# Bond Returns: Looking Back to the Future

## Investors have had strong returns using bonds as a diversifier over the last 10 years...but this may not continue in the next 10 years.

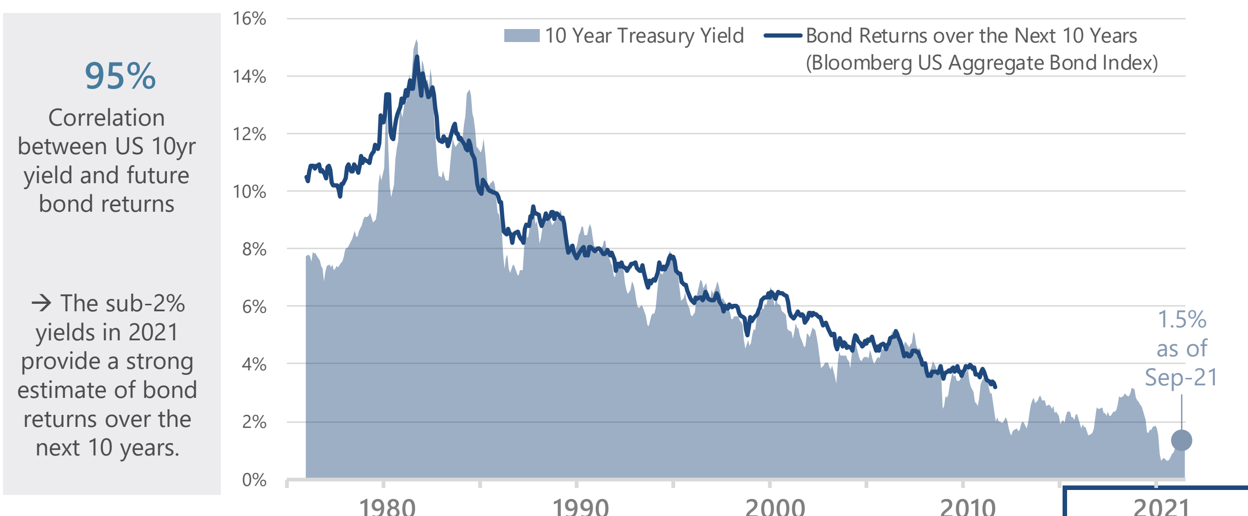
Historically there has been a nearly one-to-one relationship between the starting bond yield and bond returns in the subsequent 10 years. In the current low interest rate environment, this suggests that the future return potential of bonds is very low.

Of course, predicting the future returns of an asset is extremely challenging, and no historical period is exactly like today. With this in mind, how reliable is this relationship between historical bond yields and future bond returns? As discussed in *Predicting Bond Returns: 70 Years of International Evidence*[1] (May 2021), "bond return predictability is consistent over time periods and market episodes, including during extended periods when rates are rising or falling....[it] is a very persistent empirical phenomenon in markets, not driven by statistical type I errors, data mining or p-hacking effects."

The utility of fixed income in a portfolio 20 years ago – when the US 10yr yield was around 6% – may be very different from its role today. With little yield and less scope perhaps for price appreciation, investors today may hold onto bonds for low-cost protection during crisis periods rather than for an impactful return. However, as discussed in other papers (see "Related Content" below), it is far from certain that negative stock-bond correlations will carry forward. From an asset allocation perspective, investors reevaluating the role of fixed income should consider allocations to alternative strategies that, ideally, have positive long-term return potential and diversifying characteristics during difficult equity environments.

### Yields and Bond Returns over the Next 10 Years

Since Bloomberg US Aggregate Bond Index Inception, Jan-76 to Sep-21




| | 1980 | 1990 | 2000 | 2010 | 2021 |
|---|---|---|---|---|---|
| 10yr Treasury Yield: | 10.8% | 8.2% | 6.7% | 3.7% | 1.5% |
| Bond Returns over Next 10yrs: | 12.4% | 7.7% | 6.3% | 3.7% | ? |

### RELATED CONTENT

Macro-Economic Drivers of the Bond-Stock Correlation

Quantum of Solace – Replicating Bond-Like Returns

Faith No More: Alternatives to Fixed Income

In Search of Negative Beta

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[1] Guido Baltussen, Martin Martens & Olaf Penninga (2021) Predicting Bond Returns: 70 Years of International Evidence, Financial Analysts Journal, 77:3, 133-155, DOI: 10.1080/0015198X.2021.1908775

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