Interest Rates are Rising…So What Does That Mean for Bonds?

Bond returns have been negative for the year to date period. As rates have gone up, bond prices have gone down. And, after many years of extremely low interest rates, the Fed has been slowly raising interest rates since 2016.

So, why wouldn't we get out of bonds? Higher interest rates are good for bonds long term and bonds play an important role in a well-diversified investment portfolio.

1. **Attractive Reinvestment Rates:**
   As bonds mature within your mutual funds, the fund manager reinvests into new bonds that are paying higher interest rates. That means a higher stream of payments to the bondholders. The higher income generally more than offsets the short-term price declines in bonds.

2. **Portfolio Diversification:**
   Stocks are generally considered the riskier piece of the portfolio, an important growth component that helps you combat inflation and retain your purchasing power throughout your life. The bond component serves as a cushion in the portfolio, which is especially important during periods of market volatility, corrections and especially recessions.

So, even with short-term headwinds from rising rates, we believe the higher future earnings and stabilizing role bonds play in a well-diversified portfolio are reasons to stay invested in bonds.