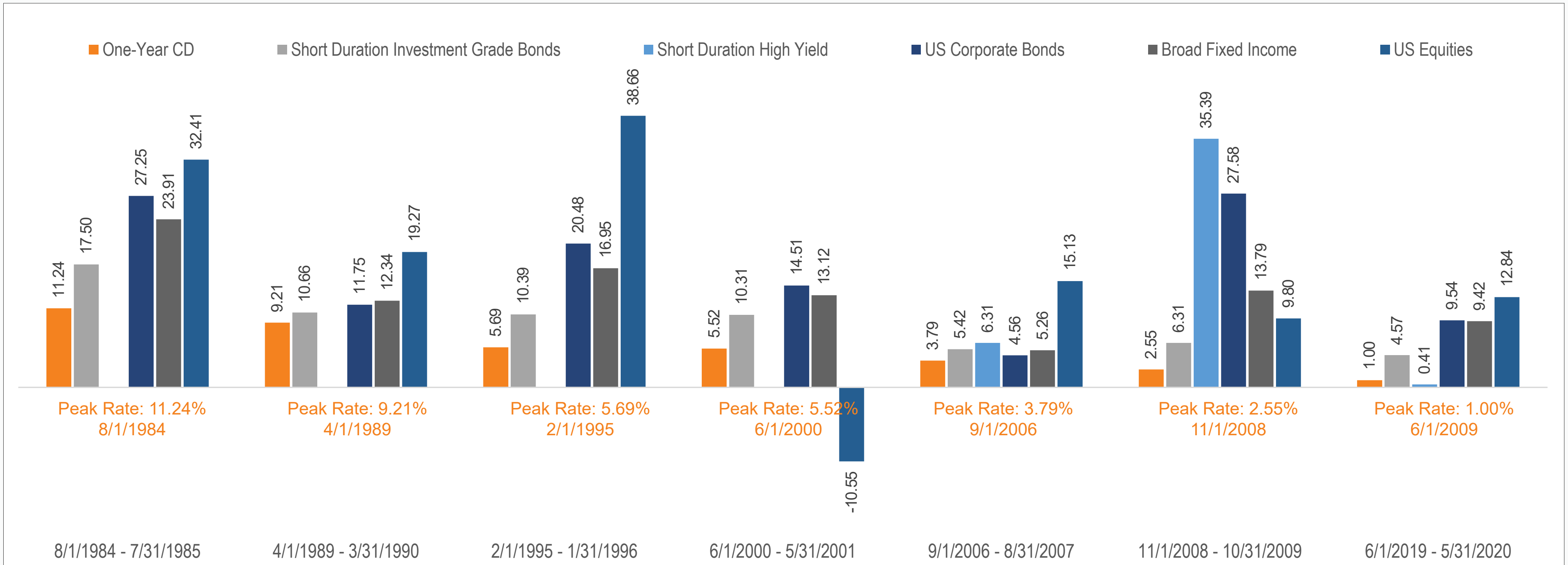
The Opportunity Cost of a “Good” CD Rate

After near-zero rates for many years, Certificates of Deposit (CDs) once again appear attractive given their relative safety and rates as high as 4%, 5% and even 6% (as of 11/28/23). **However, we believe it’s essential to recognize the opportunity cost** (potential benefits/returns foregone) of locking up your cash for a year, or even longer, to receive these rates.

We looked at peak one-year CD rates going back to the 1980s and compared it to the one-year return of select fixed income and US equity indexes; most outpaced the one-year return of the CD. If you factor in the potential impact of inflation and taxes on your investment return, the opportunity cost could be even greater. Remember that these alternate investment options are riskier than investing in a CD, however, for those willing to assume greater risk, the reward could be worthwhile.

One-Year Return Following Peak CD Rate (%)



Source: MorningstarDirect and bankrate.com. Short Duration Investment Grade bonds represented by the Bloomberg US Govt/Credit 1-3 Yr Index; Short Duration High Yield represented by the ICE BofA 0-2 Duration BB-B US High Yield Constrained Index (index data not available prior to 2006); US Corporate Bonds represented by the Bloomberg US Credit Index; Broad Fixed Income represented by the Bloomberg US Aggregate Bond Index; US Equities represented by the S&P 500 Index. See following page for definitions.

Past performance does not guarantee 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 the performance of any AAM product. For illustrative purposes only.

Bottom Line

- While CD rates have risen significantly from recent lows, there is still a potential opportunity cost to locking up your cash for a year or longer.
- Other investment options could have greater return potential, albeit with more and varying risks, depending on the investment.
- We believe investors ought to take the time to consider their time horizon, long-term goals and risk tolerance before making any investment decisions.

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

All investments involve risk; principal loss is possible. An investment in common stocks should be made with an understanding of the various risks of owning common stock, such as an economic recession and the possible deterioration of either the financial condition of the issuers of the equity securities or the general condition of the stock market. Fixed income securities are subject to certain risks including, but not limited to: interest rate risk (changes in interest rates may cause a decline in the market value of an investment); credit risk (changes in the financial condition of the issuer, borrower, counterparty, or underlying collateral), prepayment risk (debt issuers may repay or refinance their loans or obligations earlier than anticipated). Market risk, or systematic risk, is the risk that results from the characteristic behavior of an entire market or asset class. These risks are enhanced in emerging markets countries; below investment grade risk (commonly known as "high yield" or "junk" securities, they may be considered speculative and may be subject to greater market and credit risks. Accordingly, the risk of defaults may be higher than investment grade securities. In addition, these securities may be more sensitive to interest rate changes and may be more likely to make early returns of principal.

A certificate of deposit (CD) is a savings product that earns interest on a lump sum for a fixed period of time. CDs differ from savings accounts because the money must remain untouched for the entirety of their term or risk penalty fees or lost interest.

INDEX DEFINITIONS: 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. **Bloomberg US Credit Bond Index** measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year. **Bloomberg 1-3 Year US Government/Credit Index** is an unmanaged index comprised of the US Government/Credit component of the US Aggregate Index. The **ICE BofA 0-2 Year Duration BB-B US High Yield Constrained Index (**H42C) consists of all securities in the ICE BofA BB-B U.S. High Yield Index (HUC4) that have a duration-to-worst of 2 years or less. **S&P 500 Index** is an unmanaged market capitalization weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors. Unless otherwise stated, all information and opinions contained in this publication were produced by Advisors Asset Management, Inc. (AAM) and other sources believed by AAM to be accurate and reliable. However, third party sources cannot be guaranteed as to accuracy or completeness. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and best interests. All expressions of opinions are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

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