NEWSLETTER

VOL. 31 ISSUE 12 · DEC 2023

It's Easy to Forget the Market's Good Years

ARTICLE FROM HARTFORD FUNDS

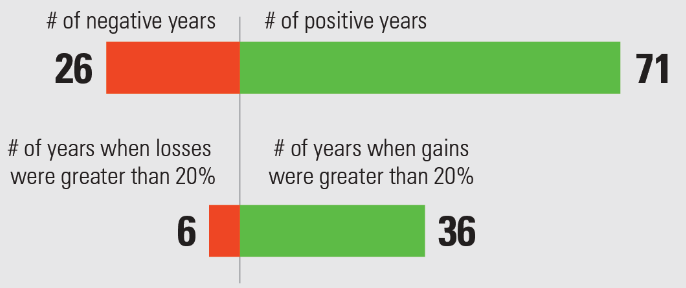
During volatility, remember the market's long-term track record.

Today, it feels like we're facing one market crisis after another. And when times are challenging, it may seem like the only rational strategy is to play it safe to avoid losses. Yet FIGURE 1 shows that positive years far outweigh negative years. What's more, the seemingly "safer" investment choices of bonds or cash may have provided temporary relief during volatile times, but historically, they've fallen far behind equity and balanced investors over the long term (FIGURE 2).

FIGURE 1

Good Years Outnumber Bad Years

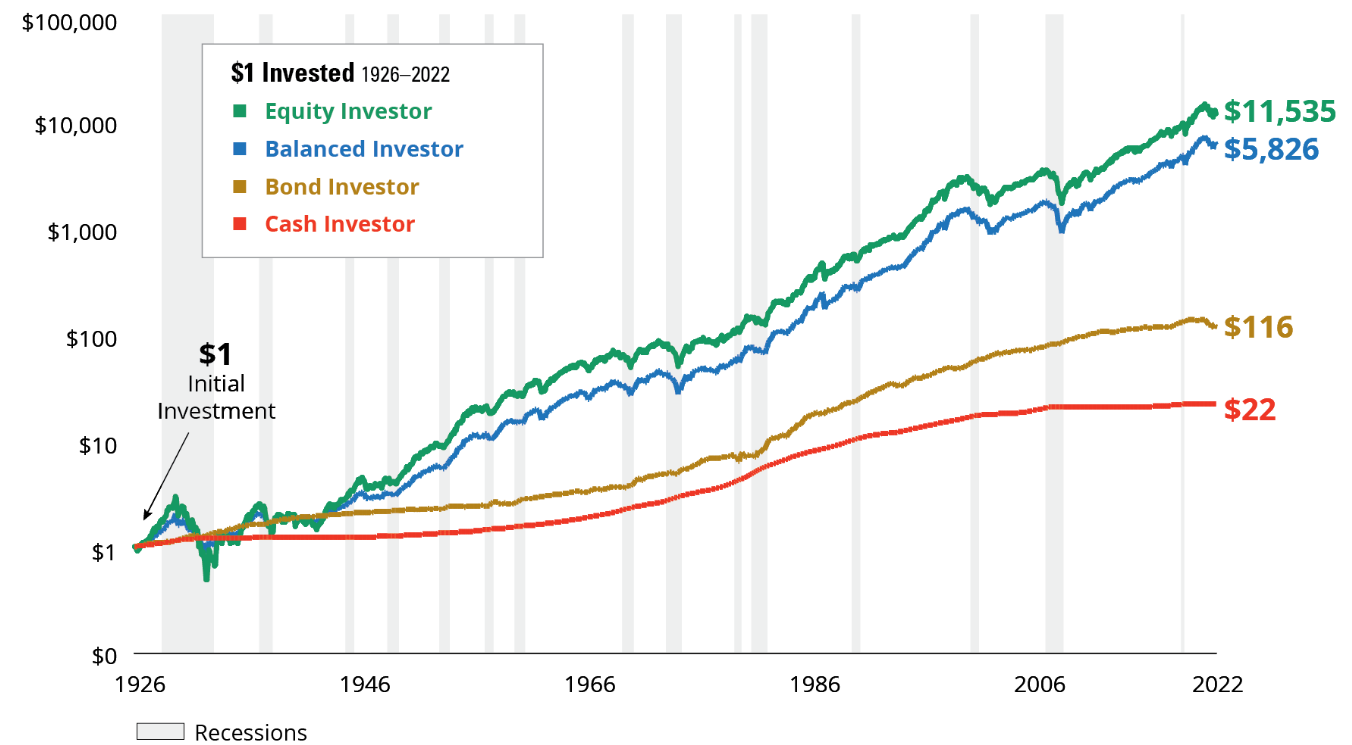
S&P 500 Index (1926–2022)



Average Annual Return: 10.12%

FIGURE 2

Four Investment Paths Through Good and Bad Years



As of 12/31/22. Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. Equity Investor represented by the S&P 500 Index; Balanced Investor represented by 50% S&P 500 Index and 50% IA SBBI US Long-Term Corporate Bond Index; Bond Investor represented by 1926-1975: IA SBBI Long-Term Government Index and 1976-present: Bloomberg US Aggregate Bond Index; Cash Investor represented by 30-Day T-Bills. See back page for index definitions. Sources: Morningstar, Ned Davis Research, and Hartford Funds, 1/23.

How Changing Interest Rates Affect Bond Prices

Rising and falling interest rates can have a significant impact on US Treasuries, which are issued by the US government. Other bond types, such as corporate bonds and mortgage-backed bonds, could be impacted differently due to credit risk (i.e., concerns about the issuer's ability to make timely bond payments) and other factors.

The Hypothetical Impact of Rising and Falling Rates on Treasuries (as of 10/31/23)

	← Rates Rising | Rates Falling →												
	Estimated 12-month Total Return for Benchmark US Treasury Notes and Bonds												
	+300 bps	+250 bps	+200 bps	+150 bps	+100 bps	+50 bps	0 bps	-50 bps	-100 bps	-150 bps	-200 bps	-250 bps	-300 bps
2 Yr US Treasury	2.33%	2.78%	3.23%	3.69%	4.15%	4.61%	5.07%	5.53%	6.00%	6.46%	6.94%	7.41%	7.89%
3 Yr US Treasury	-0.37%	0.49%	1.36%	2.23%	3.12%	4.00%	4.90%	5.80%	6.71%	7.62%	8.54%	9.47%	10.41%
5 Yr US Treasury	-5.32%	-3.68%	-2.03%	0.35%	1.35%	3.07%	4.81%	6.57%	8.36%	10.17%	12.01%	13.87%	15.75%
7 Yr US Treasury	-9.41%	-7.13%	-4.82%	-2.46%	-0.06%	2.39%	4.88%	7.42%	10.00%	12.63%	15.31%	18.04%	20.82%
10 Yr US Treasury	-14.90%	-11.81%	-8.64%	-5.39%	-2.06%	1.37%	4.88%	8.48%	12.18%	15.97%	19.86%	23.85%	27.95%
20 Yr US Treasury	-25.54%	-21.05%	-16.33%	-11.36%	-6.12%	-0.59%	5.22%	11.35%	17.81%	24.61%	31.77%	39.32%	47.28%
30 Yr US Treasury	-31.81%	-26.76%	-21.32%	-15.45%	-9.13%	-2.32%	5.04%	12.98%	21.55%	30.81%	40.81%	51.61%	63.28%

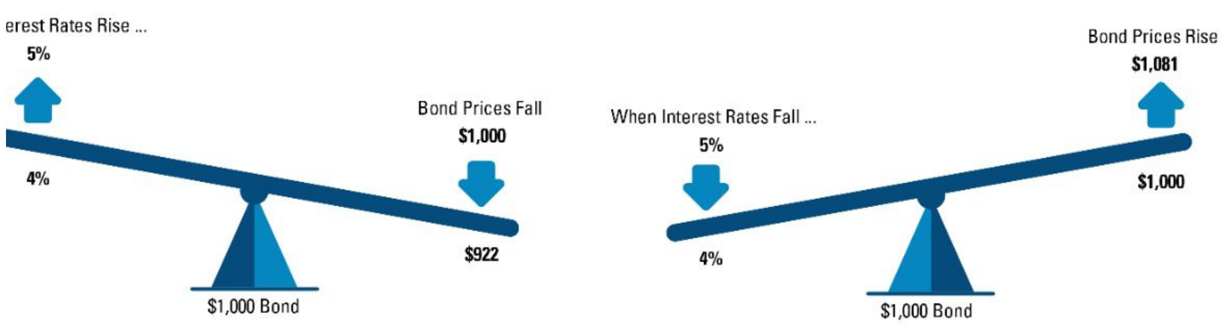
A basis point (bps) is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. For example, +100 bps is the equivalent of a 1% increase in interest rates. Data Sources: Bloomberg and Hartford Funds, 11/23.

The Interest-Rate See Saw

Bond prices and interest rates have an inverse relationship: When interest rates rise, bond prices fall and vice versa—just like a see saw.

Higher interest rates allow bond investors to collect more interest on new bond purchases, but the principal value of their existing bonds will drop in value. When interest rates increase at a slow and steady pace over several years, bond investors may not feel the impact too much because the higher interest payments help offset the decline in bond principal. When rates rise rapidly, however, it can be painful because the drop in a bond's principal value is greater than the additional interest income.

Purchasing bonds when interest rates are at or close to their peak could be a prudent strategy for capital appreciation since the principal value of bonds will likely increase as interest rates fall. You could also consider purchasing an actively managed bond fund or ETF to let professional money managers decide how to navigate changing interest rates. **Talk to your financial professional for help with managing risk in your fixed-income portfolio (251-626-1140).**



Important Risks: Investing involves risk, including the possible loss of principal. Fixed-income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall. All information provided is for informational and educational purposes only and is not intended to provide investment, tax, accounting, or legal advice. As with all matters of an investment, tax, or legal nature, you should consult with a qualified tax or legal professional regarding your specific legal or tax situation, as applicable. The preceding is not intended to be a recommendation or advice. Tax laws and regulations are complex and subject to change.