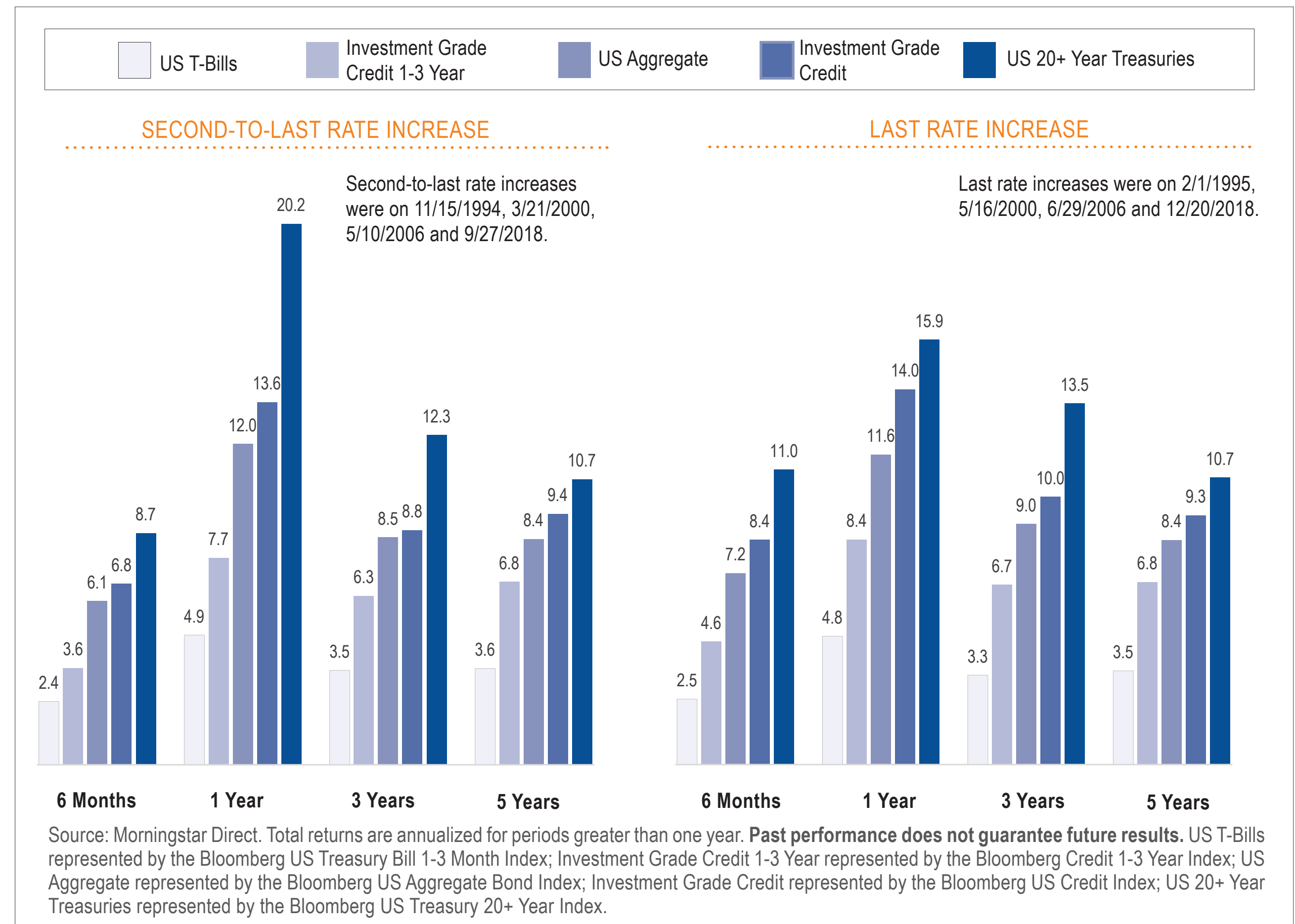
The Case for Extending Duration

ADVISORS ASSET MANAGEMENT

The Federal Reserve (Fed) has raised rates 525 basis points since March 2022[1] to combat historically high inflation. And while inflation has remained higher than the Fed's target of 2%, it has come down significantly, indicating that we are likely at the end of this hiking cycle. We therefore went back to 1990 and calculated the performance of various fixed income indexes after the last and second-to-last Fed rate increases. In each of the four tightening cycles that occurred during this period, both short and longer-duration indexes generated positive returns, with a clear trend of longer-duration indexes outperforming short[2].

Fixed Income Performance After Fed's Final Two Rate Increases (%)



Source: Morningstar Direct. Total returns are annualized for periods greater than one year. **Past performance does not guarantee future results.** US T-Bills represented by the Bloomberg US Treasury Bill 1-3 Month Index; Investment Grade Credit 1-3 Year represented by the Bloomberg Credit 1-3 Year Index; US Aggregate represented by the Bloomberg US Aggregate Bond Index; Investment Grade Credit represented by the Bloomberg US Credit Index; US 20+ Year Treasuries represented by the Bloomberg US Treasury 20+ Year Index.

With the Federal Reserve likely at the end of its tightening cycle, now may be a good time to consider extending your portfolio's duration.

Visit www.aamlive.com or contact a financial professional to discuss potential opportunities today.

1. As of December 31, 2023.
2. Tightening cycles began on 2/4/1994, 6/30/1999, 6/30/2004 and 12/17/2015. The single interest rate increase on 3/25/1997 was excluded from the analysis.

Performance for the periods prior or subsequent to those periods reflected herein may be lower. It is not possible to invest directly in an index. An index does not include cash. Returns are not indicative of the performance of any AAM product. Please see reverse for index definitions and additional important information.

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Key Takeaway: Fixed income is a critical allocation in many investors' portfolios regardless of the market environment. However, with the Federal Reserve putting the "income" back in fixed income and likely at the end of its tightening cycle, now may be a good time to consider extending your portfolio's duration.

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

All investments involve risk; principal loss is possible. Fixed income securities are subject to certain risks including, but not limited to interest rate risk, which is the risk that changes in interest rates may cause a decline in the market value of an investment; credit risk, which is the risk that changes in the financial condition of the issuer, borrower, counterparty, or underlying collateral may cause a decline in the market value of an investment; and prepayment risk, which is the risk that debt issuers may repay or refinance their loans or obligations earlier than anticipated. Duration risk measures the sensitivity of a bond's price to a one percent change in interest rates; the longer a bond's duration, the greater its sensitivity to interest rates changes. Market risk, or systematic risk, is the risk that results from the characteristic behavior of an entire market or asset class.

DEFINITIONS: **Bloomberg US Treasury Bill 1-3 Month Index** is designed to measure the performance of public obligations of the US Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. **Bloomberg Credit 1-3 Year Index** measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with 1 to 2.9999 years to maturity. **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. **Bloomberg US Treasury Bills Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. **Bloomberg US Treasury 20+ Year Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with maturities of 20 years and longer. **Duration** is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. It measures how long it takes, in years, for an investor to be repaid the bond's price by the bond's total cash flows.

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