

5 Things you Need to Know About: Bonds

At around \$130 trillion, the bond market is by far the largest securities market in the world. Typically issued by governments and corporations, bonds are viewed as a defensive investment that offer regular income. This diverse asset class could open up new and interesting opportunities for your investment portfolio.

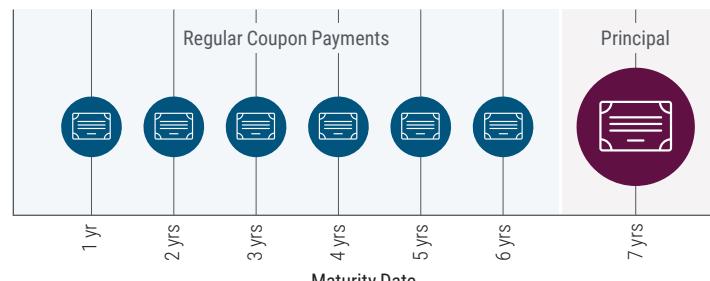
1. THE LARGEST SECURITIES MARKET



Source: SIFMA 2023 Capital Market Factbook

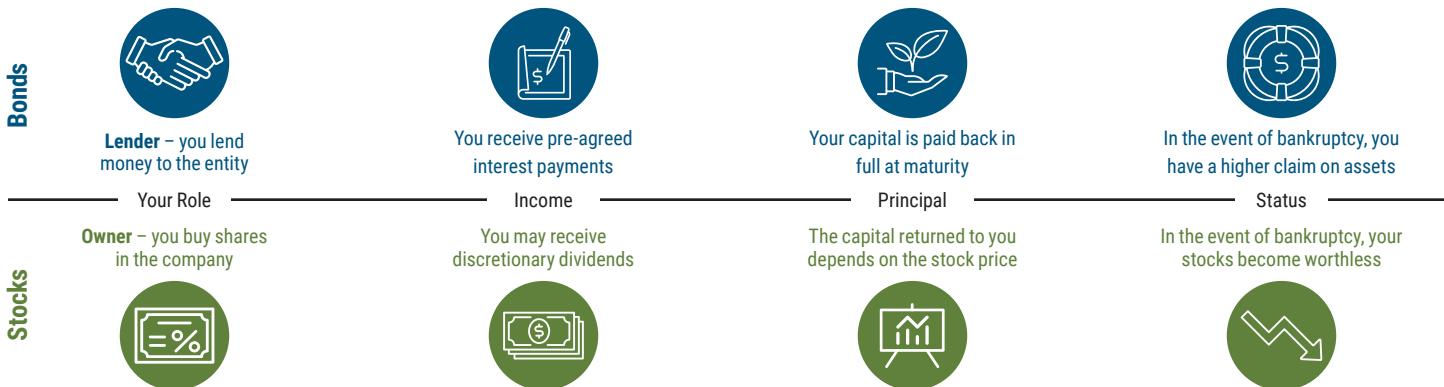
2. REGULAR INCOME

Bonds pay you regular income in the form of coupons. At maturity, you also get back your original investment called the principal.



Source: PIMCO

3. BONDS VS STOCKS



Source: PIMCO

4. DIVERSIFYING WITH BONDS

Bonds are a defensive asset class, which means they are generally less volatile than other investments, such as stocks. **Between 1989 and 2014, the worst year for bonds was 1994 when they returned -3%.** For stocks, the worst year was 2008 when they returned -38%.¹

Risk return profile



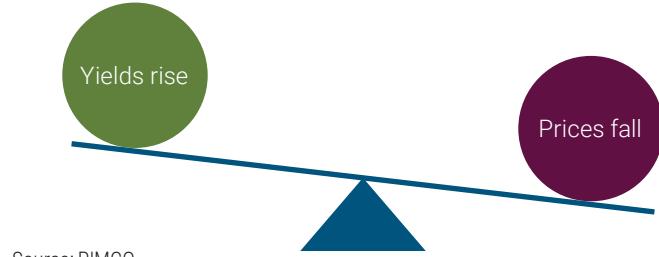
Source: PIMCO

Past performance does not predict future returns.

5. BOND PRICING

Just like stocks, bonds can be traded on a secondary market.

One of the key drivers of bond pricing on this market is interest rates. If rates rise, older bonds with lower rates will drop in price to compensate for the lower coupon payments, and vice versa.



Source: PIMCO

¹ Global Financial Data; Equity: US Large Company Stocks (S&P 500), Fixed Income: US 10-year Treasury Bonds

All dollar amounts referenced are in USD and source citations are PIMCO unless stated otherwise

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. **Corporate debt securities** are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. Investing in **foreign-denominated and/or -domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **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. The value of real estate and portfolios that invest in real estate may fluctuate due to: losses from casualty or condemnation, changes in local and general economic conditions, supply and demand, interest rates, property tax rates, regulatory limitations on rents, zoning laws, and operating expenses.

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