RT65

Navigating fixed income

Back in the Saddle

Advisors and others explain why bonds look better than they have in decades. **Plus,don't miss fund rankings.**

Rethinking65
SPECIAL PUBLICATION

Welcome to the inaugural issue of RT65

RT65 is for financial advisors and their sophisticated clients to use as a reference throughout the year. A key component of this new quarterly e-magazine is to feature current content about issues, investments and tools that are important to advisors.

In this first issue, we stress and explain the importance of fixed income in diversified portfolios, especially for investors who are 50 and over. It's been a long time since bonds have offered this much value, making 2024 an important year for advisors to pay particular attention to their bond allocations.

In addition to two comprehensive articles on fixed income, we include numerous Morningstar rankings for bond funds that should interest advisors and investors.

As an advisor, what kind of reference guide would be helpful to you? Please contact us with any questions or ideas after reading RT65.

Best,

Dorothy   Jerilyn

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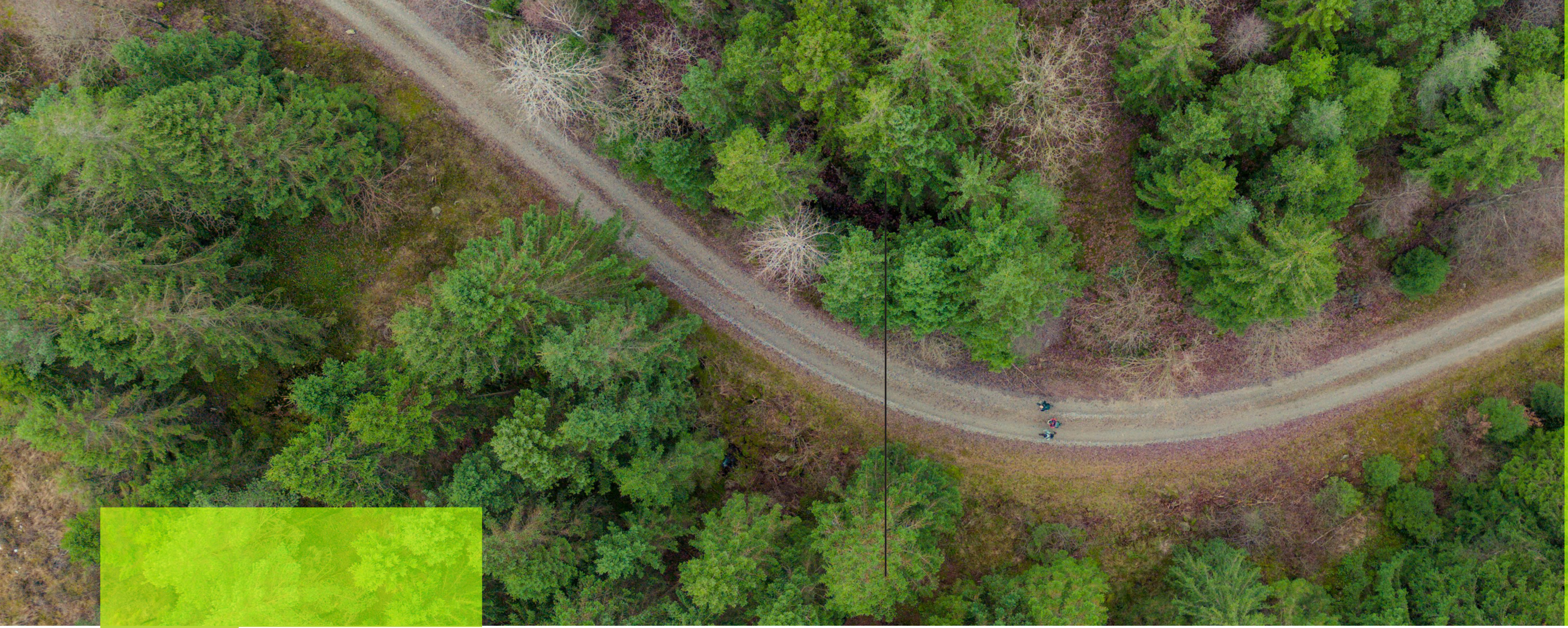
MORE MILEAGE AHEAD...

Fixed income should continue to treat retirees well, after a long famine, despite Fed's plans to cut interest rates, say advisors.

By Jerilyn Klein

Photo by Unsplash+ in collaboration with Ales Krivec



> **If I can get equity-like returns from my bond side of the portfolio, I'm going to make that trade-off."**
> –Patrick Bobbins

Finding income for investors was challenging during more than a decade of super-low interest rates. So was convincing some clients that allocating too much to the so-called safe side of their portfolio would jeopardize their financial goals in retirement. But although bond yields have yo-yoed a bit since rebounding in 2023 and the Federal Reserve says it'll cut rates again this year, financial advisors remain upbeat on fixed income.

"I think we're going to get a pretty good year from the bond market," says Patrick Bobbins, CFA, a Charlotte-based financial advisor with Wealth Enhancement Group. "I've been telling clients that I'm the most excited about bonds that I have been in probably 15 or 20 years."

"Kudos to the bond market and the Fed for finally getting off of zero [interest rates]," says Bobbins, who leads the investment team for the Carroll Group at Wealth Enhancement Group. He was the director of investments and research at Carroll Financial Associates before WEG acquired the large independent RIA in 2021.

At the start of this year, the bond market was pricing in five or six rate cuts for 2024, he says, but that many cuts are unlikely barring a bad recession and a sharp uptick in unemployment.

And although yields have fallen from their October 2023 highs, they're well above where they were a couple of years ago. "You look across the board, you're getting anywhere from 5% to 10%, depending on the credit risk that you're willing to take, and in some cases, 11% to 12% if you wanted to go into high yield or floating rate," says Bobbins.

Even the safest spots of the market are very attractive. As of early February, 3-month Treasury bills yielded ***5.2%*** and 10-year Treasurys – which approached 5.0% in October 2023, their highest level since 2007 – ***exceeded 4%.***

No Need to Stretch

"Most plans for clients are very successful if you get a 4% or 5% average annual return," says Bobbins. "Now you can deliver that plan in the fixed income market, and so it's a great opportunity."

That's especially helpful for investors who are already tapping into their retirement savings.

"I can point to a number of cases where the income derived from the investments that we manage in the portfolio has steadily outpaced what the clients are taking in distributions," says Bobbins. "It's not something that we've been able to say for a long time, and to be able to point to that in client meetings has been tremendous."

He's also a lot more excited about bonds than equities, he says. "If I can get equity-like returns from my bond side of the portfolio, I'm going to make that trade-off."

"We're an open toolkit, we can go anywhere," says Bobbins, regarding fixed-income asset classes. These days, his group mostly invests in fixed income through actively managed ETFs.

Barbelling Risk

Bobbins and his team barbell credit risk – dividing portfolios between lower-risk and higher-risk bonds. Last year and this year they've paired high-quality (AAA-rated) collateralized loan obligations (CLOs) with riskier floating-rate (also known as leveraged-loan) vehicles.

On the CLO side, they hold the Janus AAA CLO Fund (ticker JAAA), which he says delivered clients about an 8% yield last year. On the floating-rate side, they use the Pimco Senior Loan Active ETF (LONZ) and PGIM Floating Rate Income ETF (PFRL); last year, they each

Photo by Unsplash+ in collaboration with Hans Ott delivered north of 13% for clients, he says.

"Love the AAA-rated CLOs – they have a yield-to-worst of about 7% right now," says Bobbins. That refers to the worst-case scenario for yield at a bond's earliest allowable retirement date. For the floating-rate ETFs, the yield-to-worst is roughly 10% to 10.5%, he says.

Bobbins' group also uses an index-based, fixed-income ETF for short-term Treasury bonds, the WisdomTree Floating Rate Treasury Fund (USFR). It was paying about 5.5% in early 2024. "If clients are looking for that baby step out of cash at the bank or their CD, with daily liquidity USFR is a great parking spot for that," he says.

To reduce exposure to interest-rate volatility, Bobbins prefers investing in shorter-duration bonds. Duration is the sensitivity of the price of a fixed-income investment to changes in interest rates. Bonds with shorter maturities typically have lower duration.

"I would rather take advantage of judging the credit sensitivity of a company over, 'Where's the Fed setting interest rates? Where's the market setting interest rates?' I think that's a much harder game," he says. Although longer duration could work out favorably, "I look at my job to protect the capital – to manage it from a risk-reward perspective – and adding duration just increases the volatility of my outcome."

Growing Client Interest

Christopher Baccella, CFA, a Michigan-based wealth advisor with Mariner Wealth Advisors, has been seeing a lot more client interest in fixed income.

"I've had numerous clients that have added significantly to their portfolios because of the returns you're able to generate in fixed income," he says. "Right around 6% seemed to be when people were actually picking up the phone and saying, 'Really? You can get me 6%? I'm impressed.'"

"Some of them like the safety of not having to worry about stock market returns," says Baccella. "And others just realize the math: 'If I've got a million bucks, I can generate $60,000 a year at 6%.' And that's not bad when you add that with Social Security and any other income sources they may have."

In the industry, "we often talk about the 4% rule," he says, as a safe annual withdrawal rate for clients so they don't run out of money over a 30-year retirement horizon. So, "if you can find 5% or 6% returns in relatively low-risk investments, that makes a lot of sense for your long-term asset allocation and your accumulation strategies, especially as you start to get closer and closer to your distribution years."

Baccella thinks 5% to 6% returns will remain feasible. "The Fed's 'dot-plot' [where Fed officials anticipate rates are headed] hinted at three rate cuts this year, but the market got a little ahead of itself and was looking for six cuts in 2024," he says. However, given market volatility and future rate cuts, "you've got to be a little more selective, a little more opportunistic," he says.

Main Attractions

"I tend to favor GSEs and GSAs," says Baccella, referring to securities issued by ***government-sponsored enterprises*** (privately held financial institutions created by Congress) and government-sponsored agencies. Examples of GSEs include the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corp. (Freddie Mac), and the Federal Home Loan Banks (FHLB). GSAs include the Government National Mortgage Association (Ginnie Mae) and the Federal Housing Administration (FHA).

GSEs are still yielding around 6%, says Baccella. To stay above that, he has been picking up some investment-grade corporate bonds, particularly in the financial sector. "The financial sector is cheap," he says, meaning that it trades at a higher yield than most sectors for the same credit quality. Financial are still offering a bit of a premium since Silicon Valley Bank and Signature Bank "got into trouble last year," he says.

Baccella tends to use a lot of individual bonds. "I like specific maturities and that you know what you own," he says. He avoids closed-end bond funds, which issue a fixed number of shares, can trade at a premium or discount to their net asset value (NAV), and can take on significant leverage to enhance returns. "For every $3 in assets, they can have up to $1 in debt issued," he says. "This leverage can add significant volatility."

Lately there's been much talk about convertible bonds but "in general, I don't see a whole lot of opportunity." says Baccella. These securities, which pay interest but can be converted into common stock, "sound fantastic on paper and are not always as interesting when you dive into them." They're often issued by lower-quality companies that try to keep their yield down, he says. "Because of their lower credit rating, advisors should pay close attention to the convertible bonds they're buying."

Baccella generally avoids international bonds although might consider an individual credit, he says. "I've seen many emerging-markets bond funds considered as an alternative asset class," he says, and there's been a lot of debate about this in the advisor community. "I believe fixed income is the safe component of the portfolio. I don't believe in doubling up by taking significantly high risk in fixed income and then having 60% in stocks," he says.

Added Appeal

The big appeal with fixed income, especially for clients age 50 and up, is it's generally "going to be less volatile, with less significant downside risk than your equity component," says Baccella. Furthermore, "It's especially important for ballast during difficult times such as recessions, major market sell-downs, etc.," he says, and some fixed-income securities "can be used as an emergency source of funds during those times of market stress."

Fixed income can also be a relatively easy way for clients to put their money to work.

For example, Baccella has started picking up bonds for a client, a little shy of 50 years old, who recently sold a business for a windfall profit. "He's just enamored with the kind of returns you're able to get off fixed income," says Bac-

"I believe fixed income is the safe component of the portfolio. I don't believe in doubling up by taking significantly high risk in fixed income and then having 60% in stocks."

–Christopher Baccella

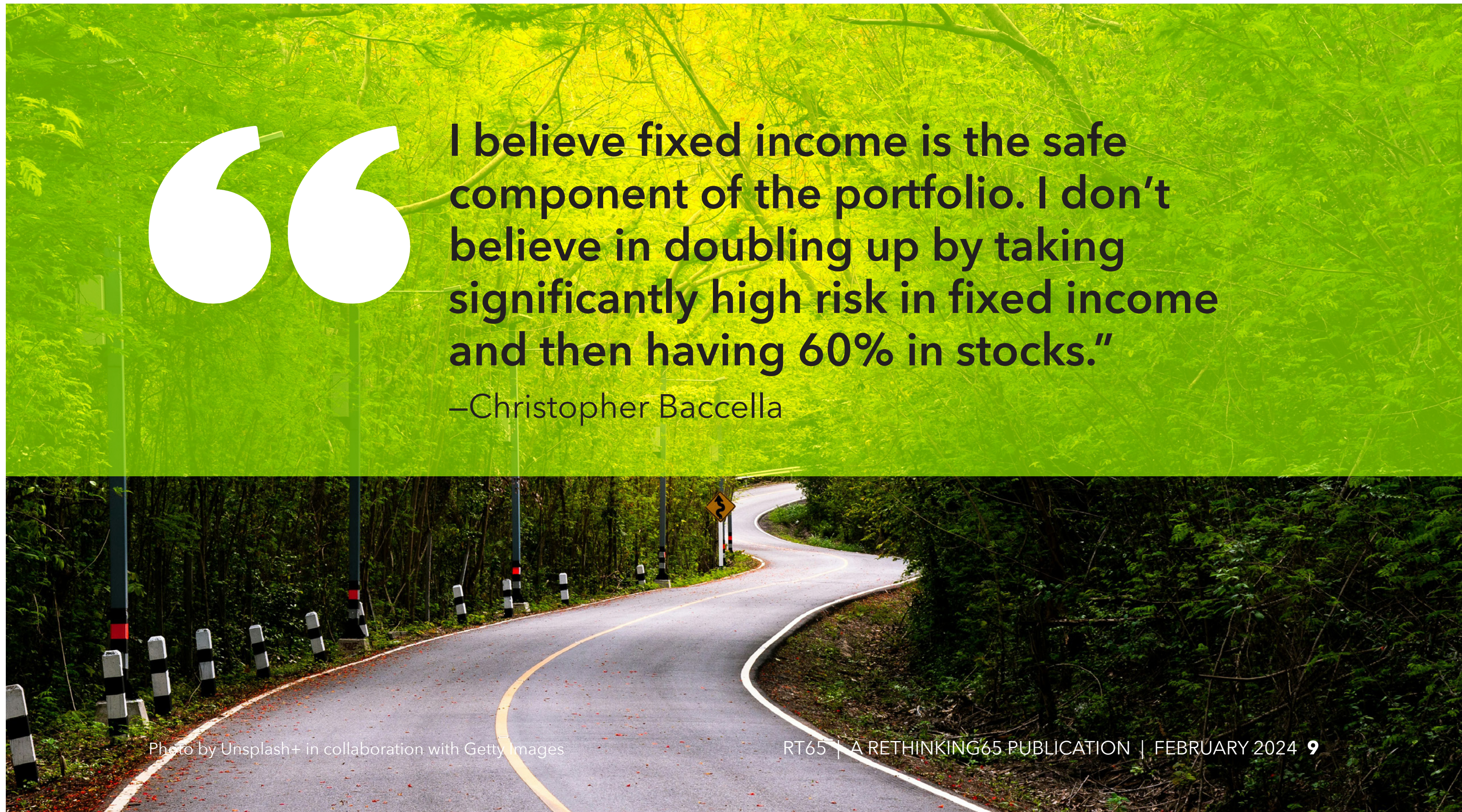


Photo by Unsplash+ in collaboration with Getty Images

> **The primary reasons we use bonds are to diversify exposure to factors that produce return, to control risk and to generate cash flow."**
> —Michelle Rand

cella. "He's generating a lot of income without having to work too hard."

Another client, in his late 60s or early 70s, had invested in real estate and was renting out houses and multi-family apartment buildings. "He was basically operating as a landlord," says Baccella. "He showed me a couple of transactions he was buying into with a 4% potential return or slightly in excess to that," says Baccella, who then asked his client, "Why are you taking on all this extra stress and risk?"

He showed his client how he could get a competitive or even better return with fixed income "with limited risk, limited work," says Baccella. "You don't get phone calls in the middle of the night asking you to replace some dishwasher or a lightbulb that burned out. Plus, any vacancies or tenant issues can seriously impact your cash flow."

The client is moving in the direction of swapping his real estate for fixed-income securities, says Baccella. "Sometimes as an advisor you have to have a little tough conversation" to help clients see the full picture.

Client Education

Baccella takes the cues from clients about what they want to learn and discuss. "Some people want to micromanage their portfolios; others just want the money," he says. He spoke to a trust beneficiary "for five minutes about the stock and bond market – it was four minutes too long," he says. "The next time we spoke for 45 minutes about politics."

As yields yo-yo, ***Michelle Rand, CFA,*** founder and president of Cascade Investment Advisors in Oregon City, Ore., may show clients a chart or two of bond returns, she says.

In addition, "I do remind clients that if we buy a bond with a 5% yield to maturity, if they have a return of negative 10% in one year, they must experience a return above 5% in some future year in order for the stream of returns to average to 5%, she says. "In other words, bonds recover."

'Very Plain Vanilla'

At Cascade Investment Advisors, "the primary reasons we use bonds are to diversify exposure to factors that produce return, to control risk and to generate cash flow," says Rand. "We may also use bonds to defease specific liabilities, but that's rarer."

For example, "if a client has kids going to college several years hence, we can buy zero coupon bonds coming due in that time frame," she says.

Rand tends to use individual bonds – mostly corporates, municipals and agencies –"because our shop has limited resources and we are already good at bonds," she says, referring to her team's research and analysis expertise.

"We stay away from complicated structures. We are very plain vanilla," she says, because these bonds are easier to analyze and explain. "The most we might do to change that is buy unrated or junk bonds. Once in a blue moon we deliberately buy distressed, bankrupt bonds."

Rand's firm rarely use Treasurys, because it typically finds other securities that offer more yield without much more risk, but lately it has used them more, she says.

Split Decisions

Many consumers who read the financial press are familiar with the popular 60/40 equity-to-bond portfolio. But is that the best option for clients over 50, and when might other portfolio breakdowns better serve clients?

"It really depends on the client," says Rand. "We have aged clients with very few bonds who want the funds managed for their heirs, and we have clients who can barely put food on the table, but they are still generally 50/50. We don't drop much below 50/50 unless there's a good reason."

As for duration, "at this moment, we are barbelled from about five years in and the other piece is 15 years out because we like the prospects for that strategy under several different scenarios," says Rand. But she and her team won't be resetting their barbells based on any changes in economic, fiscal or monetary activity. "We are not top-down managers, so we'd have to see a change in the yield curve," she says.

Presently, the yield curve is inverted, with longer-term bonds yielding less than shorter-term bonds.

New 'Normals'?

Bobbins, of Wealth Enhancement Group, says he wouldn't be surprised if the 10-year Treasury, now hovering around 4%, stays there for the year while shorter-term rates come down – lowering the front end of the yield curve. "I'd rather see a normal-shaped yield curve, a steeper yield curve, rather than this kind of weird, inverted yield curve that we have now," he says.

"If we can stay in this 3% to 5% range, I'd be perfectly happy," he says – and he thinks it's possible. "Below 3%, historically, is ***very abnormal***, and you can go all the way back to the 1900s, or even past that to the 1800s," he says. "I think if you manage the credit cycles and the economic cycles correctly, you can have a lot of wiggle room, and you've got a lot of tools at your disposal, for keeping rates in that 3% to 5% range."

Bobbins cautions that when people are retired and no longer adding to their portfolio, it's good to have some more safe assets on hand for frequent rebalancing.

"If you're always at 60/40 [equities/bonds] and the equity market crashes, you're rebalancing back in and you're pulling more from that 40 to make up for it," he says. "But if you were at 50/50 or 40/60, you get more of a safe bucket that limits that drawdown and you can redeploy those funds back into the stock market … it's a much smoother ride for clients."

Baccella, of Mariner, notes since bonds are cheap and paying higher yields [there's an inverse relationship between bond prices and yields], "you can probably afford to put more bonds in your portfolio," he says, and overweight them a bit.

But here's a conundrum he's struggling with: "You can't be too conservative if clients may spend 40 years in retirement," he says. "With a couple, the odds are significantly high that one of them will live to 100 because of 'medical marvels.'" 65

Jerilyn Klein is editorial director for Rethinking65.

Photo by Unsplash/Jonathan Larson

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2024 Bond Outlook

Partly Sunny

After some tough years, the bond market has many fundamentals in its favor, observers say.

By Dorothy Hinchcliff

Photo by Unsplash/AveCalvar

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Why is 2024 shaping up to be a positive one for at least some parts of the U.S. bond market?

Two major reasons: The Federal Reserve is expected to cut interest rates this year, which would raise the prices of existing bonds. The markets had been pricing in cuts of as much as 150 basis points in 2024, with cuts to start as soon as March. But Fed Chair Jerome Powell threw cold water on those hopes when he said at a press conference following the Fed's Jan. 31 meeting that he thought cuts were unlikely that soon. At the January meeting, the Fed left the Fed Funds rate unchanged at 5.25-5.50%.

Still, Powell said he does believe the Fed will cut rates this year, but wants to see the recent good economic data on inflation and jobs continue for longer before cuts begin. Most market observers now believe rate cuts will start around May or later. And when cuts do start, they should bring higher bond prices and lower yields.

Although the Fed hasn't given specific timing for cutting rates, its goal is not to keep rates high, but to keep the economy in balance, said Paul Olmsted, a senior manager research analyst for Morningstar Research Services, in an interview. Higher rates increase the cost of capital, stressing highly levered companies, while at the same time putting a damper on inflation. "The challenge is to find that right balance in the economy between higher yields and lower inflation while maintaining some economic growth," said Olmsted.

One thing the Fed doesn't want to do is make rate-cut mistakes that could lead to a repeat of the 1970s. From 1972 through 1974, the Fed hiked interest rates dramatically. When the economy started slowing, it cut rates, but inflation started mounting rapidly again in about 1977. After Paul Volcker took over in 1979 as Fed Chair, he raised interest rates into the double digits to bring inflation under control. This triggered back-to-back recessions in the early 1980s.

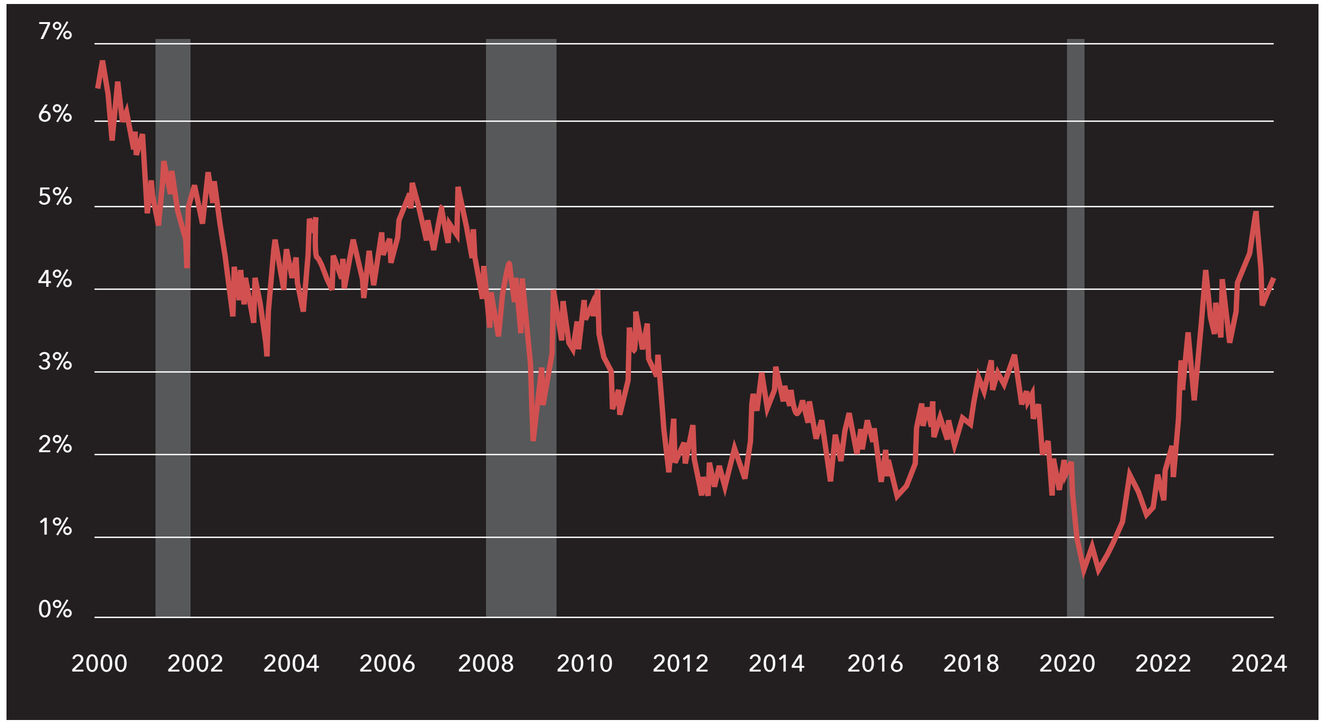
Good Value in Fixed Income

"We're seeing people who think there's really good value in the bond market. And not because they think there's going to be some particular precipitous decline in yields," said Warren D. Pierson, CFA, managing director and co-chief investment officer of Baird Asset Management, during an interview. "The level of income that bonds are producing is really attractive compared to the likes of which you've not seen for over a decade or two. Real yields are positive again."

For investment managers, whether they are managing pension funds for institutions or retirement accounts for individual clients, getting a higher yield means they can get close to their target return without taking a huge

Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity

Quoted on an investment basis



Shaded areas show recession. Source: St.Louis Fed

U.S. Treasury Bond Rates (Feb. 16, 2024)

Symbol	Name	Last Price	Change	% Change
IRX	13 Week Treasury Bill	5.22	+0.01	+0.10%
FVX	Treasury Yield 5 Years	4.2880	+0.0710	+1.68%
TNX	CBOE Interest Rate 10-Year Treasury Note	4.2950	+0.0550	+1.30%
TYX	Treasury Yield 30 Years	4.4480	+0.0270	+0.61%

Source: Yahoo Finance. For the most recent pricing, click *here*.

amount of risk, Pierson said.

Olmsted agreed. "Here's a point in time when yields are high. I would say, take advantage of it. Don't wait."

However, Olmsted did add that he believes this market is one where investors would want to go with active management. "These active managers have large credit research departments for the most part," he commented. "They're making active bets and they can avoid some of the defaults that might come down. Passive strategies can't really avoid that."

A Look at Recent Bond Performance

In mid-February of this year, the benchmark 10-year Treasury yield was hovering around 4.25%, and reached a recent high of 4.88% in October. The last time yields were that high was in 2007, before the financial crisis, according to ***economic data*** from the St. Louis Fed.

Meanwhile, the iShares Core U.S. Aggregate Bond ETF ***(AGG:US)*** was hovering in the high $90s range in early February. An ***analysis*** by Baird Advisors shows the AGG returned 5.53% last year. Performance jumped at the end of 2023, after the market rallied upon learning the Fed's rate hiking cycle was most likely finished. That allowed bonds to avoid a three-year losing streak, a problem that hasn't happened since the ***1970s.*** The best-performing sectors in 2023 were high-yield corporates, up 13.44%, and emerging-market debt, up 13.10%, based on Bloomberg indexes, according to Baird.

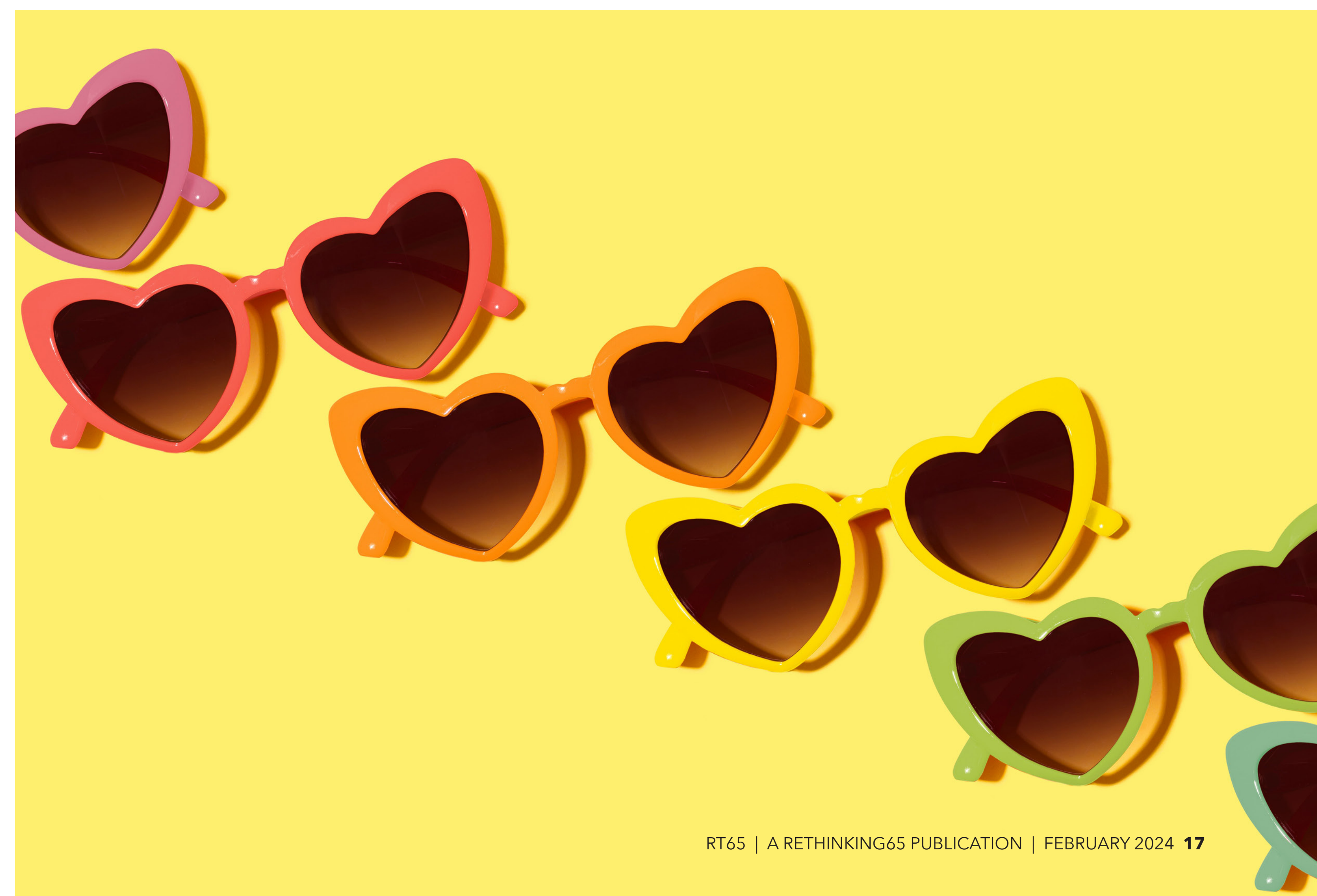
"In fact, the 5.0% return in November followed by a further 4.2% gain in December makes it the strongest two-month return for the Bloomberg Global Aggregate Index in the last 30 years," noted Invesco in its Jan. 4, 2024, monthly fixed-income update.

Soft Landing?

Many market observers believe the Fed is still in a good position to navigate a soft landing for the economy, which they see as a "Goldilocks" scenario for the markets.

In a CNBC interview after the Fed decision Jan. 31, Jeffrey Gundlach, the founder, CEO and CIO of DoubleLine Capital, disagreed on that forecast. He predicted there will be a stall in inflation falling and a recession this year.

"Risk assets — not just stocks but things like



Total Returns of Selected Bloomberg Indices and Subsectors

	2023 Total Return	MTD Total Return	MTD Excess Return	Effective Duration (Years)
U.S. Aggregate Index	5.53%	-0.27%	0.08%	6.25
U.S. Government Credit Index	5.72%	-0.23%	0.16%	6.37
U.S. Intermediate Government/Credit Index	5.24%	0.21%	0.03%	3.77
U.S. 1-3 Year Government/Credit Index	4.61%	0.39%	0.02%	1.83
U.S. Treasury	4.05%	-0.28%	0.00%	6.10
U.S. Agency (Non-Mortgage)	5.13%	0.29%	0.13%	3.20
U.S. Agency RMBS (Pass-Throughs)	5.05%	-0.46%	-0.18%	6.10
CMBS (Commercial Mortgage Backed Securities)	5.42%	0.72%	0.64%	4.39
ABS (Asset-Backed Securities)	5.54%	0.47%	0.25%	2.65
U.S. Corporate Investment Grade	8.52%	-0.17%	0.44%	7.03
U.S. High Yield Corporates	13.44%	0.00%	-0.22%	3.19
Emerging Market Debt	13.10%	-0.22%	-0.08%	4.92
Municipal Bond Index	6.40%	-0.51%	N/A	6.10
Taxable Municipal Bond: Agg Eligible	8.85%	-0.20%	0.88%	9.48
TIPS (Treasury Inflation Protected Securities)	3.90%	0.18%	0.00%	6.82

*Excess return represents the return of a spread sector versus a like-duration U.S. Treasury. Source: Baird Asset Management

junk bonds, bank loans — are at very, very high prices relative to where we've been on average over the past three years," he said.

"The market not very long ago was pricing in [rate cuts in] March pretty heavily, and that led to very high valuations on a lot of risk markets," he said. "The longer the Fed stays on what is going to be a 200- or 300-point real interest rate on Fed funds, there's risk to economic growth that is going to build as we move into this year."

At the moment, Gundlach says he likes cash or two-year Treasury bonds because he thinks there will be better buying opportunities down the road if a recession comes, as he believes.

Pierson thinks a soft landing is possible, and certainly looking much more plausible than it was a year ago. "If there is a recession, we don't think it's going to be a terribly difficult recession," he said. "Overall, the country's in pretty good shape. Corporate credit fundamentals are solid. … Things are going to slow down, the fundamentals are going to decline, but they are coming from really solid levels."

He acknowledged there's a lot of uncertainty that could affect the investment markets. The wars in Ukraine-Russia and Israel-Gaza could escalate further. U.S. debt is at all-time highs and is expected to continue growing. Will the U.S. political dysfunction in Washington get worse? However, Baird's base case is not factoring in some sort of calamity, Pierson

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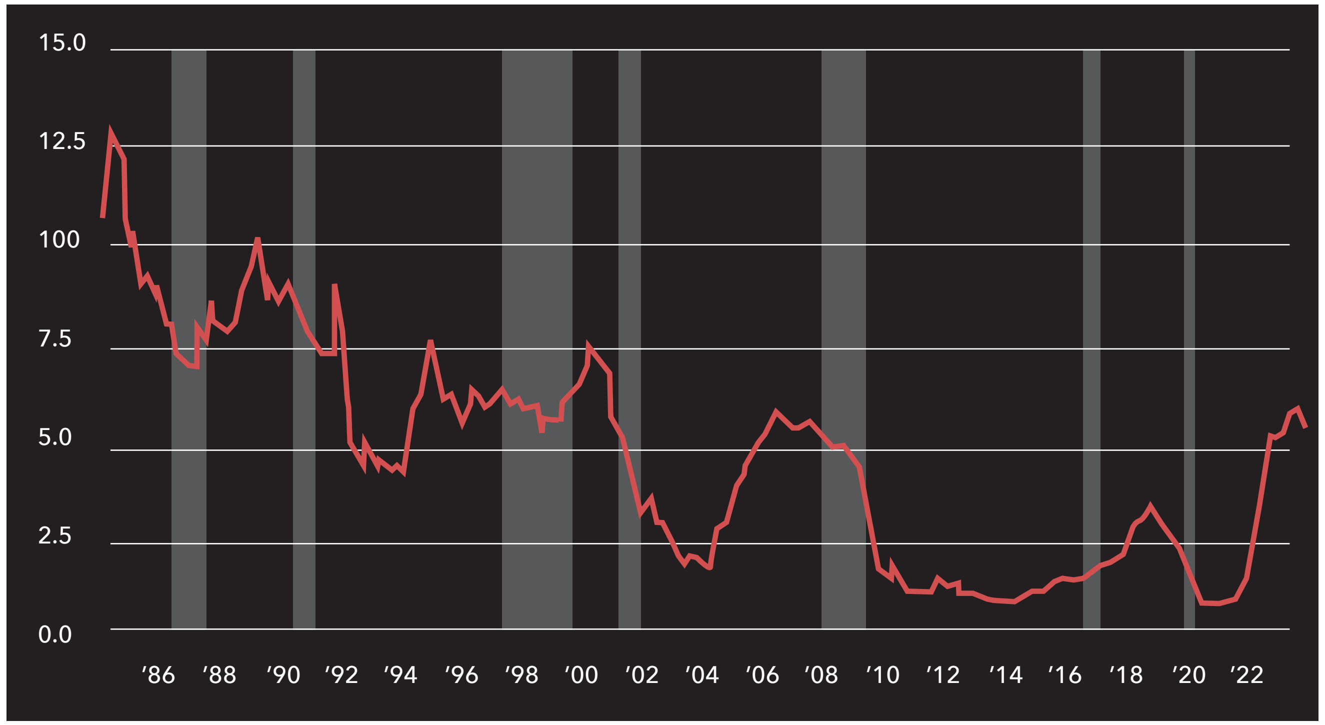
1-Year High Quality Market (HQM) Corporate Bond Spot Rate
(Percentage)



Shaded areas show recession. Source: U.S. Department of the Treasury

said. While the company is not advocating that investors go long on duration, he added, it is pushing them to avoid staying too short.

Overall, Rethinking65 found that managers are positive on the bond market, although they might focus on different pockets of opportunity. Here’s a summary of some key points in 2024 outlooks for fixed income.

Abrdn

Craig MacDonald, global head of fixed income, recently ***wrote*** that Abrdn is very optimistic about 2024. In its base-case scenario, it believes higher-quality bonds will perform particularly well. It’s also watching whether the market has overestimated consumer strength, a less likely scenario but one that would lead to a worse-than-expected recession. It’s also keeping an eye on bank balance sheets and profitability, which have stayed strong despite some high-profile failures.

MacDonald added that Abrdn sees some opportunity in higher-quality private credit. “However, leveraged loans and private credit are parts of the debt market that have grown very quickly. This may be a problem because rapid growth often leads to weakening lending standards in the rush to put money to work.” He noted defaults linked to leveraged loans have already exceeded those in the high-yield bond market. Problems will be clustered around smaller companies, he said.

This year MacDonald also expects some opportunity in the higher-risk emerging market economies whose valuations are still cheap. However, the U.S. dollar would need to weaken and yields on U.S. Treasurys would need to fall before investors re-enter this market in numbers, he said.

Capital Group

Its fixed income team noted in its ***outlook*** that yields are at 20-year highs across credit sectors, providing higher income potential. In the team’s estimation, mortgage-backed securities and investment-grade bonds look compelling. “Looking into 2024, the impact of a continued runoff of the Fed’s balance sheet may become a more prominent topic, as the central bank has been price insensitive and the largest buyer of mortgage securities over the last few years. Nevertheless, housing inventory and affordability remain near all-time lows, which will continue to reduce the supply of mortgage securities and, in turn, support valuations.”

The team said investment-grade bonds are supported by strong balance sheets and a low need for refinancing. “If the economy slows and Treasury yields decline, the sector’s longer duration relative to other credit sectors such as high yield would mean potential price appreciation, which could offset any widening in spreads.”

Macquarie Asset Management

In its ***Outlook 2024,*** its team added to the chorus of predictions that bonds are back. “We believe bonds should perform relatively well in 2024. Yields are back to levels not seen since 2007, the cyclical outlook is challenging, inflation is falling, central banks are pausing, and markets are not pricing in much in the way of interest rate cuts.”

It said municipal bonds in particular have reached yield levels not experienced in more than 10 years, while municipal credit is generally as strong as it has been in decades.

Morningstar

Morningstar acknowledged in its ***outlook*** that higher interest rates have presented an opportunity for bond investors. But Morningstar detailed a number of risks, and one risk is government borrowing. In the first quarter alone, the U.S. Treasury Department plans to borrow more than $800 billion, and that increased supply could drive down bond prices. If interest rates don’t come down, the government may have to refinance at steeper rates, driving down yields. Another risk is the volatility in the bond market, especially in long-dated issues.

Nuveen

Anders Persson, CIO and head of global fixed income, and Daniel J. Close, head of municipals, commented in a Feb. 5 ***outlook*** that rates have probably peaked. Underlying growth has been healthy and risk premiums may widen further, with taxable fixed income likely to become more attractive. The municipal bond market has been particularly strong, with an outsized demand for tax-exempt income.

Vanguard

In its Jan. 31 ***report on active fixed income,*** the company remains positive on the asset class. “We still hold an up-in-quality bias. Corporate credit and high-yield spreads should widen later this year as the economy weakens, but not to extremes. We await a better entry point to add lower-quality risk. Municipal bonds exhibit strong fundamentals and attractive tax-adjusted yields, with the most value out on the curve and down in credit rating.”

In a Feb. 5 ***commentary,*** Daniel Shaykevich, a Vanguard senior portfolio manager, said advisors should consider emerging-markets bonds. They stand to benefit when the U.S. Federal Reserve cuts rates, plus EM bond valuations look good versus U.S. investment-grade and high-yield bonds.

Wisdom Tree

In its ***2024 market outlook,*** Wisdom Tree says it’s adding to duration in fixed income. However, because of the inverted yield curve and its expectation for continued interest-rate volatility, it’s also allocating to short-duration bonds. The company also has rotated selectively into mortgage-backed securities. 65

Dorothy Hinchcliff is Publisher and CEO of Rethinking65.

TOP BOND FUNDS

RANKED BY 2023 PERFORMANCE

HOW DO THEY STACK UP?

TOP U.S. CORPORATES

Mutual Funds (Open-End) – *Passive*

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
Vanguard Intermediate-Term Corp. Bond Index Fund	VICBX	11/19/09	8.87	-2.67	2.85

Source: Morningstar. Data as of 1/2/2024

Active

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
Sterling Capital Long Duration Corporate Bond Fund	SCCPX	6/30/11	10.03	-5.65	0.12
Goldman Sachs Investment Grade Credit Fund	GSCPX	11/3/03	9.79	-3.23	2.88
Allspring Global Investment Grade Credit Fund	WGCRX	2/28/19	9.76	-2.68	
DFA Intermediate-Term Extended Quality Port. Fund	DFTEX	7/20/10	9.61	-3.49	2.36
Morgan Stanley Inst. Fund Trust Corp. Bond Portfolio	MPFDX	8/31/90	9.60	-3.46	2.81
Columbia Corporate Income Fund	SRINX	3/5/86	9.58	-2.70	3.42
Federated Hermes Corporate Bond Strategy Port	FCSPX	6/20/06	9.20	-2.77	3.69
PIA BBB Bond Fund	PBBBX	9/25/03	9.19	-3.27	2.89
AAM/Insight Select Income Fund	CPUIX	4/19/13	9.18	-2.98	2.93
BNY Mellon Corporate Bond Fund	BYMMX	3/2/12	9.13	-1.15	3.29

Source: Morningstar. Data as of 1/2/2024

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TOP U.S. CORPORATES

ETFs – *Passive*

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
VanEck Moody's Analytics BBB Corporate Bond ETF	MBBB	12/1/20	9.80	-2.16	
iShares Investment Grade Bond Factor ETF	IGEB	7/11/17	9.47	-2.68	3.49
SPDR MarketAxess Investment Grade 400 Corp. Bond ETF	LQIG	5/11/22	9.39		
iShares iBoxx $ Investment Grade Corporate Bond ETF	LQD	7/22/02	9.27	-4.11	2.80
iShares BBB Rated Corporate Bond ETF	LQDB	5/18/21	9.19		
iShares 5-10 Year Investment Grade Corp. Bond ETF	IGIB	1/5/07	9.17	-2.64	2.96
Pacer Trendpilot US Bond ETF	PTBD	10/22/19	9.10	-4.45	
VanEck Moody's Analytics IG Corporate Bond ETF	MIG	12/1/20	9.01	-2.31	
iShares ESG Advanced Investment Grade Corp. Bond ETF	ELQD	11/8/21	8.99		
SPDR® Portfolio Corporate Bond ETF	SPBO	4/6/11	8.96	-3.23	2.80

Source: Morningstar. Data as of 1/2/2024

Active

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
VictoryShares Corporate Bond ETF	UCRD	10/4/21	9.34		
John Hancock Corporate Bond ETF	JHCB	3/30/21	9.33		
Fidelity® Corporate Bond ETF	FCOR	10/6/14	9.02	-3.33	2.86
BNY Mellon Responsible Horizons Corp. Bond ETF	RHCB	3/21/22	8.73		
Janus Henderson Sustainable Corporate Bond ETF	SCRD	9/8/21	8.49		
Franklin Investment Grade Corporate ETF	FLCO	10/3/16	7.77	-3.92	2.28
Principal Investment Grade Corporate Active ETF	IG	4/18/18	7.29	-4.07	2.53
American Century Diversified Corporate Bond ETF	KORP	1/11/18	7.21	-1.31	2.54
RiverFront Dynamic Core Income ETF	RFCI	6/10/16	5.91	-1.81	1.78

Source: Morningstar. Data as of 1/2/2024

TOP U.S. MUNICIPALS

Mutual Funds (Open-End) – *Passive*

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
iShares Municipal Bond Index Fund	BIDAX	12/18/00	6.21	-0.63	1.96
Fidelity® Municipal Bond Index Fund	FMBIX	7/11/19	5.92	-1.56	
Fidelity® SAI Municipal Bond Index Fund	FSABX	7/11/19	5.83	-1.77	

Source: Morningstar. Data as of 1/2/2024

Active

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
Delaware Tax Free USA Fund	DMTFX	1/11/84	11.15	-0.69	2.77
AMG GW&K Municipal Enhanced Yield Fund	GWMEX	12/30/05	10.89	-1.81	2.29
Invesco Rochester® New York Municipals Fund	RMUNX	5/15/86	9.82	0.05	3.66
Schwab Opportunistic Municipal Bond Fund	SWHYX	3/31/14	9.23	-0.81	1.33
Delaware Tax-Free California Fund	DVTAX	3/2/95	9.15	-0.13	2.47
Delaware Tax-Free Pennsylvania Fund	DELIX	3/23/77	8.83	0.06	2.40

Source: Morningstar. Data as of 1/2/2024

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TOP U.S. MUNICIPALS

ETFs – *Passive*

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
Xtrackers Municipal Infrastructure Revenue Bond ETF	RVNU	6/4/13	9.20	-1.56	2.24
VanEck Long Muni ETF	MLN	1/2/08	7.82	-3.14	1.28
Invesco New York AMT-Free Municipal Bond ETF	PZT	10/11/07	7.80	-1.30	2.11
Invesco National AMT-Free Municipal Bond ETF	PZA	10/11/07	7.78	-1.30	1.92
Invesco California AMT-Free Municipal Bond ETF	PWZ	10/11/07	6.98	-1.12	2.01
Invesco BulletShares 2031 Municipal Bond ETF	BSMV	9/15/21	6.52		
iShares New York Muni Bond ETF	NYF	10/4/07	6.22	-0.28	1.98
Vanguard Tax-Exempt Bond Index Fund	VTEB	8/21/15	6.16	-0.37	2.23
Columbia Multi-Sector Municipal Income ETF	MUST	10/10/18	5.98	-0.28	2.65

Source: Morningstar. Data as of 1/2/2024

Active

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
PIMCO Municipal Income Opportunities Active ETF	MINO	9/8/21	8.57		
First Trust Flexible Municipal High Income ETF	MFLX	9/27/16	8.00	-2.05	3.25
Franklin Municipal Green Bond ETF	FLMB	8/31/17	7.72	-1.55	2.24
Overlay Shares Municipal Bond ETF	OVM	9/30/19	7.13	-0.44	
IQ MacKay Municipal Insured ETF	MMIN	10/18/17	6.98	-1.10	2.35
Capital Group Municipal Income ETF	CGMU	10/25/22	6.78		
Hartford Municipal Opportunities ETF	HMOP	12/13/17	6.77	-0.11	2.53

Source: Morningstar. Data as of 1/2/2024

TOP U.S. HIGH-YIELD

Mutual Funds (Open-End)* – *Corporates – Active*

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
Arena Strategic Income Fund	ACSIX	12/30/22	17.83		
Virtus Seix High Yield Income Fund	AYBIX	7/31/96	16.69	3.22	5.38
PIA High Yield Fund	PHYSX	12/31/10	16.53	3.59	5.92
Catalyst/SMH High Income Fund	HIIFX	5/21/08	16.43	2.86	5.34
PIA High Yield (MACS) Fund	PIAMX	12/26/17	16.37	4.02	6.52
BrandywineGLOBAL - High Yield Fund	BGHSX	12/4/14	15.30	3.30	7.73
Artisan High Income Fund	APDFX	3/19/14	15.22	3.42	6.82
Leader Short Term High Yield Bond Fund	LCCMX	7/14/05	15.01	0.11	1.66
Dunham High Yield Bond Fund	DNHYX	7/1/05	14.75	2.61	5.92
Payden High Income Fund	PYHRX	12/30/97	14.71	3.34	6.71

Source: Morningstar. Data as of 1/2/2024
*Morningstar did not have data on passive high-yield open-end mutual funds.

Municipals – Active

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
AMG GW&K Municipal Enhanced Yield Fund	GWMEX	12/30/05	10.89	-1.81	2.29
PIMCO Fixed Income SHares: Series TE	FXIEX	6/25/12	9.74	0.62	3.43
MainStay MacKay High Yield Municipal Bond Fund	MMHIX	3/31/10	9.55	0.07	2.88
Transamerica High Yield Muni	THYIX	7/31/13	9.41	-1.06	1.89
PIMCO High Yield Municipal Bond Fund	PHMIX	7/31/06	8.93	0.00	3.24
DWS Strategic High Yield Tax	SHYTX	1/22/87	8.82	-1.08	1.85
PGIM Muni High Income Fund	PRHAX	1/22/90	8.74	-0.77	2.17
Delaware National High-Yield Municipal Bond Fund	CXHYX	9/22/86	8.72	-0.06	3.07
Invesco Rochester® Municipal Opportunities Fund	ORNAX	10/1/93	8.53	-0.19	3.69
Goldman Sachs High Yield Municipal Fund	GHYIX	4/3/00	8.18	-0.51	2.81

Source: Morningstar. Data as of 1/2/2024

TOP U.S. HIGH-YIELD

ETFs – *Corporates – Passive*

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
BondBloxx CCC Rated USD High Yield Corp. Bond ETF	XCCC	5/24/22	19.24		
iShares International High Yield Bond ETF	HYXU	4/3/12	16.08	-2.12	2.44
Xtrackers High Beta High Yield Bond ETF	HYUP	1/11/18	15.40	1.67	5.25
BondBloxx US High Yield Consumer Cyclicals Sector ETF	XHYC	2/15/22	15.36		
iShares High Yield Bond Factor ETF	HYDB	7/11/17	14.78	2.76	6.23
iShares iBonds 2029 Term High Yield and Income ETF	IBHI	3/8/22	14.34		
Invesco BulletShares 2029 High Yield Cor. Bond ETF	BSJT	9/15/21	14.13		
iShares Fallen Angels USD Bond ETF	FALN	6/14/16	14.02	1.38	6.82
BondBloxx US High Yield Financial & REIT Sector ETF	XHYF	2/15/22	13.77		
iShares US & Intl High Yield Corp Bond ETF	GHYG	4/3/12	13.73	0.48	4.09

Source: Morningstar. Data as of 1/2/2024

Corporates – Active

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
Franklin High Yield Corporate ETF	FLHY	5/30/18	13.97	2.15	5.95
Invesco High Yield Bond Factor ETF	IHYF	11/30/20	13.69	1.54	
Harbor Scientific Alpha High-Yield ETF	SIHY	9/14/21	13.68		
First Trust Tactical High Yield ETF	HYLS	2/25/13	13.41	0.90	4.30
Principal Active High Yield ETF	YLD	7/8/15	13.08	4.08	5.84
AB High Yield ETF	HYFI	7/26/16	13.04	2.05	5.85
IQ MacKay ESG High Income ETF	IQHI	10/24/22	12.95		
Fidelity® Sustainable High Yield ETF	FSYD	2/15/22	12.81		
Virtus Newfleet Short Duration High Yield Bond ETF	VSHY	12/5/16	12.53	2.05	4.13
Simplify High Yield PLUS Credit Hedge ETF	CDX	2/14/22	12.48		

Source: Morningstar. Data as of 1/2/2024

TOP U.S. HIGH-YIELD

ETFs – *Municipals – Passive*

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
SPDR® Nuveen Bloomberg High Yield Muni. Bond ETF	HYMB	4/13/11	7.37	-1.38	1.74
VanEck High Yield Muni ETF	HYD	2/4/09	5.50	-2.09	0.47
VanEck Short High Yield Muni ETF	SHYD	1/13/14	3.63	-0.78	1.31
VanEck CEF Municipal Income ETF	XMPT	7/12/11	2.71	-5.46	1.75

Source: Morningstar. Data as of 1/2/2024

Municipals – Active

Name	Ticker	Inception Date	Yearly Return 2023	3-Year Total Return Annlzd	5-Year Total Return Annlzd
BlackRock High Yield Muni Income Bond ETF	HYMU	3/16/21	9.70		
Franklin Dynamic Municipal Bond ETF	FLMI	8/31/17	7.67	0.18	2.67
First Trust Municipal High Income ETF	FMHI	11/2/17	7.28	-0.50	2.53
Invesco Municipal Strategic Income ETF	IMSI	12/5/22	6.33		
Jpmorgan High Yield Municipal ETF	JMHI	9/17/07	4.23	-2.31	1.13

Source: Morningstar. Data as of 1/2/2024

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