Investment-grade bonds are among the best diversifiers of equity risk

Average monthly asset-class returns during periods of bottom-decile returns for Canadian stocks, 1992-2013

- Many of the asset classes purchased to generate yield, such as emerging markets bonds and commodities, behave more like equities than bonds during periods of equity market stress.
- As the chart shows, hedged U.S. bonds, hedged international bonds and Canadian bonds can provide a diversification benefit during bear markets for stocks.
- With bond yields currently low in the U.S. and elsewhere, Vanguard believes investors should view their portfolios from a total return perspective, rather than simply in terms of potential income. The volatility-dampening properties of bonds should be carefully taken into consideration when developing a sound investment strategy.

1 Investment-grade bonds include U.S. Treasuries and other fixed income securities with a credit rating of Baa3 or higher by Moody’s or a credit rating of BBB- or higher by Standard & Poor’s or Fitch.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

The data in the above chart represent monthly asset-class returns over 29 periods of bottom-decile performance for Canadian stocks from January 1992 through December 2013. (Bottom decile refers to periods when returns were among the bottom 10% for that asset class, in this case Canadian stocks.)

- (1) U.S. bonds (hedged) by Barclays U.S. Aggregate Index (CAD Hedged);
- (2) international bonds (hedged) by Barclays Global Aggregate Index (CAD Hedged);
- (3) Canadian bonds are represented by Citigroup World Government Bond Index – Canada All Maturities (1992-September 2002) and Barclays Canadian Issues 300MM Index thereafter;
- (4) emerging markets bonds (hedged) by Barclays Emerging Markets USD Sovereign Bond Index (CAD Hedged);
- (5) commodities by Dow Jones-UBS Commodity Index;
- (6) U.S. stocks (hedged) are represented by S&P 500 Index CAD-Hedged;
- (7) international stocks (hedged) by MSCI EAFE 100% Hedged to CAD Index;
- (8) emerging markets stocks (hedged) are represented by MSCI Emerging Markets 100% Hedged to CAD Index; and

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Investments in exchange-traded bond funds are subject to interest rate, credit, and inflation risk. Foreign investing involves additional risks including currency fluctuations and political uncertainty.