

How well do you understand yield? A guide for investors

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Investors looking for income are often told to look at yield, but which one?

In addition to portfolio diversification, most investors consider bonds for the income that they provide. To understand that, investors can look at the yield. But there are many ways of quoting the yield on an investment, and they can vary based on a number of factors. For investors looking for income, knowing which yield measure to consider doesn't need to be complicated. Our short guide below shows why.

	What it is	Important to know
Distribution yield (Trailing 12-month yield/ TTM yield)	Based on the yield when the bond was purchased ¹	<ul style="list-style-type: none"> ■ A backward-looking measure that represents what investors have received in actual income: <ul style="list-style-type: none"> ■ A less volatile measure of yield ■ A lagging indicator during periods of volatility ■ Useful for comparing past performance of investments
Yield to maturity (YTM)	Based on current market valuations, it's a measure that includes the return of principal and coupon payments, if a bond is held to maturity	<ul style="list-style-type: none"> ■ Forward-looking measure that can be used to compare bonds with different maturities and coupons ■ Because it measures a bond's potential for total return, it can be used as an income planning tool
Yield to worst (YTW)	The most conservative yield measure — it considers the current price of the bond and the potential impact of prepayments or call provisions	<ul style="list-style-type: none"> ■ Because it considers possible prepayments or call provisions, which allow an issuer to repurchase or retire a bond, it's likely to be the lowest yield metric ■ Useful for investors who have specific income needs
SEC yield	Intended to create a net-of-fees apples-to-apples comparison across yield-oriented strategies, using both current and historical pricing	<ul style="list-style-type: none"> ■ Useful tool for comparing between investments ■ Certain assumptions can limit comparability because it: <ul style="list-style-type: none"> ■ Excludes yield contribution from non-cash securities ■ Doesn't account for prepayments in securitized assets

¹ In the case of floating-rate securities, the distribution yield will reset based on market conditions.

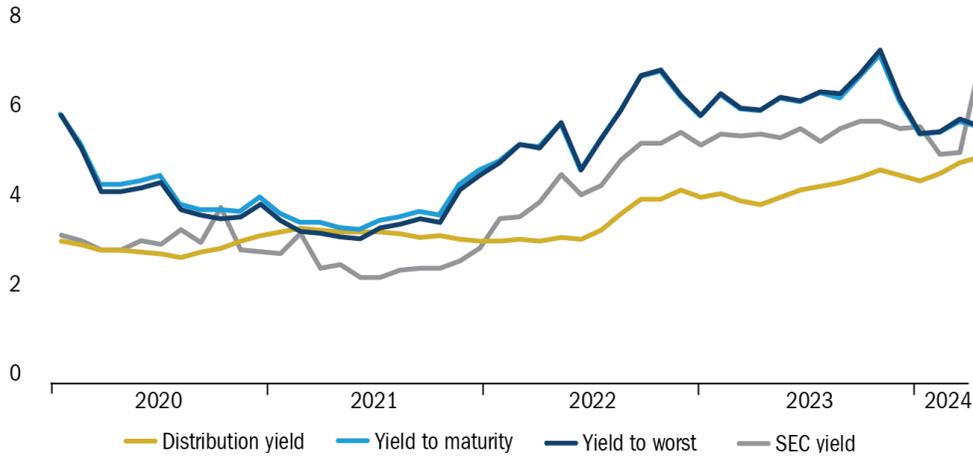
How much can yields vary? In periods of high interest rate volatility, these measures of yield can diverge significantly: When rates started rising in 2022, yields that were backward-looking (TTM) or incomplete in the securities included (SEC yield) lagged and were unable to provide investors with an accurate indication of the current market environment.



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▶ Different measures of yield can diverge during periods of interest rate volatility

(Yield, %)



Source: Columbia Threadneedle Investments. Yields are representative of a core-plus fixed-income strategy.

What does it mean to you? Understanding how to interpret the different measures of yield can help investors in comparing investment options and making informed decisions about fixed income. And because yield is an important indicator of potential future total return, it can provide guidance on more than just income levels.

To find out more, call [800.426.3750](tel:800.426.3750)
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Past performance is not a guarantee of future results.

There are risks associated with **fixed-income** investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

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