Portfolio Advisor

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# Why investing in bonds still makes sense despite historically low interest rates

With the exception of a few spikes, over the last 35 years interest rates and bond yields have steadily declined. The recent efforts by central banks to spur borrowing to drive economic growth during the COVID-19 pandemic has pushed yields to their lowest levels in history, leading many investors to wonder if bonds are still effective in helping them achieve their portfolio goals.

## The bonds that bind

One of the three major investment asset classes (along with equities and cash), bonds have existed in one form or another for hundreds of years. With their dual income structure of fixed interest payments and the return of capital at a stated maturity date, bonds have historically been very attractive to investors seeking income and security.

Bonds are issued by a variety of entities, including corporations and various levels of government, and in a wide variety of forms (e.g., standard, high-yield, convertible). They also offer various maturity dates over different timeframes. Generally, the longer the timeframe (e.g., a 10-year bond), the higher the interest rate, but the higher the price volatility (which means the price at which you could sell a bond prior to maturity has more variance).

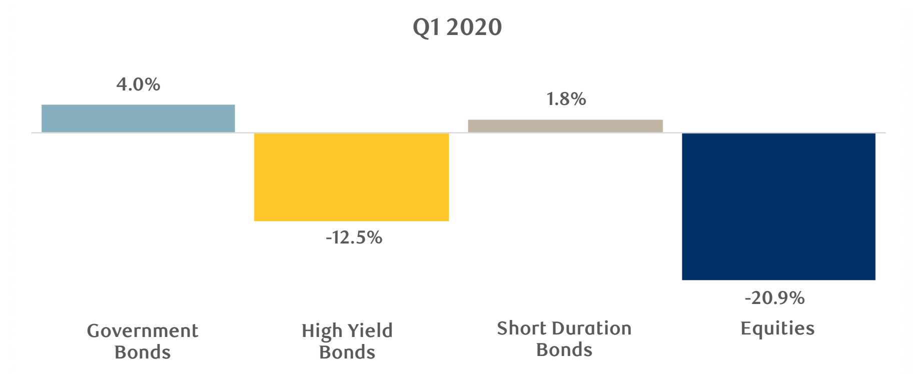
In addition, issuers and the various types of bonds they issue are often rated by bond rating agencies, providing investors with guidance around their riskiness, i.e., their ability to maintain their interest payments and repay principal at maturity. This allows investors to decide on the degree of risk they are willing to assume, while gauging the performance of different issuers and bond types under different market conditions.

## Portfolio ballast – three reasons to maintain bonds in your portfolio

Despite the historically low yields bonds are offering these days to investors, there continue to be very important reasons to consider them in your portfolio, including:

1. **Stability:** With their more predictable and less volatile returns, bonds are an important ballast to an investor's portfolio during times of volatility. When trouble strikes, bonds can help to reduce the risk – or volatility – of portfolios.

**Government bonds provided a ballast during the COVID-19 sell-off**




Short duration bonds = FTSE Canada ST Bond Index, equities = S&P/TSX Composite TR, high yield bonds = ICE BofA U.S. High Yield BB-B (CAD Hedged), government bonds = FTSE WGBI Hdg CAD. Source: Morningstar Direct.

2. **Diversification:** Bonds tend to have a negative return correlation to equities – when equities rise, bonds tend to fall, while they tend to rise in value when equities fall.
3. **Income:** While interest rates and yields may be low these days, there is a vast universe of bond issuers and bond types. When the risk is managed properly within a diversified portfolio, there can still be higher-yielding options for investors who need income and/or wish to generate income to offset weaker capital returns in their portfolio.

## Some bonds should never be broken

Regardless of today's historically low interest rate environment, bonds can continue to play a critically important and effective part in protecting, diversifying and growing investors' wealth. Contact us today for more information about the role bonds can play in your portfolio.