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ECO Bonds

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DANIEL HEUER/ BLOOMBERG NEWS Treasury inflation-protected securities offer protection, says Allan Roth, a financial planner.

Owning Bonds When They Are Selling Off

BY VERONICA DAGHER AND ASHLEA EBELING

Aglobal bond market rout stretching from the U.S. to Japan is making investors skittish, but it doesn't erase the value of fixed income in a diversified portfolio.

Note

For those thinking of buying, the market ructions have made bond yields more attractive, financial advisers say. Over 80% of the global bond market now yields above 4%, according to BlackRock. The asset manager says the average yield in a bond portfolio it tracks has more than doubled from five years earlier.

Note

Still, money managers say they are struggling to get their clients to deploy cash into the bond market. Individual investors have been holding more than $3 trillion in moneymarket funds. Many investors also have high concentrations of their portfolios in stocks because of the long bull market.

"People are getting used to phenomenal returns in stocks so they're likely overallocated to stocks, and the time to buy bonds is now to rebalance," said Allan Roth, a financial planner in Colorado Springs, Colo.

Note

Investors can now earn a decent income without reaching far out on the yield curve or taking on too much credit risk. Bond returns are likely to best inflation now, Roth said, and with Treasury inflation-protected securities, or TIPS, you're guaranteed to beat inflation today, he said.

Scott Boyles, a financial planner in Austin, Texas, says the primary mistake investors make is expecting bond prices to remain static. But even with the price swings, fixed income generates income, provides diversification and offers predictability for future cash needs.

"Bonds shouldn't necessarily be judged by whether they're green or red today," Boyles said. "They should be judged by whether they're doing the job they were purchased to do."

What if I'm retired?

For retirees, bonds can serve as a liquidity cushion during equity market downturns. This buffer allows retirees to fund living expenses without being forced to liquidate depressed stocks.

"Bonds are the war chest that you can use for distributions," said Chad Holmes, a financial planner based in Fairhope, Ala. For example, if an investor's monthly cash-flow need is $10,000, Holmes recommends holding at least three years' worth of withdrawals in bond funds or other stable assets.

Investors can also use that war chest to rebalance, selling stable or appreciating bondholdings to buy stocks if they are trading at a discount. However, Holmes cautions that this strategy works best with investment-grade bonds that have minimal risk of default. To manage this allocation, Holmes uses actively managed bond ETFs.

The credit quality of the bonds is important. High-quality debt, such as U.S. Treasurys and top-rated corporate bonds, tends to be more stable, which might help a retiree protect their portfolio. Junk bonds advertise higher payouts, but their prices tend to plummet alongside stocks during economic downturns.

James Mayo, a financial planner in Lakewood, Colo., builds bond ladders, which means owning individual bonds or target-maturity bond funds with maturities that span multiple years. Clients get predictable cash back when the bonds mature, which can go toward future spending needs, regardless of interest- rate fluctuations.

What if I'm younger?

For investors saving for near-term milestones such as a home down payment, Mayo recommends ultrashort- term bond funds so their savings don't lose value if the market drops. Roth recommends short-term Treasury bills.

There is a difference between holding individual bonds and holding bond funds. An individual bond has a fixed maturity date, so as long as the issuer doesn't default or call the bond early, you are contractually guaranteed to receive 100% of its face value at maturity, regardless of price fluctuations along the way.

In contrast, a bond fund is an open-ended portfolio that continuously buys and sells bonds to maintain a target duration, which is a measure of a bond's sensitivity to interest rates. Because it never matures as a single unit, rate spikes can lead to prolonged paper losses, or realized losses if you sell during a down cycle.

By holding short-duration bonds, investors can damp overall portfolio volatility, capture predictable income and avoid the price swings currently affecting longer-term debt as rates fluctuate, said Cameron Willcox, a financial adviser in New York City.

I'm sitting on paper losses?

Many investors who have held bonds since 2021 or earlier are sitting on paper losses. Willcox believes that the worst of the price decline has likely passed, though it wasn't ideal to have been holding long-term bonds when the Federal Reserve started raising rates in 2022.

Investors who are uncomfortable with ongoing volatility might consider shortening their portfolio duration rather than exiting fixed income entirely, said Willcox. Still, cutting duration locks out future price gains and leaves investors vulnerable to earning lower yields if interest rates fall.

When existing bonds fall in value, advisers say investors shouldn't rush to sell. Selling at a loss to chase higher rates can result in lower returns, said Andrew Van Alstyne, a financial planner in Waxhaw, N.C. Holding an individual bond to maturity still locks in its full principal and interest.

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Some investors said the Treasury is now in a difficult position.

Treasury's Scott Bessent in Asheville, N.C., last week. ALLISON JOYCE/ AFP/ GETTY IMAGES

Treasury Buyback Fails to Ease Rise In Yields

Multiyear highs are reached as Bessent moves to repurchase $6 billion in debt

BY HANNAH ERIN LANG AND SAM GOLDFARB

Note

U.S. government bond yields climbed to fresh multiyear highs on Wednesday after the Treasury Department said it would repurchase as much as $6 billion of longer-term debt at a buyback operation on Thursday, disappointing some investors who had thought that a larger amount was possible.

For Treasury Secretary Scott Bessent, who promised to go big to bring down bond yields, his efforts, so far, aren't big enough.

The Treasury had already said last month that it would at least double buybacks of longer-term bonds from a maximum of $2 billion per operation, expanding a program that was originally intended to improve liquidity in older, less frequently traded securities. Investors widely viewed that as an effort to contain

Note

borrowing costs since it came at a time when longer-term yields were approaching key thresholds.

Calling himself the "nation's top bond salesman," Bessent stated early in President Trump's first term that lowering bond yields was a priority for the administration— a goal that has been repeatedly thwarted by factors like Trump's war in Iran and his tariffs, as well as by events outside the administration's control.

Overall, the former hedgefund manager has taken an unusually aggressive approach to managing markets, including interventions to support the Argentine peso and Japanese yen.

Note

In recent days, Bessent has only dialed up his rhetoric. "I have asymmetric information. I am the house now," he said on Tuesday, in reference to the recent intervention in the yen, adding: "You can bet against me if you want."

But Wednesday's bond-market move, while relatively contained, demonstrated the risk of that kind of talk—namely, that the Treasury secretary might be setting targets that might be difficult to meet.

"Any move to bring yields down with buybacks is falling flat," said Jack Ablin, chief investment strategist at Cresset Capital. "It's papering over a problem."

Some investors said the Treasury Department is now in a difficult position because expectations for the size of repurchases are high, yet it could be difficult to truly impress the market without relaxing guidelines that it will only buy bonds at prevailing market prices.

That has "put the Treasury into a lose-lose situation with these buybacks," said Leah Traub, a fixed-income portfolio manager at Lord Abbett.

Treasury yields, which rise when bond prices fall, have climbed for much of the summer, pushing yield on 30-year bonds to their highest levels in 19 years. One big reason: the war-powered surge in fuel costs. On Wednesday, Brent crude prices climbed above $100 for the first time since July as tensions escalated in the Middle East.

That is stoking fears of stubbornly high inflation that pushes the Federal Reserve to raise interest rates as soon as its meeting next week. But traders add that there are a number of other factors pushing yields higher, such a solid labor market, swollen U.S. budget deficits and a deluge of techcompany debt issuance competing for investors' cash.

The bond rout could put pressure on stock prices, which have slumped in the first few days of what has historically been a rough month for equities. All three major U.S. stock indexes fell Wednesday, with the Dow Jones Industrial Average falling 405 points, or 0.8%, and the S&P 500 falling 0.5%. The Nasdaq Composite Index declined by 0.6%.

High bond yields lift the cost of borrowing for consumers and companies, raising mortgage rates and ultimately weighing on corporate profits. Climbing rates could also convince more investors to park their money in ultrasafe Treasurys versus riskier stocks.

"As yields rise it competes against equities for capital," Ablin said. "There may be a lot of investors switching gears."

Recent moves in the bond market haven't been all bad for Bessent. Yields generally have climbed. But yields on longer-term bonds have risen less than those on shorterterm notes, a sign that the market is being driven more by economic data and expectations for interest-rate increases than by more unpredictable factors like concerns about the Fed's independence or the size of the deficit.

Yields on European government bonds, which are more sensitive to energy prices, have climbed more sharply than those on U.S. bonds in recent weeks, and did so again on Wednesday. Treasury yields retreated from their session highs after a $39 billion auction of 10-year notes met with healthy demand from investors.

The yield on the benchmark 10-year note settled at 4.836%, according to Tradeweb, up from 4.805% Tuesday though down from 4.853% earlier in the session— its highest intraday level since November 2023.

Michael Lorizio, head of U.S. rates and mortgage trading at Manulife Investment Management, said that bonds could get a boost on Thursday if the buyback operation goes smoothly, noting that a $6 billion total was still generally in line with what most investors had anticipated.

Still, he said, questions about the size of future buyback operations could also weigh on the market over the longer term.

The market "really does not love uncertainty, and this just adds greater uncertainty to some degree," he said.

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Bond market rebuffs Treasury's $6B plan

Bonds

Translate

By Joe Rennison and Alan Rappeport
The New York Times

The bond market issued a swift rebuke to the Trump administration's latest attempt Wednesday to lower borrowing costs, as the 10-year Treasury yield rose to its highest level in roughly three years.

The Treasury Department said Wednesday morning that it would repurchase up to $6 billion of its own long-dated debt, fulfilling a promise to at least double its regular debt buybacks as it seeks to tame borrowing costs that have drifted steadily higher in recent months.

Note

Treasury yields underpin borrowing costs for companies and consumers, with higher interest rates crimping the affordability of housing, cars and other items bought on credit.

The Treasury's repurchases effectively reduce the available supply of longer-dated bonds, pushing their prices higher and lowering their yields, with the aim of lowering interest rates more broadly.

The purchases, scheduled to be carried out Thursday afternoon, will increase the size of the Treasury's buyback operation for debt maturing in 10 to 20 years to $6 billion, from $2 billion last month.

The initial market reaction suggested investors were underwhelmed by the size of the announcement, with analysts at Wells Fargo noting that the rise in Treasury yields "shows that some market participants were likely expecting larger operations."

Note

There are roughly $30 trillion in outstanding treasuries, with the market trading over $1 trillion every day, according to data from the Securities Industry and Financial Markets Association.

The 10-year Treasury yield rose as much as 0.05 percentage points to its highest level since October 2023 before easing through the afternoon to 4.82%. The 20-year yield rose by a similar amount, before falling back to around 5.28%, also its highest since late 2023.

The sharp rise in yields after the announcement came before the government sold $39 billion worth of new 10-year notes, with the interest rate on the new debt the highest the government has paid in 20 years. The high yield lured buyers into the market, with the debt sale oversubscribed by 2.7 times. That demand helped ease the earlier rise in yields, though both 10-year and 20-year yields remained higher for the day.Speaking at Southern Methodist University on Tuesday, Treasury Secretary Scott Bessent defended plans to make the bond market move. He argued that markets were misreading the fundamental dynamics of the U.S. economy and noted that, for investors, American bonds had outperformed the bond markets of many other countries.

A former hedge fund manager who once tried to capitalize on fast-moving market anomalies, Bessent said his job as Treasury secretary is to ensure that markets are not misreading the fundamental dynamics of the economy.

"Now I try to slow things down, to get people to get out of their fever dream and look at the facts," Bessent said.

When Bessent first signaled his plan to increase Treasury repurchases, in mid-August, bond yields fell as intended. But that decline has since reversed and then some, with yields creeping higher on a combination of factors. These include a rising growth outlook tied to artificial intelligence, widening government deficits and expectations that the Federal Reserve may raise interest rates to fight inflation stemming partly from continued turmoil in the Middle East.

It has left the head of the Treasury in a communication challenge with his counterpart at the Federal Reserve. Kevin Warsh, the Fed chair, is trying to convince investors that he is serious about tackling inflation and that, if necessary, he will raise the short-dated interest rates the Fed controls. At the same time, Bessent is trying to talk tough on lowering the longer-dated Treasury yields that underpin many of the interest rates that affect consumers.

Bessent also defended his recent intervention in currency markets to prop up the Japanese yen. Despite criticism that he is trying to bend markets to his will, Bessent made the case that he knows more than investors and has the power to dictate how markets will behave.

"Whenever people say, oh well Treasury secretary is taking a risk, it's my dream," Bessent said. "I have asymmetric information. I am the house now."

Explaining that he knows what the Bank of Japan and Japanese policymakers are going to do, he added: "You can bet against me if you want."