When is it Time to Extend Duration?

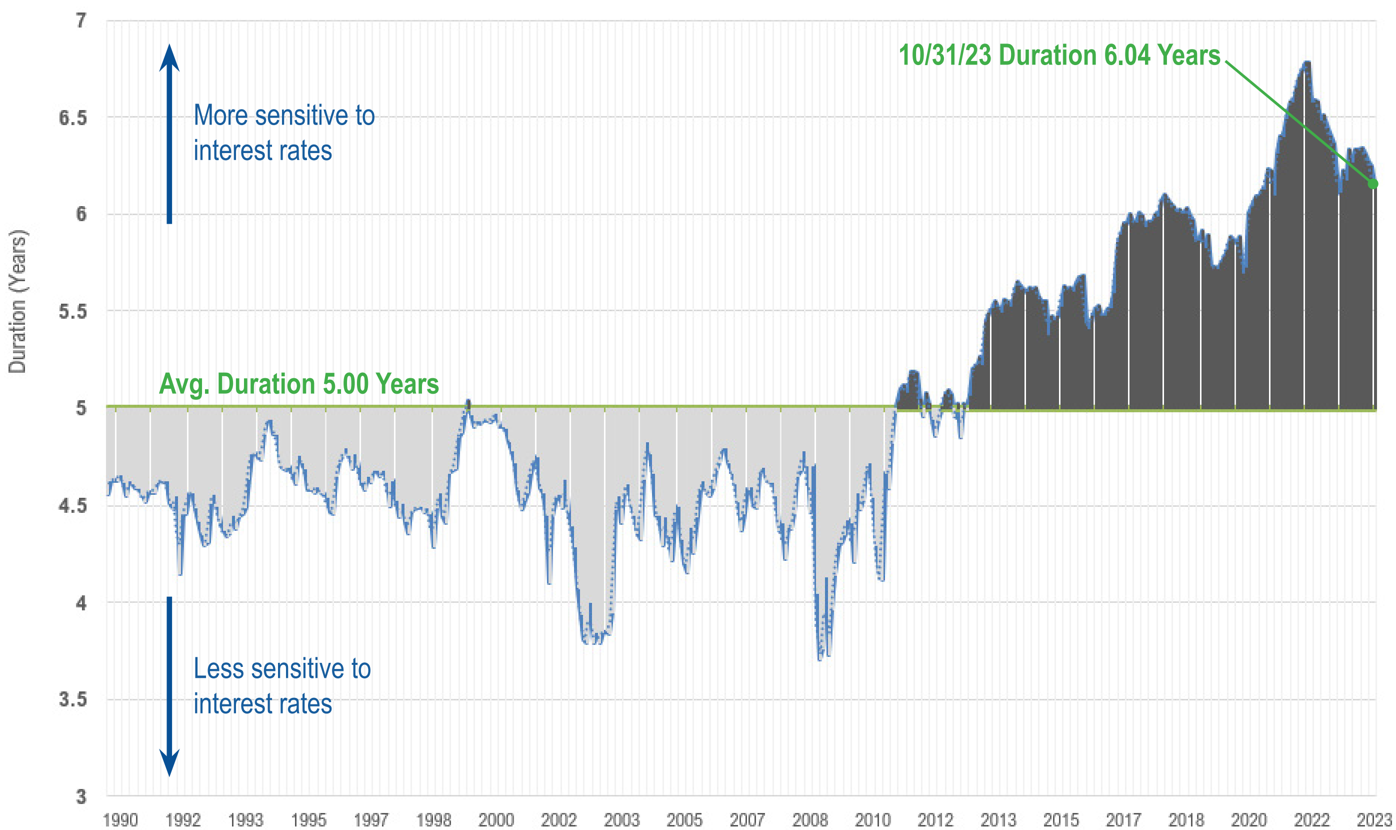
How Duration Impacts Bond Values

ADVISORS ASSET MANAGEMENT

For years, our analysis has been focused on the potential impact of rising rates on bond portfolios, but what happens after rates rise? Will they continue to increase, stagnate, or decline? If you believe we are in a "higher for longer" scenario or that rates will start to fall, now may be a good time to selectively extend duration into a potentially slowing economy.

According to FINRA[1], **bond duration** is a measure of the degree to which a bond investment is likely to change in value if interest rates were to rise or fall. The higher the duration, the more sensitive the bond is to changes in interest rates and vice versa. In general, portfolio managers will seek to increase portfolio duration to monetize volatility in a declining interest rate environment and reduce duration to combat the effects rising interest rates can have on a bond portfolio.

Duration of the Bloomberg US Aggregate Bond Index (1/31/90 - 10/31/23)



IMPACT ON A BOND WORTH $10,000

1% <u>DECREASE</u> in Rates		
Bond Duration	**Basis Point (bps) Change**	**Bond Value**
1 year	100 bps	$10,100
5 year	500 bps	$10,500
10 year	1000 bps	$11,000

1% <u>INCREASE</u> in Rates		
Bond Duration	**Basis Point (bps) Change**	**Bond Value**
1 year	100 bps	$9,900
5 year	500 bps	$9,500
10 year	1000 bps	$9,000

Source: Bloomberg data as of October 31, 2023. For illustrative purposes only. Past performance is not guarantee of future results. It is not possible to invest directly in an index. Index performance does not reflect the deduction of any fees or expenses. Returns are not indicative of performance of any AAM product.

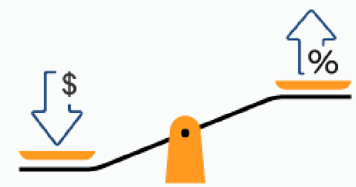
[1] FINRA: Financial Industry Regulatory Authority

Key Takeaways

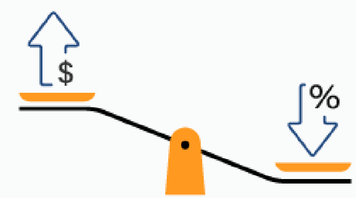
- The principal value of a bond fluctuates as interest rates change.
- **Duration** is a measure of interest rate risk. Bonds with a lower duration are less sensitive to changes in interest rates than bonds with a longer duration.
- In a **rising interest rate environment**, bond prices are generally expected to decline resulting in shorter duration bonds becoming more attractive.
- In a **falling interest rate environment**, bond prices are generally expected to rise making longer duration bonds more attractive.
- There are numerous of factors considered when calculating duration, such as coupon rate, call features, yield and maturity. Contact your financial professional for additional information and guidance.

Inverse relationship between bond prices and interest rates:

If interest rates rise, prices fall and yields rise.



If interest rates fall, prices rise and yields fall.



Speak with a financial professional to learn more or visit www.aamlive.com.

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The **Bloomberg US Aggregate Bond Index** is an unmanaged, broad-based index composed of US dollar denominated, investment grade, fixed rate taxable bonds with at least $250 million par amount outstanding and at least one year to final maturity.

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