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The Many Forms of Fixed Income

Looking for yield? Treasuries aren't your only choice.

You want to draw some income while preserving some of your capital. So, you decide to take a look at fixed-income investments. A little research shows you that 10-year Treasury notes haven't yielded more than 2% since July 2019. One-year T-bills haven't yielded 1% since February 2020. You shrug and think, "Ah, well, low-interest rates, what can you do."[1]

Treasury bonds aren't your only choice in the world of fixed-income investing. There are various other vehicles you may want to consider as part of a fixed-income strategy, and some of them offer potentially higher yields than Treasuries. It comes down to how much risk you want to shoulder as a fixed-income investor.

The market value of fixed-income investments will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity, an investor will receive the interest payments due plus the original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk.

The federal government backs U.S. Treasury bonds, so default risk isn't an issue for those securities. Corporate bonds have varying degrees of it, and the degree of risk does influence the interest rate, which may be higher than that of a Treasury bond. (You could say that Treasuries carry an opportunity risk: the risk that you might get a better return from another type of investment.)[2]

Rating agencies classify bonds at different grades, from AAA (least likely to default) to "junk" (a comparatively higher chance of default). Often, a higher default risk corresponds to a relatively greater interest rate for the bond and vice versa. Bond yields are also affected by bond prices; when prices rise, yields generally fall, and when prices fall, yields generally rise.[3]

Often, fixed-income investors build a "bond ladder," a set of individual bonds with staggered maturity dates, to structure cash flow across a period of years. A bond ladder can contain Treasuries, corporate bonds, municipal bonds issued by state and local governments, international bonds such as those issued by emerging-market nations, and even ultra-long bonds with 30-year or 50-year maturities.

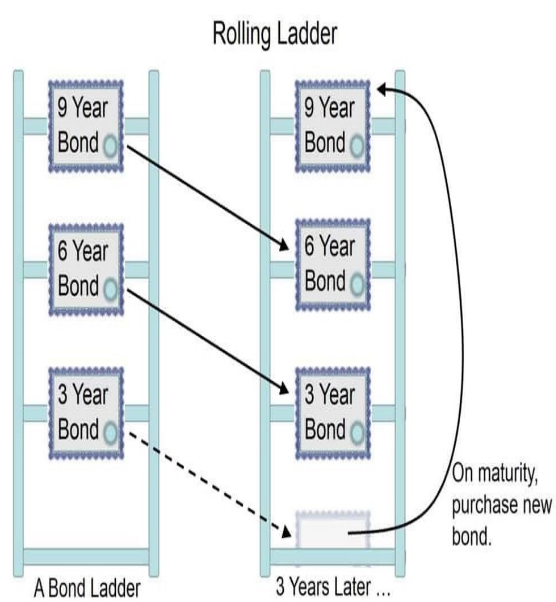
Bond laddering is an approach to help manage risk. It does not eliminate the risk of loss in a bond investment.

While constructing a bond ladder sounds simple, it can be rather tricky. You have to consider where you locate the bonds (taxable or tax-advantaged account), the credit ratings of bonds you may want to add, what to do with the interest income that the bonds provide, and the tax treatment of that income.

Keep in mind this article is for informational purposes only, and it is not intended as real-life investment advice or a recommendation of a particular fixed-income investing strategy.

Citations

1. Treasury.gov, February 20, 2021
2. Investopedia, January 20, 2021
3. The Balance, February 4, 2021



“Green Shoots” in the Economy

Investors looking for "green shoots" to confirm that the economy is on the mend have seen plenty of examples in recent weeks.

Retail sales rose 9.8% in March, the largest monthly gain since May 2020. It's important to remember that purchases at stores, restaurants, and online are among the biggest drivers of overall economic activity. The gain coincides with the government distributing hundreds of billions of dollars in stimulus funds to households.[1]

New jobless claims came in at 576,000 for the week ended April 10—the lowest level since March 14, 2020, and continuing unemployment claims were at their lowest four-week moving average since March 28, 2020.[2]

Housing starts rose 19.4% to 1.7 million units in March, the highest level since June 2006.[3]

Green shoots is a term used to indicate signs of economic recovery after a downturn. It's a reference to when plants start to show signs of life again. Most recently, former Fed Chair Ben Bernanke used the metaphor to describe the economic recovery following the 2007-2008 financial crisis.[4]

There is no doubt the economy may face several challenges in the months ahead. Interest rates, taxes, and inflation are three issues that may take over the headlines at any time.[5]

But please know that we're keeping a close eye on the economic trends. This watchfulness is in an attempt to determine "what's the signal and what's the noise" as events unfold. In the meantime, reach out if you anticipate any green shoots in your personal finances. We'd welcome the chance to hear your story.

Citations

1. The Wall Street Journal, April 15, 2021
2. Department of Labor News Release, April 15, 2021
3. Reuters, April 16, 2021

The Whims of Wall Street

What to know about shifting market attention, and investor burnout.

It can be exhausting trying to keep up with the whims of Wall Street.

Lately, the financial markets have been fixated on federal taxes and what may be proposed on Capitol Hill in the weeks and months ahead.

Wall Street’s focus on taxes closely follows its attention on the 10-year Treasury yield, and it wasn’t that long ago that the financial markets were influenced by reopening and vaccine distribution statistics.

What’s Wall Street’s next whim? Some might say inflation. Others might say earnings will provide the next narrative.[1]

One thing is certain: keeping up with Wall Street's roaming eye will wear out even the most seasoned investor.

As Warren Buffett once said, “The stock market is designed to transfer money from the active to the patient.”

Investors need to understand that it’s not about the daily events that influence Wall Street. It’s about whether you are pursuing your financial goals based on your time horizon and risk tolerance. How the financial markets perform from week-on-week or month-to-month should be of some interest but perhaps not an overriding concern.

If something has changed with your financial goals, or if your time horizon has shifted, please reach out to discuss your situation. Staying focused on what’s important to you is the most crucial thing we do.

Citations

1. CNBC.com, April 9, 2021