Bonds and Stocks: How They Work Together in a Portfolio

A well-diversified portfolio combines stocks and bonds because each plays a distinct role. Stocks are typically used to drive long-term growth, while bonds can help manage risk, provide income, and add stability during different market environments.

Together, they can help investors pursue growth while managing risk across market cycles.

Bonds vs Stocks: At a Glance

	Bonds	Stocks
Your role	Lender – you lend money to a government or company	Owner – you buy shares in a company
Income	Typically provide regular interest payments	May provide dividends, which can vary
Capital	Principal is fully repaid at maturity	The value of your investment rises or falls with the stock price
Status	In the event of bankruptcy, you have a higher claim on assets than shareholders	In the event of bankruptcy, you have the lowest priority claim and your capital may not be repaid
Role in a portfolio	Stability, income and diversification	Long-term growth
Market size	$145.1 Trillion	$126.7 Trillion

Source: PIMCO, SIFMA 2025 Capital Markets Fact Book

Why use both in a portfolio?

Stocks and bonds often respond differently to changes in economic growth, inflation and interest rates. Combining them may help to:

- Reduce overall portfolio volatility
- Smooth returns across market cycles
- Help portfolios stay aligned with long-term goals

Bottom line

Equities may help build wealth over time, but they can be volatile. Bonds may help provide income, preserve capital, manage risk, and add stability. Together, they can potentially form the foundation of a well-diversified portfolio aligned to your goals.

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