FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer

We know that rising bond yields can be painful in the short term as prices fall. But in the long run, rising rates are good for bond investors. Here's why: the income bonds generate in the form of coupon payments gets reinvested at new and higher rates.

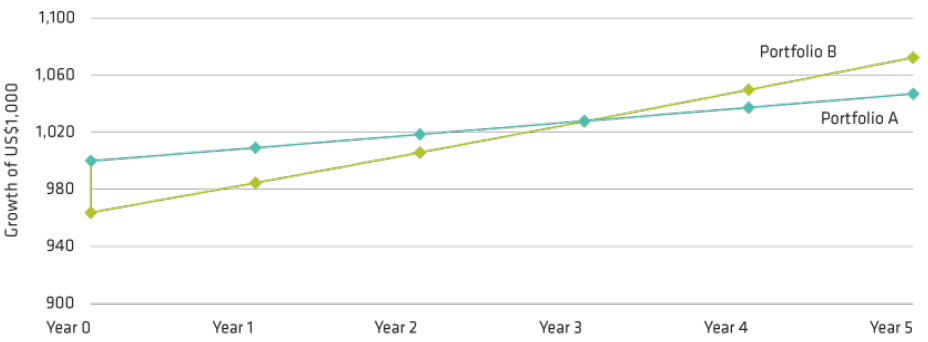
"It keeps me from looking at my phone every two seconds."

To see what the actual impact of rising rates might be on a bond portfolio, we modelled a simply portfolio of Treasury bond and "shocked" it by assuming a sudden 125 basis-point (1.25%) rise in rates. What would its immediate performance look like? And then, how would the following years unfold?

At first the portfolio sees an initial price loss, as bond prices move inversely with interest rates. Even so, the portfolio still generates income and investors who stay the course can reinvest that a income at a higher yield. This helps to make for the price loss and eventually offsets it altogether. As the graph shows, in less than thee years the portfolio is back in the black. In fact, in year three, the portfolio catches up to where it would have been had rates never risen, and thereafter it's worth more and investors are better off.

Here's our rule of thumb: <u>as long as the duration of a bond portfolio is shorter than the investment horizon, rising rates will benefit you -no matter how large the rate increase</u>. The final word on bonds is that they play an important role in portfolio diversification and serve to protect capital precisely because they generally move in the opposite direction as equities. During the meltdown of March-April last year, the bond positions in our portfolios held up well and mitigated short term equity market downside. This kept everyone fully invested, ensuring that they participated in the market rebound in the second half of 2020 and year-to-date gains this year as well.

A Rising-Rate Portfolio Soon Outpaces a No-Rate-Rise Portfolio
Portfolio A Assumes No Rate Increase, While Portfolio B Assumes Rates Rise 125 b.p. on Day One and Remain Stable Thereafter



For illustrative purposes only
Through March 31, 2021
Source: US Department of the Treasury and AllianceBernstein (AB)

Be safe, be well!

Martin
519-546-5088