Manulife

It's been a tough couple of years for bond investors. Central bank's near-zero interest rate policies have switched to rapid interest rate increases. Which has led to material declines in the bond portion of most portfolios.

As interest rates increase, the price of bonds decrease.

So, why would investors keep bonds in their portfolios? There are two main reasons that bonds still make sense.

One. Capital preservation. Historically, bonds provide downside protection for a portfolio when stocks decline. When stocks decline, yields on bonds also decline, which leads to an increase in bond prices.

But unprecedented stimulus has led to much higher inflation. Central banks have been forced to increase rates to battle inflation leading to a decline in both bonds and stocks.

However, bonds are likely to revert to their historical relationship with stocks. One where if stocks decline, bond prices are likely to increase.

Two. Income generation. Central banks around the world are raising interest rates in an attempt to decrease inflation.

As a result, the average yield on the benchmark 10-year government of Canada bond has increased from 0.5% to approximately 3.5%. The increase in yields has made bonds an attractive option for income generation.

Bonds can play an important role in an investment portfolio. This asset class provides diversification, downside protection in volatile markets and steady income generation for investors.

Speak to your advisor to find out more about fixed income options that fit with your investment goals.