Cooke FINANCIAL GROUP | 50 YEARS

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The Challenge of Low-Yield Bonds

Bond yields hit 120-year lows in 2019 and yields remain low in a low-interest environment. This presents a conundrum for fixed-income investors in search of predictable but substantial coupon payments.

Low-yield bonds with high credit ratings have historically been the gold standard of fixed-income investment vehicles, with the US treasury bond or "T-bill" the safest of the safe. Retirees have relied on them for decades, as well as diversified investors who want to hedge against market downturns.

The problem is that in an environment of low interest rates, low-yield/low-risk bonds produce returns so small that they might not keep pace with inflation. While the principal balance may go up, your portfolio has less spending power over time.

Of course, rock-bottom interest rates may have nowhere to go but up. The yields go up if interest rates go up … **but bonds also lose market value in an environment of rising interest rates.**

Higher-yields bonds can still produce positive returns despite the decreased value since their yields scale up exponentially. Low-yield bonds are less likely to catch up. It's a lose-lose scenario.

Fixed-income investors need to carefully consider their risk tolerance and consider the possibility that the "safe" investment vehicles of the past may no longer be a safe bet. Yes, their returns are predictable … but they look more and more like predictable "losers" instead of "winners."

We have our fixed-income strategies under the microscope, ready to think outside the box to customize income-investing plans to the realities of today, not the memories of eras past.