



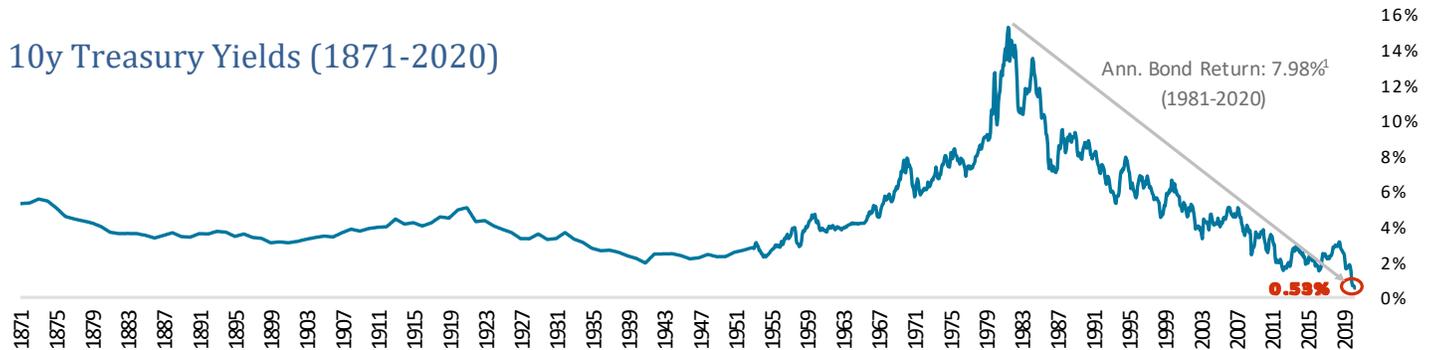
CONFRONTING THE CHALLENGE OF LOW YIELDS IN FIXED INCOME

October 2020

Bonds have been a good investment historically. This performance had been driven by falling interest rates, but with rates at 150-year lows, we see no more wind in those sails. Persistent and pervasive low yields in traditional assets should motivate a search for new sources of yield.

YIELDS ARE AT HISTORIC LOWS

The chart below shows that 10-year Treasury yield has never been lower in the past 150 years. Due to a convergence of demographic and economic factors – including an excess of global savings relative to investment opportunities, and a growing preference for riskless assets in the aftermath of the 2007-2009 Financial Crisis – they are likely here to stay.



Source: Bloomberg, Robert Shiller's website; as of 7/31/2020.¹ Represents return on the Bloomberg Barclays US Aggregate Bond Index (10/1/1981-7/31/2020).

RISING RATES CAN CREATE SHORT-TERM PAIN

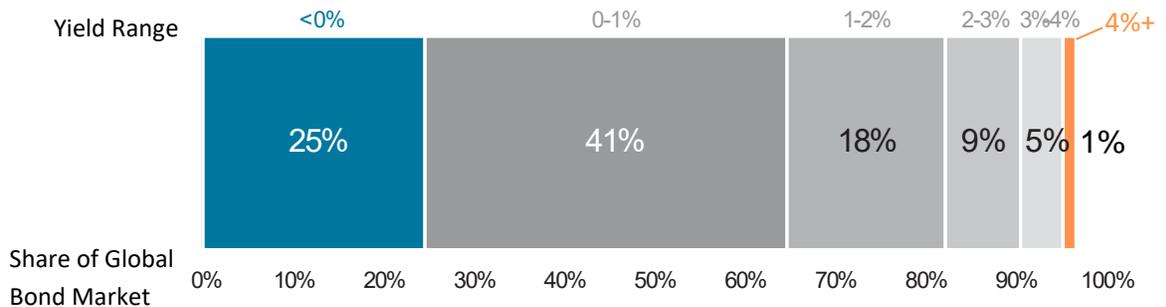
It seems unlikely that interest rates can go much lower. If and when interest rates do rise, bond prices will fall and hurt investor returns. We believe today's low yields provide insufficient compensation for this risk.

LOOK TO NEW RISK PREMIA FOR HIGHER YIELDS

Investors can find attractive yields by looking beyond the government and corporate bonds that have dominated fixed income. For example, consumer and small business lending may offer attractive premia for credit risks that have historically been profitable for banks.

YIELD IS SCARCE GLOBALLY

- 85% of bonds yield less than 2%
- Only 1% yield over 4%

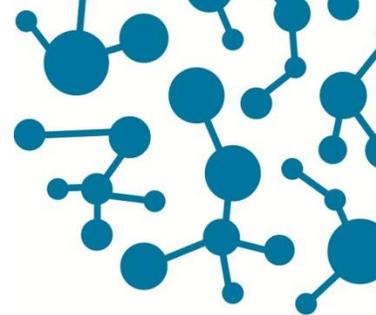


Source: Bloomberg, Stoneridge, as of 7/31/2020. Based on components of the Bloomberg Barclays Global Aggregate Index.



Plan Well. Invest Well. Live Well.

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**Important Disclosures:**

Source: Bloomberg, Stoneridge

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