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# Is the Slumping “Agg” Poised for a Win Streak?

## Despite disappointing performance, there are hopeful signs for bond investors.

Bonds are supposed to be the dull, no-nonsense part of an investor’s portfolio that’s historically delivered predictable returns with minimal risk. But who could have predicted that the Bloomberg US Aggregate Bond Index (the “Agg”), the fixed-income market’s most widely used proxy, would ever drag investors through a losing streak of more than two years?

From June 2021 through September 2023, the Agg consistently posted negative one-year monthly rolling returns (**FIGURE 1**). For the Agg, this was a slump of historic proportions that began, not coincidently, just as interest rates were coming off historic lows and several months before the Federal Reserve (Fed) started aggressively raising the federal funds rate. The policy rate would eventually rise by 525 basis points, marking the Fed’s rate-hiking campaign (March 2022 through July 2023) as the fastest tightening cycle in 40 years.

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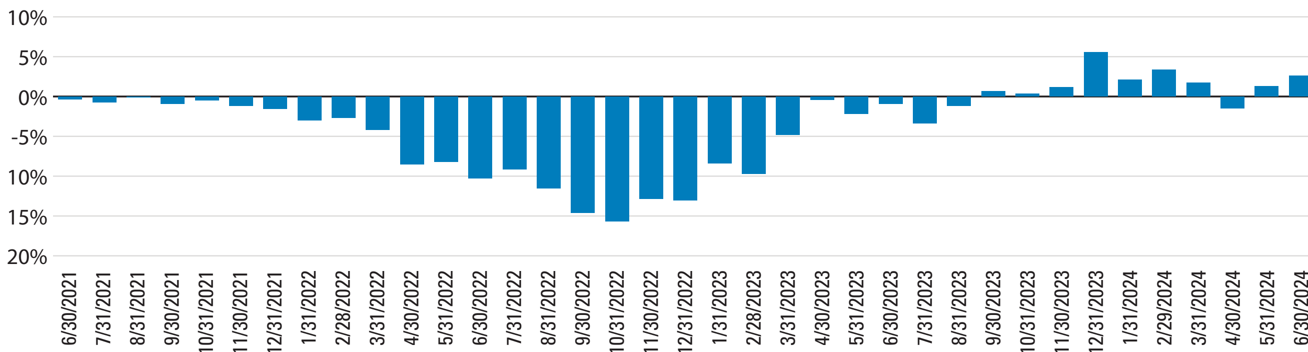
### Key Points

- From June 2021 through September 2023, the Agg consistently posted negative one-year monthly rolling returns.
- The slump coincided with interest rates coming off historic lows and the Federal Reserve’s campaign to hike its federal funds rate.
- History shows the Agg has generally outperformed in the periods that have followed extended drawdowns.

FIGURE 1
**The Agg Endured a Historic Losing Streak in the Face of Rising Interest Rates**
Bloomberg US Aggregate Bond Index One-Year Monthly Rolling Returns 2021-2023 (%)




As of 6/30/24. **Past performance does not guarantee future results.** Indices are unmanaged and not available for investment. Data from June 30, 2021, through June 30, 2024. Source: Morningstar, Hartford Funds.

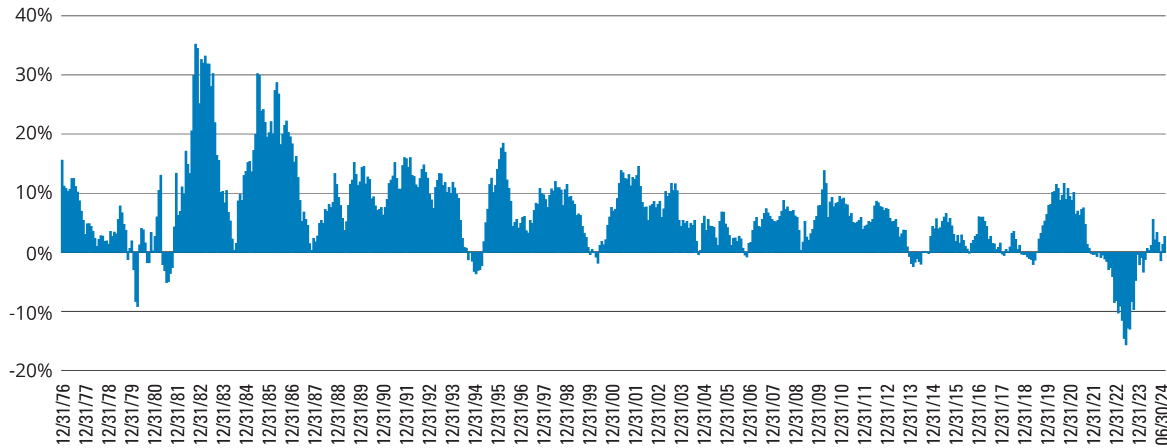
## The Agg: A Better Long-Run Performer

In fact, looking back over the Agg’s lengthy history, its recent underperformance looks more and more like an outlier. Since 1976, the Index has actually delivered mostly positive returns during its lifetime—to be specific: 495 of 571 instances (86.7%) of positive performance (**FIGURE 2**). While periods of elevated interest rates generally create difficult environments for bonds, history suggests the Agg’s recent bout of underperformance isn’t likely to last. In fact, the Agg has historically rebounded after past difficult periods.

FIGURE 2

**The Agg Hast Been Mostly Positive During its Lifetime**

Bloomberg US Aggregate Bond Index One-Year Monthly Rolling Returns 1977-2023 (%)

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There have been other instances in history where the rolling drawdowns have extended over multiple periods—typically related to Fed hiking cycles, periods of high inflation, or both. But the periods following these drawdowns have typically been beneficial to bondholders, with the Agg eventually delivering strong returns (**FIGURE 3**).

FIGURE 3

**After Steep Rate Increases, the Agg Has Historically Rebounded**

12-Month Forward Agg Returns Following Pivotal Fed Policy Episodes, 1980-2018

| Period | Peak 12-Month Rolling Loss (%) | Date | Environment | 12-Month Forward Return (%) |
|---|---|---|---|---|
| 1980-81 | -9.20 | 3/31/80 | Extreme inflation: Volatile Fed moves | 13.05 |
| 1994 | -3.67 | 10/31/94 | Fed hiking cycle: Rapidly growing employment and falling inflation | 15.65 |
| 2013 | -2.47 | 8/31/13 | "Taper Tantrum" occurred when the Fed announced it would no longer purchase bonds at some point in the future | 5.66 |
| 2018 | -2.05 | 1/31/18 | Fed engages in first rate-hiking cycle since the Global Financial Crisis | 11.51 |

**Past performance does not guarantee future results.** Indices are unmanaged and not available for investment. Forward returns represent Bloomberg US Aggregate Bond Index returns. Source: Morningstar, Hartford Funds.

## A Turning Point on the Horizon?

As for the future, we believe there are several near-term catalysts that could potentially propel the Agg out of the doldrums.

**1. The current level of interest rates could be a good starting point for better bond returns.** Rising yields are bad for bonds, but high starting yields have historically been positive for bonds. During the course of the most recent tightening cycle, the 10-year US Treasury rate moved up to 5.0% and has averaged 4.03% since the last Fed hike in July 2023. This average rate of 4.03% for the 10-year Treasury is very close to the 4.44% average Treasury rate from 2000-2010, a period in which the Agg delivered an average annual return of 6.33% (**FIGURE 4**).

FIGURE 4

**Average 10-Year US Treasury Rate vs. Agg Annualized Return (2000-2024)**

| 10-Year US Treasuries | Bloomberg US Aggregate Bond Index |
|---|---|
| 2000-2010: 4.44% | 6.33% |
| 2010-2020: 2.40% | 3.75% |
| As of 7/31/24: 4.03% | ? |

Source: Bloomberg and Morningstar.

**2. The Fed recently signaled that its tightening cycle is likely to end.** Fed Chair Jerome Powell recently stated that a rate cut "could be on the table" in September when the Federal Open Market Committee meets to re-evaluate inflation and employment data. While Powell's assertion doesn't necessarily guarantee that rate cuts are imminent, the periods that have followed the Fed's initial cut have historically been beneficial for bonds (**FIGURE 5**).

The periods that have followed the Fed's initial cut have historically been beneficial for bonds.

FIGURE 5

**The Agg Has Performed Well One Year After the Fed's Initial Rate Cut (%)**

| | 8/1/2018–7/31/2019 | 9/19/2007–9/18/2008 | 1/4/2001–1/3/2002 | 9/30/1998–9/29/1999 | 7/7/1995–7/6/1996 | 6/6/1989–6/5/1990 |
|---|---|---|---|---|---|---|
| Bloomberg US Agg Bond Index | 8.08 | 5.43 | 7.87 | -0.19 | 2.56 | 8.78 |

As of 6/30/24. **Past performance does not guarantee future results.** Indices are unmanaged and not available for investment. Source: Morningstar.

**3. Higher coupon yields may make bonds seem like an opportunity just as the Fed is approaching rate cuts.** The runup in rates is providing healthy coupon yields as well as opportunities for investors to buy bonds at a discount. That could set investors up for enhanced income and potential capital appreciation. All in all, the current level of interest rates, combined with an accommodative Fed, could be creating an environment for bond funds to potentially cast off their recent disappointment with the Agg as we return to a more normal—and, hopefully, dull—environment.

**Talk to your financial professional to help you construct a bond portfolio that's right for you.**

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