3 timely reasons to consider bonds

Federated Hermes

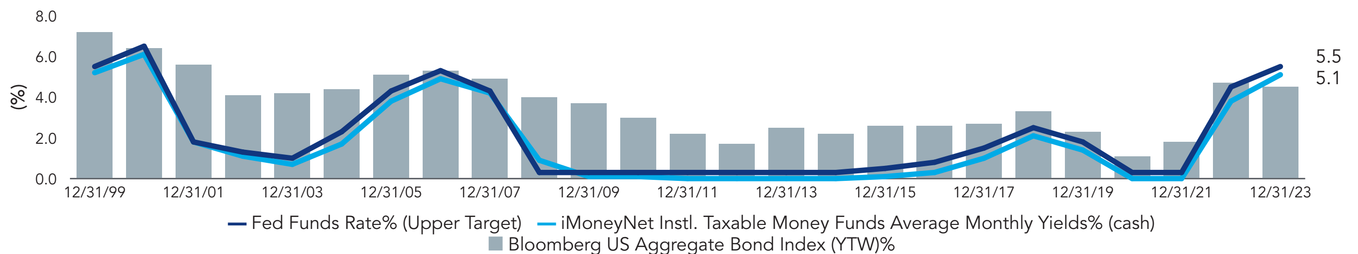
The potential for competitive income, higher total returns and portfolio diversification

1 Yield

Recent short-term interest rates have been as high as 5%. When the Federal Reserve lowers interest rates, "cash" yields typically drop rapidly because their underlying investments have less than one-year maturities and are quickly replaced by lower-yielding securities. The chart below indicates that investors who hold cash may lose yield rapidly by the time the first rate cut occurs.

Duration can help maintain yield potential after interest rates drop

Bonds have historically maintained higher income levels following federal funds rate decreases



Sources: Bloomberg, iMoneyNet.

Some money market funds seek to maintain a stable share value by complying with relevant Securities and Exchange Commission rules. The value of bonds fluctuates and is subject to loss of principal.

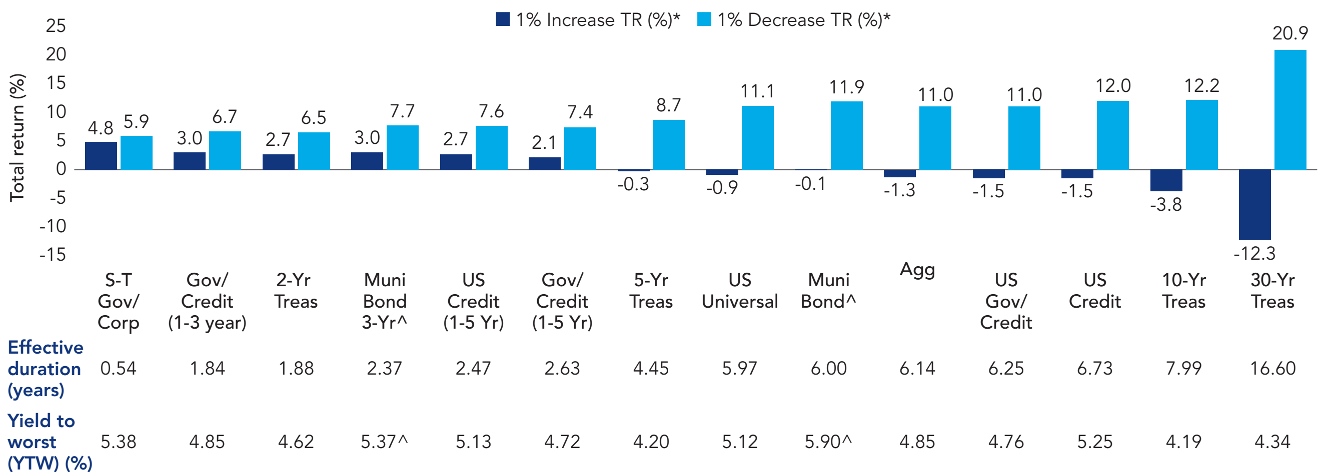
2 Total return

As rates decline, investors who are exposed to longer duration bonds may experience higher return potential. Longer durations have outperformed shorter durations. Previous cuts have shown that markets anticipate the Fed's actions, and longer duration outperforms shorter duration and cash in the 12 months following the last hike of recent interest rate cycles. Even when rates increase, the downside associated with rate increases can be less than the potential upside for investors when rates decrease. Potentially higher income provided can also cushion the downside in longer duration.

Recent yield and duration levels indicate a favorable return profile

Stressing rates 1% up or 1% down suggests long-term investors shouldn't fear duration

Hypothetical index total returns assuming parallel shift scenarios over 12 months



	S-T Gov/ Corp	Gov/ Credit (1-3 year)	2-Yr Treas	Muni Bond 3-Yr^	US Credit (1-5 Yr)	Gov/ Credit (1-5 Yr)	5-Yr Treas	US Universal	Muni Bond^	Agg	US Gov/ Credit	US Credit	10-Yr Treas	30-Yr Treas
Effective duration (years)	0.54	1.84	1.88	2.37	2.47	2.63	4.45	5.97	6.00	6.14	6.25	6.73	7.99	16.60
Yield to worst (YTW) (%)	5.38	4.85	4.62	5.37^	5.13	4.72	4.20	5.12	5.90^	4.85	4.76	5.25	4.19	4.34

Source: Bloomberg indexes. Data as of 3/31/24.

Past performance is no guarantee of future results. These hypothetical scenarios are for illustrative purposes only. They are based on a simple mathematical formula and are not a guarantee of future performance. Indexes are unmanaged and investments cannot be made in an index.

Yield to Worst (%) (YTW) is used as an approximation for the income return over a 12-month period.

^Tax-adjusted yields shown for Municipal indices based on a 40.8% tax rate (37% top federal income tax rate plus 3.8% tax on net investment income). Income from municipal bonds may be subject to the federal alternative minimum tax and state and local taxes.

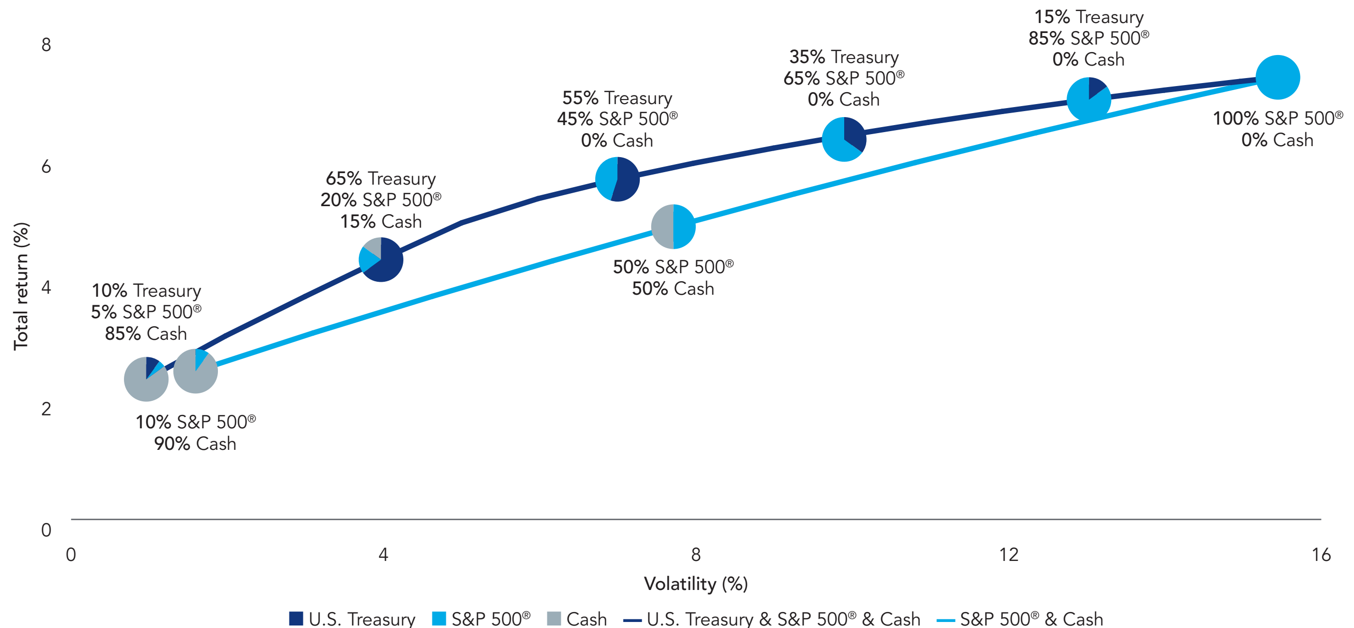
*1% Increase scenario = Yield to Worst (YTW) - Effective duration. 1% Decrease scenario = Yield to Worst (YTW) + Effective duration

Not FDIC Insured • May Lose Value • No Bank Guarantee

3 Diversification

It is important to consider the benefits that diversifying with fixed income securities of varying duration can bring to a balanced allocation. Combining fixed income with equities has historically generated higher risk-adjusted returns, in part because of negative correlation of bond and stock returns. Investors may realize higher yields and greater total return without a commensurate increase in risk. After a recent period of higher correlation, investors may be forgetting about this relationship. However, stock and bond correlations have been relatively low over time.

Total return & volatility (Jan. 2000 - Feb. 2024)



Source: Bloomberg. Cash represents U.S. Treasury 3-month auction average auction. Treasury represents the Bloomberg US Treasury Index Total Return.

Past performance is no guarantee of future results. Information is for illustrative purposes only and is not indicative of any specific investment. They are based on a simple mathematical formula and are not a guarantee of future performance. Results are for a specific time period and other time periods may not have yielded the same results. Volatility is measured by the standard deviation of each portfolio.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector. Material has been prepared using sources of information generally believed to be reliable, but its accuracy is not guaranteed.

Past performance is no guarantee of future results.

Diversification does not guarantee a profit nor protect against loss.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

Stocks offer higher return potential, but their prices are more volatile than those of bonds.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Standard deviation is a statistical measurement of dispersion about an average which depicts how widely the returns varied over a certain period of time. The higher the standard deviation, the greater the volatility.

Yield to Worst (YTW): On a corporate bond, the yield to worst is the lowest yield that a buyer can expect among the reasonable alternatives, such as yield to maturity, yield to call, and yield to refunding.

Bloomberg 1-5 Year Government/Credit Index is a broad-based benchmark that measures the non-securitized component of the US Aggregate Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities that have a remaining maturity of greater than or equal to one year and less than five years.

Bloomberg Municipal Bond Index is a market-value-weighted index for the long-term tax-exempt bond market. To be included in the index, bonds must have a minimum credit rating of Baa. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990 and must be at least one year from their maturity date.

Bloomberg US 1-5 Year Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related bond markets with a maturity greater than 1 year and less than 5 years. It is composed of the US Corporate Index and a non-corporate component that includes non-US agencies, sovereigns, supranationals and local authorities constrained by maturity.

Bloomberg US Aggregate Bond Index is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

Bloomberg US Government/Credit Index includes all medium and larger issues of U.S. government, investment-grade corporate and investment-grade international dollar-denominated bonds.

Bloomberg US Intermediate Government/Credit Index is an unmanaged index based on all publicly issued intermediate government and corporate debt securities with maturities of 1-10 years. This index represents asset types which are subject to risk, including loss of principal.

Bloomberg US Treasury Bond Index: Is part of Bloomberg global family of government bonds indices. The index measures the performance of the U.S. Treasury bond market, using market capitalization weighting and a standard rule based inclusion methodology.

Bloomberg US Universal Index represents the union of the US Aggregate Index, US Corporate High-Yield, Investment-Grade 144A Index, Eurodollar Index, US Emerging Markets Index and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or below investment grade.

S&P 500® Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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