

Fearless—Three Things You Can Do Today: *Being Optimistic in Your Intermediate-Term Portfolio*



Serving Leaders in Life



Check out this video from Ronald Blue Trust on how our faith can empower fearless financial decisions in these challenging times.

Pastor: How easily we can be swept into a fearful mindset when we listen to media reports that are less than hopeful. Yet, God clearly reveals Himself in Scripture as our Provider, so with our minds focused on His Word and a wise strategy to guide us, we can replace fear with faith!

Within a portfolio, owning fixed income assets, or bonds, serves two important purposes: (1) bond interest payments are a source of income for investors; and (2) bonds serve as a counterweight to riskier assets like stocks, which experience much greater fluctuations in price. At Ronald Blue Trust, we use bonds for both purposes within the short-term, intermediate-term, and occasionally in certain long-term portions of our client portfolios. For a one- to two-year investment horizon, we employ high-quality bonds with shorter maturities for preservation of capital purposes. For time horizons between three and nine years, we employ a variety of fixed income instruments and in some cases, other asset classes, as we seek to preserve purchasing power with returns that exceed the pace of inflation.

When reviewing first quarter 2020 asset class returns, investors may be puzzled by the mixed performance of their investments in their intermediate-term portfolio; some bonds posted positive returns while others experienced declines. U.S. Treasuries with intermediate-term maturities in this strategy were the best-performing assets in the quarter with returns between 7% and 11%. The coronavirus (COVID-19) outbreak and the oil price war between Russia and Saudi Arabia created significant uncertainty, and many investors responded by reducing their positions in riskier assets and moving to safer asset classes like U.S. Treasuries or even cash. Corporate bonds, both investment grade and non-investment grade (high-yield) with more equity-like characteristics and perceived to be riskier, posted negative returns during the quarter.





This article was written by the Investment Strategy Group at Ronald Blue Trust , April 9, 2020.

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As U.S. Treasury bond prices rose dramatically, their yields fell to unprecedented levels. For example, a 10-year Treasury note ended the quarter with a yield near 0.7%. Shorter-term Treasury notes possess even lower yields today. Going forward, owning such low-yielding U.S. Treasury notes implies a potential return below future inflation. If interest rates rise in the future, returns could be even lower.

While U.S. Treasuries served their purpose in mitigating volatility against falling stock prices in the first quarter, we believe their returns looking forward could fall short of the goal of exceeding inflation over the next three- to nine-year time horizon. Consequently, we have reduced our exposure to this “safe-haven” fixed income asset. We continue to hold some U.S. Treasuries in our intermediate strategies to offer both liquidity and some level of ballast within a basket of riskier assets.

As investors gravitated during the quarter into safer asset classes like cash and U.S. Treasuries, opportunities emerged in corporate bonds—both investment grade bonds and high-yield bonds. In attempting to achieve our primary objective of exceeding inflation over the intermediate term, we believe this portion of the bond market offers a more attractive risk/return profile. While we maintain a healthy allocation to investment grade bonds, in our view, high-yield bonds now offer attractive return potential as well. Our corporate bond investments are made by managers we identify as having strong research teams with extensive experience evaluating the credit quality of each corporate bond issuer.

Going forward, for the portion of our client portfolios focused on intermediate-term goals, we believe our portfolios will benefit from the attractive yields we see in investment grade and high-yield corporate bonds today. Future returns will include both the interest payments received and potential price appreciation as credit quality fears wane when economic growth returns.

The financial impact of coronavirus will be costly for many companies, and some will navigate better than others. The volatility we’ve seen in the corporate bond market will likely continue until uncertainty over our future economic path subsides, but it is not uncommon to see bonds experience negative returns in the near term. Nevertheless, experience suggests that opportunistically positioning our intermediate-term focused investments increases our potential for exceeding purchasing power and offsetting the impact of inflation on these assets.

