Duration Explained

When interest rates move, bond prices move too – but the impact can vary from bond to bond. Duration helps explain why some bonds are more sensitive to rate changes than others.

What is duration?

Duration is a measure of risk, or the sensitivity of a bond's price to changes in interest rates. It is expressed in years, but it is not the same as maturity. A higher duration generally means greater sensitivity to interest rate changes.

Low	Medium	High
Smaller price changes	Moderate price changes	Larger price changes

What happens when rates move?

Duration estimates the percentage change in a bond's price for a 1% change in interest rates. Below is an illustration of the estimated price impact for different durations.

Duration	Rates +1%	Rates -1%
Short (≈3 yrs)	≈ -3%	≈ +3%
Intermediate (≈5 yrs)	≈ -5%	≈ +5%
Long (≈10 yrs)	≈ -10%	≈ +10%

For illustrative purposes only.

What drives duration?

Different bonds respond differently to rate changes. A bond's duration depends on three key factors.

Factor		
Maturity	Longer time until principal is repaid →	Higher duration
Coupon	Higher coupon payments (the regular interest paid by a bond) →	Lower duration
Yield	Higher yield levels (the return a bond offers based on its price and income) →	Lower duration

How duration fits into a portfolio

- **Time matters:** Duration tends to matter less if you hold bonds through market cycles, and more if you may need to sell sooner.
- **Income can offset price moves:** Over time, income from coupon payments can help cushion the impact of price changes caused by interest rate movements.
- **Balance is key:** Investors often combine bonds with different durations to help manage uncertainty around future rate changes.

Bottom line

Understanding duration can help investors gauge how their bond investments may respond to changes in interest rates.

Past performance is not a guarantee or a reliable indicator of future results.

All investments contain risk and may lose value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Equities may decline in value due to both real and perceived general market, economic, and industry conditions. **High-yield**, lower-rated, securities involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Management risk** is the risk that the investment techniques and risk analyses applied by an investment manager will not produce the desired results, and that certain policies or developments may affect the investment techniques available to the manager in connection with managing the strategy. **Diversification** does not ensure against loss. **Investors should consult their investment professional prior to making an investment decision.**

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