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Hartford Balanced Income Fund Symbols: **I:** HBLIX **A:** HBLAX **C:** HBLCX **F:** HBLFX **R3:** HBLRX **R4:** HBLSX **R5:** HBLTX **R6:** HBLVX **Y:** HBLYX

Finding Balance in an Unbalanced World

In a highly complex investment environment, do balanced funds still make sense?

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In today's environment, there's a question whether balanced funds still make sense: Higher interest rates coupled with higher levels of inflation could deliver low inflation-adjusted returns going forward.

We believe balanced funds can still be a prudent approach for risk-conscious investors. Fixed-income investments have historically helped to limit the impact of drawdowns, while equities provide the growth potential investors need to help achieve their long-term goals. A balanced strategy combines both the relative safety of fixed income with the increased return profile offered by equities, which has historically provided a better investor experience (**FIGURE 1**).

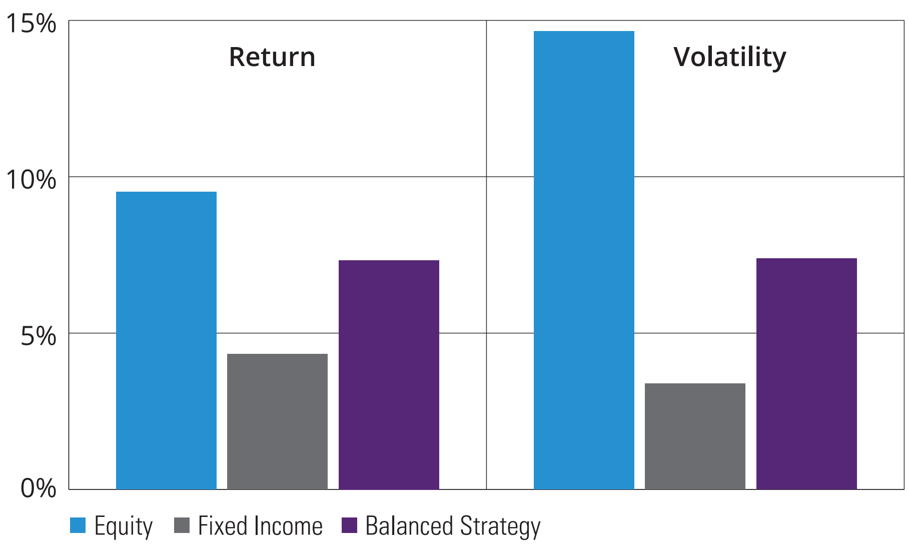
Key Points

- The end of quantitative easing, high inflation, and the prospect of multiple rate hikes create a highly uncertain environment.
- During the past five equity drawdowns of 10% or more, bonds posted positive returns and helped to cushion drawdowns.
- When the 10-year Treasury yield has spiked, equities still turned in attractive returns that helped boost balanced portfolios.

FIGURE 1

Balanced Investing Has Offered an Attractive Trade-off Between an All-Equity and All Fixed-Income Portfolio

Average Annual Returns (2001–2021)



Past performance does not guarantee future results. Equities are represented by the S&P 500 Index. Bonds are represented by the Bloomberg US Aggregate Bond Index. Balanced Strategy is represented by 50% S&P 500 Index and 50% Bloomberg US Aggregate Bond Index and does not reflect the performance of any particular fund. Volatility is measured by standard deviation, which measures the spread of the data about the mean value. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Please see page 5 for index definitions. Data Sources: Morningstar and Hartford Funds, 4/22.

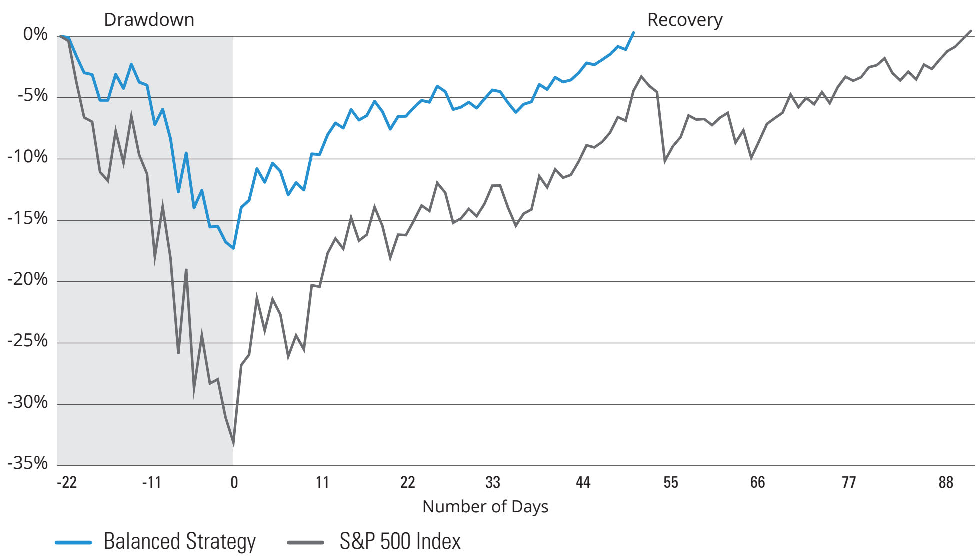
2020 provided an interesting case study for balanced investing. When the COVID-19 drawdown rocked markets, a balanced strategy didn't experience the level of losses that an all-equity portfolio experienced. What's more, the balanced strategy recovered its losses in 51 days—much faster than the S&P 500 Index (**FIGURE 2**).

At the onset of the pandemic, the yield on the 10-year Treasury was approximately 1.90%. Even in a low-rate environment, fixed income was able to help dampen equity-market risk and reduce the impact of a severe drawdown.

FIGURE 2

2020 COVID-19 Drawdown and Recovery

Balanced Strategy vs. S&P 500 Index (2/20/20–6/5/20)



Past performance does not guarantee future results. Data Sources: Morningstar and Hartford Funds, 4/22.

Balanced portfolios lost less and recovered more quickly than an all-equity portfolio during the COVID-19 drawdown.

Balanced Funds Have Helped Cushion Drawdowns

If we look at the past five drawdowns of 10% or more for the S&P 500 Index that we've recovered from, the Bloomberg US Aggregate Bond Index averaged modestly positive returns during those periods, while the average equity drawdown was nearly 19% (**FIGURE 3**). Even in periods in which rate increases or extreme panic caused credit sectors to underperform, the magnitude of fixed-income losses was far less than that of equities.

FIGURE 3

Fixed Income Held Up Well in the Past Five Equity Drawdowns

Equity and Fixed-Income Returns During Equity Corrections >10%

Date	Equity Drawdown	Fixed-Income Returns
Feb 2020–Mar 2020	-33.80%	-0.90%
Sep 2018–Dec 2018	-19.40%	1.60%
Jan 2018–Feb 2018	-10.10%	-1.00%
Jul 2015–Feb 2016	-12.90%	3.00%
Jul 2011–Oct 2011	-17.80%	3.60%
Average	**-18.80%**	**1.26%**

Past performance does not guarantee future results. Data Sources: Morningstar and Hartford Funds, 4/22.

Do Balanced Funds Make Sense When Rates Are Rising?

Another objection to balanced investing today is rising rates and their impact on fixed income. We examined the last five periods in which the yield on the 10-year Treasury spiked significantly (**FIGURE 4**).

The S&P 500 Index averaged 18.94% over these time periods despite an average yield increase of 1.98% on the 10-year Treasury. While equities should do the heavy lifting and provide the bulk of returns in a balanced strategy, the fixed-income allocation helps to dampen overall risk and smooth out the return profile over time.

If there are any policy missteps by the Fed, a fixed-income allocation could help limit downside and mitigate losses.

FIGURE 4

Stocks Performed Well When Rates Were Rising

Stock Returns When the 10-Year Treasury Spiked Significantly (6/13/03–6/30/22)

Date	Starting Yield	Ending Yield	Yield Change	S&P 500 Index
6/13/03–6/12/07	3.13%	5.30%	2.17%	12.60%
12/31/08–4/2/10	2.06%	3.94%	1.88%	27.92%
7/24/12–1/22/14	1.39%	2.87%	1.48%	25.83%
7/8/16–11/8/18	1.36%	3.23%	1.87%	15.52%
3/9/20–6/30/22	0.50%	2.98%	2.48%	12.81%
Average	**1.69%**	**3.66%**	**1.98%**	**18.94%**

Past performance does not guarantee future results. Data Sources: Morningstar and Hartford Funds, 8/22.

Moving forward, bond returns could be negatively affected by a more active Federal Reserve (Fed) and further inflationary pressures. However, this same backdrop should be a favorable environment for the equity portion of a balanced strategy. If there are any policy missteps along the way that could jolt the economy and equity markets, the fixed-income allocation may help to limit downside and mitigate losses.

A Balanced Fund With a Quality Focus

If the idea of using a balanced strategy makes sense to you, the Hartford Balanced Income Fund may be a good choice. We believe the Fund is a compelling strategy in an environment of rising interest rates and higher inflation, and holds several advantages over a traditional balanced approach.

The Fund has a 45% equity/55% fixed-income mix with the flexibility to change allocations by + or - 5%. A strategic approach to asset allocation has helped keep risk in check and puts a premium on security selection, a strength of the Fund's sub-adviser, Wellington Management.

Equity Sleeve

Domestic investing has been outstanding over the past decade relative to international investing. Propelled by the Fed and corporate tax cuts, US companies delivered record-setting corporate profits. As their balance sheets swelled, companies put that cash to work through research and development, new products, stock buybacks, and dividends—a key ingredient of the Hartford Balanced Income Fund.

The Fund's equity sleeve is comprised of high-quality, dividend-paying stocks that have the potential to grow their dividends over time (**FIGURE 5**). You'll recognize the Fund's top-10 holdings because many of them are among America's best companies—names you know and trust—that have been paying dividends for decades.

We believe the Fund's focus on dividend-paying equities and its value tilt distinguish it from the S&P 500 Index. Value strategies tend to have more exposure to banks and insurance companies, which have historically benefitted from higher interest rates.

Value strategies also tend to have more exposure to commodity-focused businesses, such as energy companies, and mining and metals companies, which have historically benefitted from periods of inflation.

Consumer staples are another area that could perform well in an inflationary environment. Relatively inelastic demand for these products (e.g., food, beverages, and other household items) means companies in this sector have more pricing power than in many other sectors.

Value strategies could benefit from higher interest rates due to their exposure to banks and insurance companies.

FIGURE 5

A Heritage of Paying Dividends

Dividend History: Hartford Balanced Income Fund's Top-10 Equity Holdings (as of 6/30/22)

Company Name	Year Began Paying Dividends	Portfolio Weighting (%)
Johnson & Johnson	1973	1.84
Pfizer Inc.	1980	1.59
MetLife, Inc.	2000	1.39
Merck & Co., Inc.	2010	1.30
ConocoPhillips	2002	1.28
Mondelez International, Inc. Class A	2001	1.22
Morgan Stanley	1995	1.19
Cisco Systems, Inc.	2011	1.15
Philip Morris International Inc.	2008	1.13
Chubb Limited	1993	1.10
Total		**13.19**

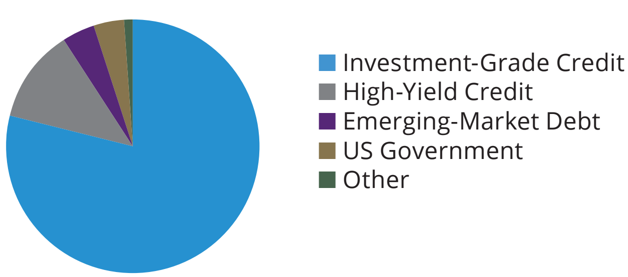
Holdings are subject to change. Data Sources: Bloomberg and Hartford Funds, 8/22.

Fixed-Income Sleeve

The Fund's fixed-income sleeve is primarily comprised of investment-grade corporate bonds, with small allocations to high-yield and emerging-market bonds to diversify the fixed-income exposure and help with overall income generation (**FIGURE 6**). A focus on corporate debt also has a yield advantage over US Treasuries or Agency mortgage-backed securities. The spread[1] component could provide a buffer in a rising-rate scenario, as the additional income could help cushion losses, while spread tightening could help to dampen the impact of rising rates on bond prices.

FIGURE 6

Hartford Balanced Income Fund: Fixed-Income Sector Exposure (6/30/22)



Strike Your Proper Balance

In one of the most complex investment environments in decades, using a balanced strategy rather than going all in on either stocks or bonds might be a prudent approach. The Hartford Balanced Income Fund may be appropriate for investors who want a conservative core holding for their portfolio—one that could provide a better investor experience whether inflation and interest rates move up or down.

Talk to your financial professional to learn more about balanced investing and the Hartford Balanced Income Fund.

[1]Spreads are the difference in yields between two fixed-income securities with the same maturity, but originating from different investment sectors.

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

Bloomberg US Aggregate Bond Index is composed of securities that covers the US investment-grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

Important Risks: Investing involves risk, including the possible loss of principal. Security prices fluctuate in value depending on general market and economic conditions and the prospects of individual companies. The Fund may allocate a portion of its assets to specialist portfolio managers, which may not work as intended. • Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall. • For dividend-paying stocks, dividends are not guaranteed and may decrease without notice. • Different investment styles may go in and out of favor, which may cause the Fund to underperform the broader stock market. • Foreign investments may be more volatile and less liquid than US investments and are subject to the risk of currency fluctuations and adverse political, economic, and regulatory developments.

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