A multi-sector approach to generating income

Edward Kerschner, CFA, Chief Portfolio Strategist

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Why do you want to buy bonds in the first place? You buy bonds for income. And years ago, bonds had 10%, 12% yields. And, you know, you sort of got accustomed to it. I can always get 5% or 6% from the bond market. Well, guess what? You can't anymore.

The rate environment is changing. Everyone's talking about this, but it's been relatively easy to make money in the bond market for four decades because interest rates have been going down. And if you know anything about bonds, it's really simple. When interest rates go down, the price of your bond goes up. So, over the last 36 years, if you just took a 10-year Treasury bond, this is a very low-risk bond, right? Your average return is about 8.5%.

Even the benchmark, which is a really flawed way of investing, the Agg, you know, it had good returns. But if you're in an environment where high-quality interest rates -- Treasuries, mortgage-backed securities, the Agg -- has a yield of 2, 2.5, 2.75%, how do you get 4 or 5% out of that? So, you want to look for ways to enhance your yield, while still maintaining quality and maintaining liquidity.

So, you need to think about a strategy. It's not that I want a free lunch. I don't want something for nothing, but do I have to take the lowest risk bond and these really low yields? Or is there something smarter?

We think one solution is to take a strategic beta approach, a rules-based approach, where you look to components of the bond market that are not in this benchmark called the Agg. Look to the high-yield market, the investment-grade market, non-U.S. government sovereigns, and combine these different components because they work well together.

And that's not a qualitative statement. Quantitatively what we call correlation, they tend to move differently, so they create an efficient portfolio. And that's the whole idea of creating a strategy that is multi-sector, that looks beyond where you've probably been investing very happily for the last few decades because it worked. In this new rate regime where rates are low, you're going to have to be a little smarter. Remember, you went to the bond market for income, so you need strategies that will increase your income, that will do it efficiently.

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The Bloomberg Barclays US Aggregate Bond Index (U.S. Aggregate) is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks.

It is not possible to invest directly in an index.

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