SINGER
WEALTH

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Bond alternatives

Traditionally investors have added bonds to their portfolios to reduce the risk of their portfolios. Unfortunately, in a rising interest-rate environment, bonds can be very risky to own as illustrated by 20-year U.S. Treasury bonds decreasing in value by more than 22% this year to date through early May. If losing 22% in four months does not seem very safe to you, there are alternative ways to reduce the risk of your portfolio.

Certain index annuities can provide an attractive bond alternative for those looking for both safety and competitive returns. No-load insurance contracts can also provide safety without the dangerous interest rate risk that bonds have in a rising interest rate environment.

For those who are trying to generate current income, private credit funds offer income based on secured floating rate loans made to private companies. Yields have averaged more than 8% over the last 10 years. Unlike traditional bonds, which pay a fixed coupon, private credit funds pay investors coupons that can increase if interest rates rise.

Adjustable-rate loans typically do not have the same interest rate risk as fixed coupon bonds.

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Another income strategy investors can use to generate high rates of interest is buying structured notes. These are issued by major banks and trade like bonds. They also have the credit risk of the issuing bank – just like corporate bonds. However, since the notes are typically 3-5 years in duration and could potentially be called after a quarter or two, they tend to have much less interest-rate risk.

These notes can be linked to individual stocks or major indexes like the S&P 500. The notes will have investment risk if the underlying security performs poorly but typically there is much less risk than owning the index directly because the notes can have protective barriers that shield investors from loss if the underlying security declines. We have seen notes like these yielding between 8% and 11%. In today's rising interest-rate environment, it is prudent to learn about available bond alternatives.