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Bonds: There When You Need Them

Talk to your financial professional about the importance of investing in fixed income.

Just booked a long-anticipated vacation? Celebratory dance! Just enrolled in the maintenance plan for your HVAC system? That's far less exciting. But when your AC quits in a heat wave, you'll be dancing when the tech shows up for priority service.

As investors, sometimes we need a reminder why we enroll in the less flashy stuff, too. In the last few years, as the Federal Reserve (Fed) has adjusted policy and shifted interest rates, fixed-income investors have faced unusual volatility. After negative annual returns in 2021 and 2022, it wouldn't be surprising if you've wondered what bonds have done for you lately.

But similar to how signing up for just-in-case maintenance can keep you cool in a pinch, bonds can help us maintain our portfolios' cool, too. Especially today, it's important to remember why we bother with bonds in the first place: diversification.*

Key Points

- Bond performance suffered in recent years as interest rates were raised significantly to fight high inflation.
- Bonds can still serve an important role in a portfolio: helping to offset equity volatility.
- Since interest rates may continue to shift, it may be best to consider diversifying to prepare for all potential situations.

Team Bonds vs. Team Stocks: It's Not Really a Competition

There's a give and take to diversified, balanced portfolios. There are just a handful of years on record in which both stocks and bonds both produced negative returns for the year. Generally, when stocks have been volatile, bonds have provided a welcome degree of stabilization.

In other words, if you're well diversified, one part of your portfolio is likely to outperform as another underperforms at any given moment. Ultimately, this balance should provide a less volatile experience overall. All the portfolios in **FIGURE 1** generated significant positive returns over the time period shown, but the balanced one provided a less turbulent journey.

* Diversification does not ensure a profit or protect against a loss.

FIGURE 1
Bonds Counterbalance Stocks in a Diversified Portfolio
Cumulative Returns

Years	Stocks	Bonds	Balanced	Investor Mindset
2000-2002	-37.6%	33.5%	-6.4%	"Why do I own stocks?"
2003-2007	82.9%	24.2%	51.8%	"Why do I own bonds?"
2008	-37.0%	5.2%	-15.9%	"Why do I own stocks?"
2009-2017	258.8%	40.7%	129.8%	"Why do I own bonds?"
2018	-4.4%	0.0%	-2.2%	"Why do I own stocks?"
2019-2023	64.1%	0.1%	50.8%	"Why do I own bonds?"
2000-2023	**410.9%**	**159.3%**	**305.4%**	
Growth of $100k	**$510,924**	**$259,310**	**$405,382**	

As of 12/31/23. **Past performance does not guarantee future results.** Stocks: S&P 500 Index; bonds: Bloomberg US Aggregate Bond Index; Balanced: 50% stock/50% bond allocation. The performance shown above is index performance for illustrative purposes only and is not representative of any Hartford Fund's performance. Sources: Morningstar and Hartford Funds, 1/24.

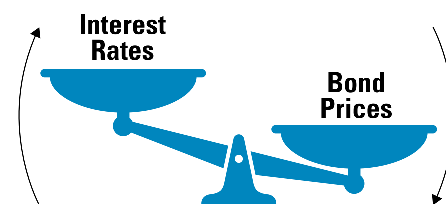
Unfortunately, there's no telling which asset class is going to be in favor in any given year. That's why it's important to work with your financial professional to be prepared for whatever the market throws at you.

Here are three strategies to discuss with your financial professional that may better withstand elevated or shifting interest rates:

- Core-plus funds, which hold a foundation of investment-grade bonds but have the ability to augment that core with other, more opportunistic bonds;
- Bank loans, which have variable interest rates that adjust to the market; and
- Multi-sector approaches, which have the flexibility to adapt to changing environments.

Whatever you decide, working with professionals who have experience and extensive resources should make it a little easier to sit back and focus on other important things. You know, like putting your feet up in your perfectly climate-controlled home to plan a well-deserved vacation.

Why Worry About Interest Rates?
When interest rates rise, bond prices typically fall.



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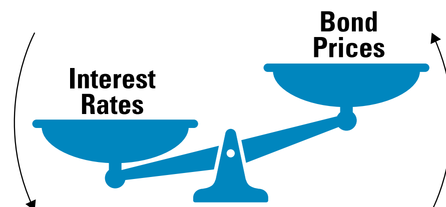

Talk to your financial professional about investing in actively managed fixed income that's designed to adapt to a changing environment.

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. Bloomberg US Aggregate Bond Index is composed of securities from the Bloomberg Government/Credit Bond Index, Mortgage-Backed Securities Index, Asset-Backed Securities Index, and Commercial Mortgage-Backed Securities Index.

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Important Risks: Investing involves risk, including the possible loss of principal. • Fixed income security risks include credit, liquidity, call, duration, event and interest-rate risk. As interest rates rise, bond prices generally fall. • Loans can be difficult to value and less liquid than other types of debt instruments; they are also subject to nonpayment, collateral, bankruptcy, default, extension, prepayment and insolvency risks.

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