

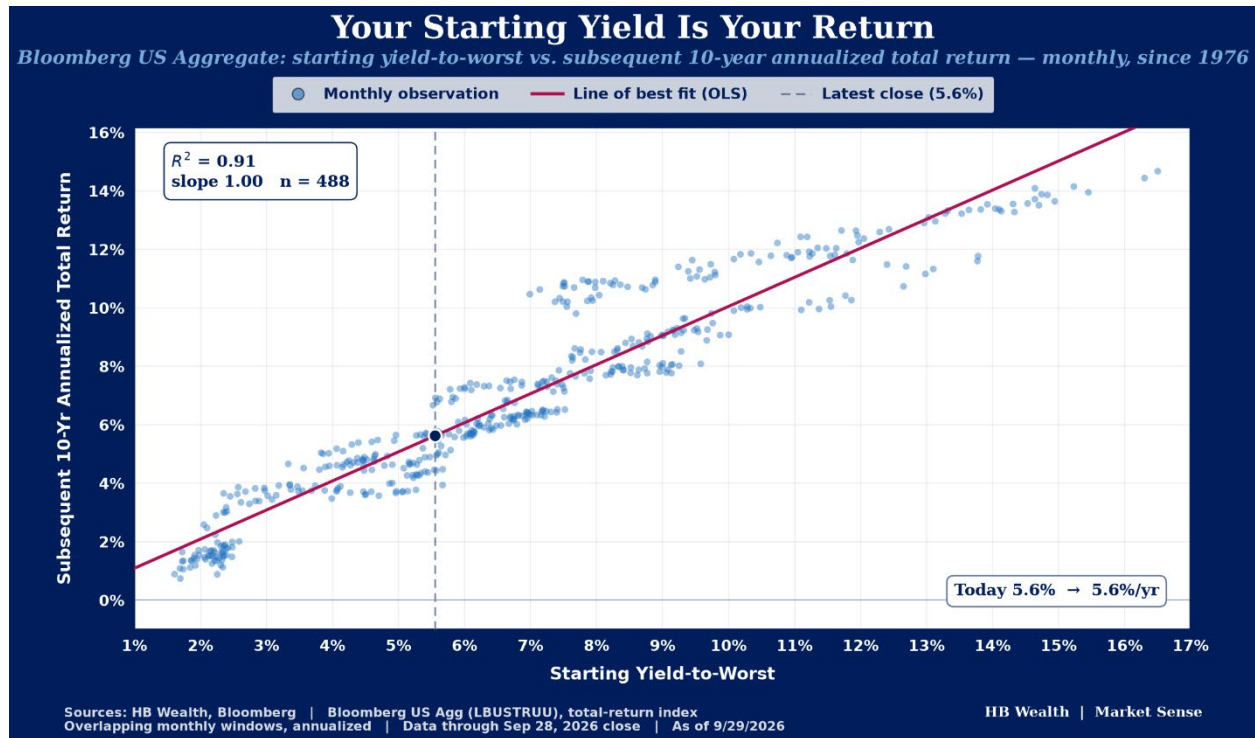
Market Sense – The Good News in the Bond Market: Starting Yields Mean Better Forward Returns

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Bond yields have surged over the last six months, making waves for financial markets at large, but also improving prospects for bond market returns going forward. After years of struggle following extremely low yields of less than 1% during the pandemic, today's starting yields over 5% for most tenors put bonds in a better position to generate attractive returns and improve the outlook for fixed-income investors. This is because starting yields are an indicator of potential returns for bonds, while they provide a degree of cushion against rising interest rates. Even if rates continue to rise from current levels, the rise in yields should will have a more muted negative impact on bonds' total return.

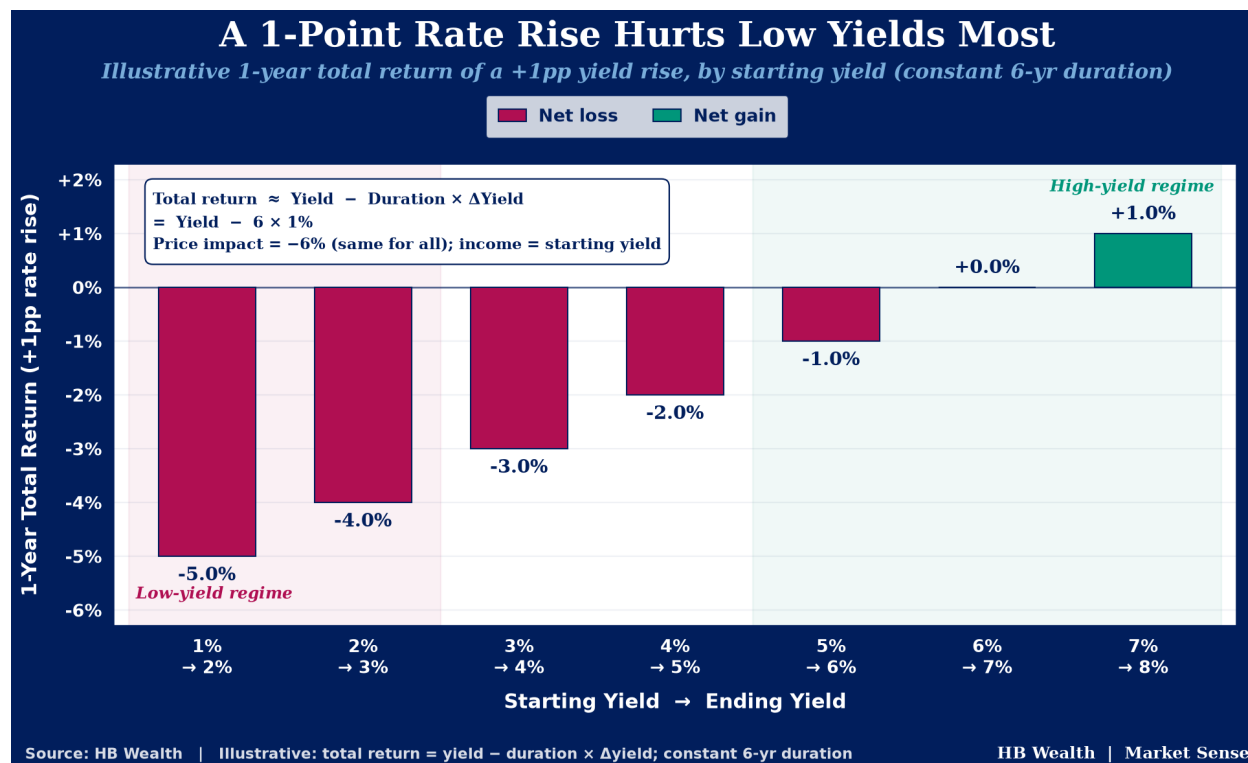
For the First Time Since 2007, Starting Yield is Over 5%

Starting yields have historically been a useful indication of longer-term potential returns for fixed income. While the relationship between starting yields and subsequent 1-year returns can be influenced by shorter-term factors, such as changes in interest rates and credit spreads, the correlation strengthens over longer time horizons. Over longer holding periods, income and coupon reinvestment become increasingly more significant drivers of total return, reducing the influence of shorter-term price fluctuations and allowing the initial yield to more closely reflect the potential return for investors.



100 Basis Point Move in Yields Will Cause Less Pain with Yields at 5%

Even if rates continue to move higher from here, the starting yield of 5% offers investors income to offset the price decline that occurs as rates move higher, improving the total return prospect for bonds. For a bond with six years of duration, the price impact of a 1% increase in yields would be similar across starting yield levels; however, at lower starting yields, less coupon income is available to help offset the price decline, resulting in more significant impact on total return. Conversely, higher starting yields provide additional income to help offset and improve the potential total return.



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