Chart on the Go

COLUMBIA THREADNEEDLE INVESTMENTS

Higher bond yields provide a “cushion” when rates increase

(2-year U.S. Treasury bond returns assuming change in yield)

		Change in yield (bps)						
		-300	-200	-100	0	+100	+200	+300
Starting yield (%)	4.0	10.0	8.0	6.0	4.0	2.0	0.0	-2.0
	4.5	10.5	8.5	6.5	4.5	2.5	0.5	-1.5
	5.0	11.0	9.0	7.0	5.0	3.0	1.0	-1.0
	5.5	11.5	9.5	7.5	5.5	3.5	1.5	-0.5
	6.0	12.0	10.0	8.0	6.0	4.0	2.0	0.0
	6.5	12.5	10.5	8.5	6.5	4.5	2.5	0.5

Source: Columbia Threadneedle Investments as of 02/29/24. This example is shown for illustrative purposes only an dis not a guaranteed. These are hypothetical results using a simplified mathematical formula and assumes a starting yield of 6% and a duration of two years. The assumptions do not reflect the effect of other factors that could impact return. A basis point (bps) is 1/100th of a percent.

With the Fed expected to cut rates in 2024, yields on bonds will move as well. So what will happen to bond return when that occurs?

If rates go higher (the right side of the table), bond returns would fall. If rates decline (the left side of the table), bonds would rise. This is because interest rates and bond prices move in opposite directions.

In the case of short-term bonds, we’d have to see rates rise more than 300 basis points to see negative returns, making them particularly attractive for investors who may be overallocated to cash.

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