Navigating a change rate environment

Changing market conditions call for flexibility

Today's higher yields have unlocked potential opportunities for investors to generate income and add diversification to their portfolios. But, as rates start to fall, what do investors need to know?

75 bps cut

The Federal Reserve has cut rates 2 times for a total of 75 basis points since mid-September, triggering a new rate environment.[1]

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Interest rate uncertainty continues as the outlook for inflation remains unclear with the transition to a new administration.

4.75%

Continuing its fight against inflation, the Federal Reserve's key federal funds rate is now between 4.5 and 4.75%.[2]

2%

While the Fed's monetary policy has successfully cooled inflation from its peak of 9.1% in June 2022, inflation is still above the 2% target.[2]

[1] Federal Reserve (November 2024)
[2] Bureau of Labor Statistics (November 2024).

Within a higher rate environment, investor optimism remains low

Investors are struggling to make sense of new market dynamics and the possibility of an economic recession.

25%+

More than a **quarter of retirees** continue to pay off mortgages and credit card debt.[3]

60%+

of investors say that their **retirement expectations have changed** significantly in the past 5 years.[4]

[3] Nationwide Retirement Institute (January 2024).
[4] Nationwide's ninth annual Advisor Authority study, powered by the Nationwide Retirement Institute (January 2024).

It's hard to predict which fixed income asset classes are going to do well

With 86% of financial professionals planning to increase their clients' exposure to taxable fixed income in the next 6 to 12 months,[5] it is important to recognize that fixed income sectors that do well one year are not necessarily top performers the following year. For example, in the years between 2014 and 2023, **7 different fixed income asset classes** generated the highest returns.[6]

2014	Municipal Bonds	9.05%
2015	Municipal Bonds	3.30%
2016	High-Yield Bonds	17.49%
2017	Emerging Markets Bonds	8.11%
2018	Asset-Backed Securities	2.43%
2019	U.S. Investment Grade Corporate Bonds	14.54%
2020	International Bonds	10.11%
2021	Bank Loans	5.40%
2022	Asset-Backed Securities	0.14%
2023	High-Yield Bonds	13.46%

[5] Nationwide's 10th annual Advisory Authority Survey, powered by the Nationwide Retirement Institute (September 2024).
[6] Annualized returns from Morningstar (Dec. 31, 2023).

What do investors need to know?

Many fixed income sectors now offer attractive yields. Here are a few additional considerations to keep in mind:

- Focus duration toward the most attractive parts of the yield curve
- Seek diversification across bond maturities and credit quality
- Consider funds that invest actively and opportunistically

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