Investing for income: fixed income edition

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Your success. Our priority.

Investors who've been largely in the bond market, you've been spoiled.

You just had four decades of what were high and declining interest rates. That is the perfect bond market as an investor. You got a rate of 10% or 8% or 6% and as it went down, the price of your bond went up. Wow. Your return from 1981 through 2017 was close to 8.5% per year.* That's the kind of return you make in the stock market, you don't make from the bond market.

I would suggest we're entering a new rate regime. Not that rates are going up a lot or even that they're going to go up.

In the new rate regime rates aren't going to go down 500 or 600 basis points, because they're not…and look at 3%, you can't go down 600 basis points.

It's important you understand bond market investing is more than just the level and direction of interest rates. Sometimes, I'll hear people call that duration.

It's also about credit, because you buy corporate bonds, is the credit good? Is the company's financial health getting better or deteriorating? So corporate bonds are an important opportunity, but you need to look at credit. You need to look at currency, because you don't have to only buy U.S. dollar issues. You could buy foreign issues. And a lot of your return can be influenced by the direction of the currency, so we need to understand currency. And inflation, you could buy bonds that are linked to the level of inflation. So we need to understand the direction of inflation, also.

And I think it's important you understand that you have to use all those factors to generate return, going forward, in the bond market.

The new rate regime, more challenging, but there's opportunity.

** U.S. 10-Year Treasury bond returns, 1981-2017. Source: Bloomberg, Columbia Threadneedle Investments.* ***Past performance is not a guarantee of future results.***

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