

What Bond Volatility and the Battle Over Fed Policy Mean for Investors

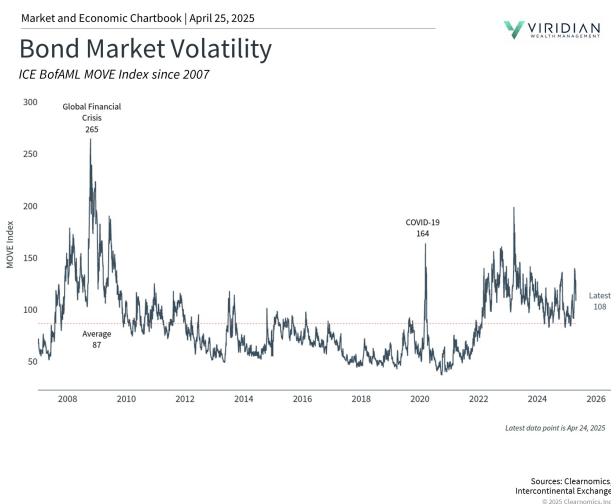


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Just like in the stock market, greater uncertainty has led to swings in the bond market. These moves, driven by tariffs and a dispute between the White House and the Fed, have pushed interest rates and bond yields higher. While short-term volatility can often lead to unexpected results, it's important to remember that periods like these occur periodically, even if the causes are different each time. For bond investors, especially those who rely on their portfolios for income, the current environment may present both challenges and opportunities for their financial plans.

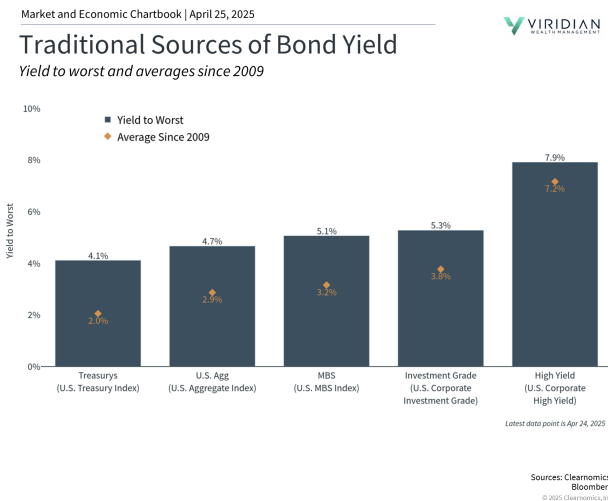
The bond market has been volatile



One of the key principles of portfolio diversification is the idea that stocks and bonds are typically uncorrelated. That is, when stocks move one way, bonds tend to move another way. This is not by accident – stocks tend to perform well when the economy is strong whereas bonds have historically performed well during periods of economic uncertainty. This is why combining stocks, bonds, and other asset classes can result in a portfolio that is more stable than holding a single asset class alone, improving the odds of achieving financial goals.

So, what is happening in the bond market and why does it matter? There can be periods of financial market volatility that create exceptions to these historical patterns for short periods. For instance, bond volatility can occur when markets adjust to significant economic or

Bond yields continue to be attractive



Regardless of how bond prices move in the coming weeks, bond yields remain attractive compared to the past two decades, creating opportunities across the bond market for those who need portfolio income. Investment grade corporate bonds, for instance, currently have an average yield of 5.3%, compared to an average of 3.8% since 2009.

The case for bonds may also be favorable since the Fed is expected to cut rates again later this year, regardless of how the dispute with the White House plays out. For income-focused investors, current yields are attractive across many fixed income sectors and can help support portfolios

amid ongoing uncertainty.

The bottom line? Policy headlines continue to rattle financial markets. While bonds have been volatile in recent weeks, attractive yields and still-healthy returns can help long-term investors achieve financial goals.

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