Tremors in Treasuries: Keeping Perspective on Bonds

Recent movements in the Treasury market have understandably caught investors' attention.

The yield on the 30-year Treasury recently moved above 5%, reaching levels not seen since 2007. Because bond prices and interest rates generally move in opposite directions, rising yields can create short-term declines in the value of existing bonds.

So, what does this mean for bond investors?

Our view is that while the recent volatility is worth watching, it does not change the important role bonds play in a diversified portfolio.

Why Are Long-Term Interest Rates Rising?

Several factors appear to be contributing to higher long-term Treasury yields, including:

- Large federal deficits and increased Treasury issuance
- Continued concerns about inflation
- Investors demanding greater compensation for lending money over longer periods
- Uncertainty surrounding the future path of Federal Reserve policy

These factors have contributed to recent volatility, particularly among longer-term bonds.

Importantly, higher Treasury yields do not necessarily mean the bond market is in crisis. While concerns about government debt, inflation, and Treasury issuance are real, recent market activity suggests that the Treasury market continues to function normally. Higher yields have also attracted buyers, helping the market adjust to changing conditions.

In other words, the recent rise in yields appears to reflect a repricing of risk rather than a breakdown in the bond market.

Recent Market Performance

Key Index Returns	August 2026	YTD
Dow Jones Industrial Average	1.30%	10.70%
Nasdaq Composite	3.90%	13.50%
S&P 500 Index	2.60%	12.30%
Russell 2000 Index	0.90%	19.10%
MSCI World ex-USA	2.00%	12.00%
MSCI Emerging Markets	3.20%	22.40%
Bloomberg U.S. Aggregate Bond Index	0.40%	-0.30%

Source: Wall Street Journal, MSCI.com, Bloomberg, MarketWatch
Monthly returns: July 31, 2026–August 31, 2026
YTD returns: December 31, 2025–August 31, 2026
MSCI indexes in U.S. dollars

The Other Side of Higher Yields

While rising interest rates can cause existing bond prices to decline, **higher yields also provide an important benefit: investors are earning more income from their bonds.**

This additional income can help cushion the impact of price fluctuations over time. In addition, as bonds mature, proceeds may be reinvested at today's higher interest rates, allowing the income generated by a portfolio to adjust over time.

For investors who rely on their portfolios for income, today's interest-rate environment is considerably different from the low-yield environment that persisted for much of the past decade.

Higher yields can be uncomfortable in the short term, but they may also improve the longer-term income opportunity available to bond investors.

Why Diversification Within Bonds Matters

We don't view the bond portion of a portfolio as a single investment.

Different types of bonds—and bonds with different maturities—can respond differently as interest rates and economic conditions change.

For many of our clients, particularly those in retirement, we maintain a diversified mix of bonds with varying maturities and durations. This approach helps avoid making a single bet on where interest rates will go next.

For example:

- **Shorter-term bonds** may mature sooner and can potentially be reinvested at higher rates if yields remain elevated.
- **Intermediate-term bonds** can provide a balance between income and interest-rate sensitivity.
- **Longer-term bonds**, while generally more sensitive to changes in interest rates, can play a different role if economic growth slows and interest rates decline.

We believe diversification across maturities can help manage interest-rate risk while continuing to provide the income, liquidity, and diversification that bonds are intended to offer.

Diversification within the bond portfolio is just as important as diversification between stocks and bonds.

The Role Bonds Continue to Play

Recent price volatility does not necessarily mean that bonds are no longer doing their job in a portfolio.

For many retirees, the purpose of bonds is not simply to generate the highest return. Depending on an individual's circumstances and portfolio, bonds can provide:

- **Income**
- **Liquidity for upcoming spending needs**
- **Diversification from stocks**
- **Potential stability during periods of stock market volatility**

Of course, bonds are not immune from market fluctuations, as the past several years have clearly demonstrated.

But short-term volatility does not necessarily change the role bonds play within a long-term financial plan.

For retirees especially, we believe it is important to maintain a portfolio designed not only for growth, but also for **income, liquidity, and managing risk throughout retirement**.

Our Perspective

The recent rise in long-term Treasury yields is worth monitoring, but we don't believe it calls for panic or dramatic changes to a well-diversified portfolio.

Higher yields have created short-term price pressure on existing bonds, particularly those with longer maturities. At the same time, today's higher yields have created more attractive income opportunities than were available during much of the past decade.

Rather than reacting to short-term movements in interest rates, we remain focused on how each part of a portfolio supports your overall financial plan.

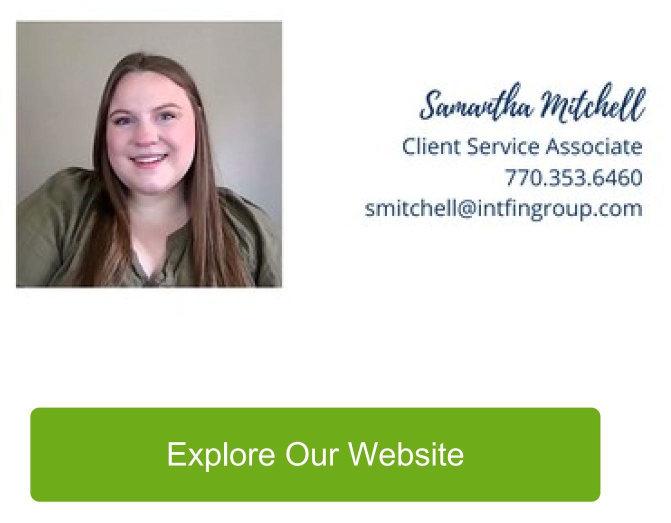
For investors who need income and stability—particularly those in retirement—bonds continue to serve an important purpose in a well-diversified portfolio.

Questions About Your Portfolio?

Market volatility can understandably raise questions, especially when you are relying on your investments to support retirement or other financial goals.

If you'd like to discuss how your portfolio is positioned and whether it continues to align with your needs, we're always happy to talk.

Schedule a Planning Meeting



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