“Lower for longer” rate environment pressures investors

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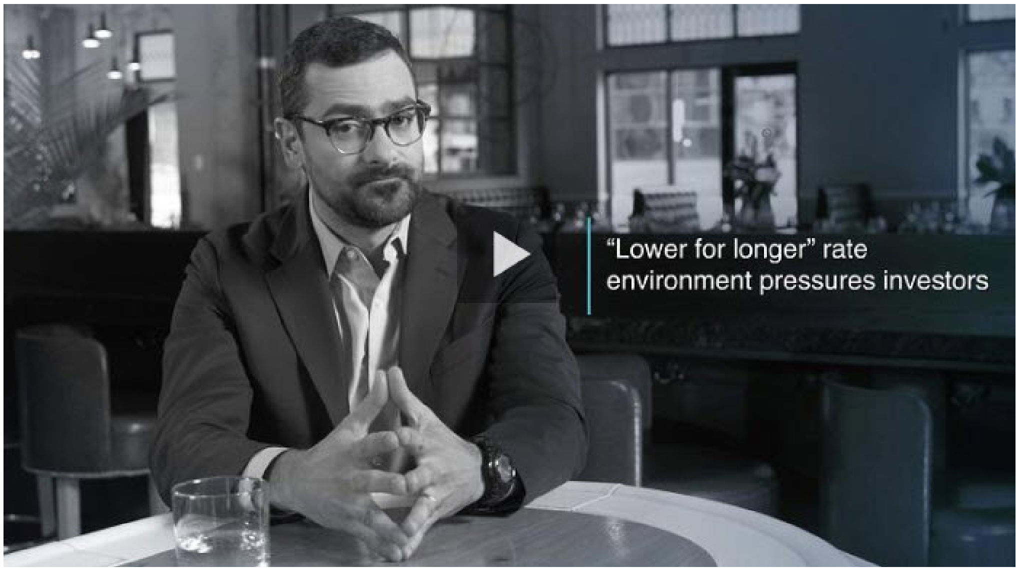
It’s essential to look at investment income on a risk-adjusted basis. But is more income worth the additional risk?

Duration risk has increased significantly since rates have come down, explains Ed Al-Hussainy. And because of this, investors are more exposed to movements in interest rates, whether it’s in risk assets or safe-haven Treasuries. As safe yields decrease, investors feel more pressure to go into lower-quality credit or riskier asset classes in order to generate income. But it’s the risk-adjusted return that matters.



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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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