.04%	9.79%	1.08%	-11.30	B+	23
SHYL	4 Star Gold	0.20%	8.16%	N/A	2.41%	8.99%	2.99%	-5.22	BB-	18

## And then Three High Yield Mutual Funds to Consider

- 1) Fidelity Capital and Income Fund (FAGIX)
- 2) PGIM High Yield Fund (PBHAX)
- 3) T Rowe Price Credit Opportunities (PRCPX)

Fund	MStar	Exp. Ratio	SEC Yield	10 yr. Perf.	YTD	1 yr.	3 yrs.	2022 %age loss	Avg. Credit Rating	Morn Risk Score
FAGIX	5 Star Bronze	0.69%	5.70%	19,145	5.55%	13.16%	3.33%	-10.46	B+	29
PBHAX	3 Star Gold	0.75%	7.48%	15,851	2.56%	10.15%	1.05%	-11.88	BB-	22
PRCPX	4 Star Silver	0.81%	7.18%	14,438	2.63%	11.22%	2.75%	-9.08	B	22

## Comparing the Selected Fund from Each Category --

Total Bond ETF	MStar	Exp. Ratio	SEC Yield	10 yr. Perf.	YTD	1 Yr.	3 yrs.	2022 %-age loss	Avg. Credit Rating	Morn. Risk Score
FBND	4 Star Gold	0.36%	5.19%	12,220	-1.00	2.92%	-2.14%	-12.73	A+	21
Total Bond Mutual										
HSNIX	4 Star Silver	0.64%	6.44%	14,673	3.28%	8.82%	-0.52%	-12.77	BBB+	17
Hi Yield ETF										
HYDB	5 Star Gold	0.35%	7.28%	--	3.54%	11.7%	2.49%	-10.00	B+	23
Hi Yield Mutual										
FAGIX	5 Star Bronze	0.69%	5.70%	19,145	5.55%	13.16%	3.33%	-10.46	B+	29

# Some Takeaways --

- Investing climate for bonds has turned favorable
- Don't let poor results from 2022 dissuade you from considering bonds
- Have to decide yourself whether investing in bonds now meets your needs and fits your comfort zone
- High Yield Bonds have historically outperformed general fixed-income bonds
- Actively-managed funds, both ETFs and mutuals, have advantages over passive funds and are quite competitive

Thank You for your  
attention --

- Or, it's time to wake up now
- Questions/Comments?