

How Volatility Is Reshaping Bond Returns

Volatility has taken center stage in fixed income, challenging the old rules of steady income.

For decades, fixed-income investors could count on steady coupon income as the primary source of return. But the last several years have rewritten that playbook. As the chart below shows, price movements—both positive and negative—have increasingly dominated the return experience for bonds. In fact, over the past decade, price movements have accounted for about 61% of total fixed-income returns each quarter. In some periods, the magnitude of price return has far outweighed the contribution from coupons, making the overall return profile more volatile than many investors expect from fixed income.

Price Volatility, Not Coupons, Has Driven Bond Performance

Bloomberg US Aggregate Bond Index Quarterly Sources of Total Return (%)

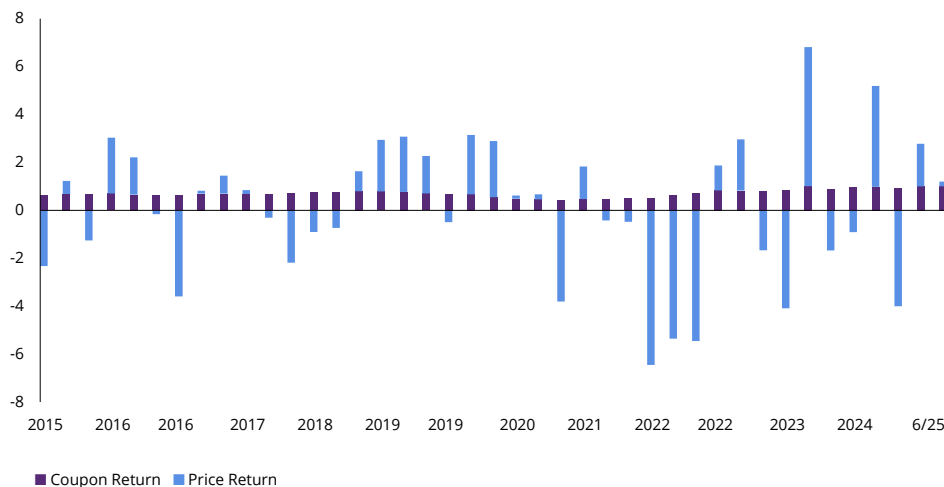


Chart data as of 6/15-6/25. **Past performance does not guarantee future results.** Bloomberg US Aggregate Bond Index is composed of securities that cover the US investment-grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. Indices are unmanaged and not available for direct investment. Data Sources: Morningstar and Hartford Funds, 7/25.

Breaking Down Bond Returns: Coupons vs. Price Moves

Coupon returns are generally predictable because they're calculated as a fixed percentage of the bond's face value at the time of issuance. Price returns, on the other hand, reflect the market's reaction to shifting interest rates, yield-curve dynamics,³ and changing risk premiums. Since the pandemic, inflation shocks and rapid Federal Reserve (Fed) policy shifts have amplified these effects, creating wide swings in quarterly price returns. For investors, that means the *path* of rates, not just the *level*, has become a critical driver of outcomes.

This shift isn't happening by chance. Inflation shocks, rapid Fed pivots, and shifting risk premiums have pushed interest-rate sensitivity to the forefront of fixed income. In this environment, with an uncertain path forward for interest-rate policy, price swings may overshadow the steady drip of income, making the old "buy and hold for yield" playbook less reliable.

Insight from Hartford Funds

Key Points

- Bond returns are no longer driven primarily by predictable coupon¹ income, as price volatility has become a dominant force in shaping outcomes.
- Rapid shifts in interest rates, inflation surprises, and changing risk premiums² have amplified market swings, making the return path far less stable than in the past.
- In this environment, success may depend on adapting traditional fixed-income strategies to accommodate a more uncertain landscape.

Adapting to a More Volatile Bond Market

The takeaway isn't that bonds have lost their value—it's that fixed-income strategies need to adapt. Active management of duration⁴ and curve positioning, stress-testing for rate volatility, and diversifying across sectors have become essential tools. Yield and price appreciation still matter in fixed income, but the road to those returns is far less predictable than it once was. For financial professionals and investors alike, understanding where returns come from, and the risks that come with them, has never been more important.

**To learn more about managing fixed-income risk,
please talk to your financial professional.**

¹ Bond coupons refer to the periodic interest payments made to bondholders during the life of the bond. These payments are typically expressed as a percentage of the bond's face value and are paid annually or semiannually.

² A risk premium is the investment return an asset is expected to yield in excess of the risk-free rate of return.

³ The yield curve is a line that plots interest rates of bonds having equal credit quality but differing maturity dates; its slope is used to forecast the state of the economy and interest-rate changes.

⁴ Duration is a measure of the sensitivity of an investment's price to nominal interest-rate movement.

Important Risks: Investing involves risk, including the possible loss of principal. • Fixed income security risks include credit, liquidity, call, duration,

and interest-rate risk. As interest rates rise, bond prices generally fall. • Diversification does not ensure a profit or protect against a loss in declining market.

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