



## The Role of Fixed Income

A bond's structure is its greatest attribute, and by that we mean the certainty it helps provide an investor. Bonds have set maturity dates and pay a regular amount of cash flow over their lives. This predictability in a world that is increasingly uncertain is what continues to make fixed income a dynamic and essential asset class across all market cycles.

- Bonds offer income and less volatile returns that act as risk buffers so clients can take on risk (in equities, for example) where risk is more appropriate;
- Bonds offer a source of liquidity for unforeseen events;
- Bonds generate consistent, easily forecasted cash flows;
- Bonds help protect capital across various market cycles.

### **Cash vs. Bonds**

One might say, "Why wouldn't I just go into cash at these yield levels?" Simply, cash cannot replace what core fixed income holdings offer for an overall asset allocation. First and foremost, cash will not provide any meaningful positive return offset during times of market stress as mentioned above. Second, cash is a floating rate vehicle and provides no predictability of future yield or income levels, and it is also likely money market yields will remain near-zero for the foreseeable future as the Fed attempts to keep financial conditions easy following the pandemic. It is important to remember that a well-managed fixed income strategy that deploys capital across a longer horizon can help investors maintain a more stable income stream over extended periods, even as interest rates fluctuate.

### **So why are rising interest rates not a bad thing?**

Caprin constructs all of our portfolios with capital preservation as a core tenant. An increase in interest rates alone does not necessarily mean a decline in portfolio value over a period of 12 to 24 months. Further, our intermediate municipal strategies, for example, are strategically positioned from a duration and maturity standpoint to help combat rising interest rates.

Our experience and expertise in building core bond portfolios helps ensure clients have sound cash flow from both coupon income and future maturities that can be reinvested to capture improving yield levels. This portfolio characteristic is one of the most powerful offsets to rising interest rates and helps ensure that, when the tide turns and interest rates peak, portfolios are fully invested at far better yield and income levels.

### **Conclusion**

Income investors everywhere would prefer higher yields, but it is important not to simply chase income by moving into or significantly increasing exposure to riskier assets. Bonds continue to be an essential part of a successful long-term investment strategy because of the comfort provided by a known income stream, defined maturity dates, and because their lower volatility profile provides a counterbalance to that produced by riskier asset classes.

Founded in 1997, Caprin is an asset management firm that applies the substantial experience and expertise of its professionals to the creation and management of forward-looking investment solutions for those seeking wealth preservation and income generation

DISCLOSURE: Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.

1802 BAYBERRY CT.  
SUITE 202  
RICHMOND, VIRGINIA  
23226

804.648.3333

CAPRINBONDS.COM