Fixed-income investing in an election year

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Political changes can affect volatility. We saw this in 2016 after Donald Trump was elected. We saw a sharp move higher in interest rates and that caused a lot of volatility in the bond market, but it also caused ripple effects in a number of industries on the corporate side of the bond market where the deregulatory and lower tax impact impacted them positively. So I would say that politics create volatility, but in a portfolio that can balance that risk, you can put yourself in a much better place than a portfolio that depends only on interest rate risk or only on credit risk to make money.

Election years are always unpredictable, but what you can do is isolate the sensitivities, and do a scenario analysis around hot button issues related to healthcare policy, related to defense policy. And if we're unsure, we don't have to take risk in those areas. So we can isolate those and remove them from the portfolio because there's not an obvious risk premium or additional yield in the market for venturing too far down the risk spectrum into those industries.
