Understanding a changing rate environment

Changing market conditions call for flexibility

Fixed income investors need flexibility today perhaps more than any time in recent market history. The second half of 2024 saw the start of Federal Reserve rate cuts, monetary policy easing and market volatility as the U.S. economy downshifted to slower late cycle growth. It's difficult to anticipate how far or how fast the Fed may go in easing interest rates. This uncertainty will probably contribute to continued volatility in the bond market in the months to come.

Higher volatility, however, can bring opportunities to capture returns, but only for investors who are positioned for these opportunities where they are likely to appear.



23 years

In June, the Federal Reserve held interest rates firm at a 23-year high.1



Since March 2022, the Federal Reserve has increased interest rates 11 times, with the last increase happening in July 2023.1



% 5.0%+

As part of its continued fight against inflation, the Federal Reserve is keeping its key federal funds rate between 5.25% and 5.5% — the highest in nearly 23 years.²

While inflation has steadily cooled from its peak of 9.1% in June 2022, it still remains above the Federal Reserve's 2% target.³

Federal Reserve (July 2024) ² CNBC.com (Jan. 31, 2024). ³Bureau of Labor Statistics (January 2024).

While interest rates have increased, investor optimism has not

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



2014

of investors believe the economy will plunge into a recession within 12 months if the political party with which they least align gains more power in the 2024 federal election.4



of pre-retirees (nonretired investors ages 55 to 65) said they plan to retire later than anticipated due to rising inflation, high interest rates and an uncertain economic environment.5

9.05%

⁴ Nationwide's ninth annual Advisor Authority Study powered by the Nationwide Retirement Institute® (October 2023). 5 Nationwide's eighth annual Advisor Authority Study powered by the Nationwide Retirement Institute (June 2023).

Municipal Bonds

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

sectors that do well one year are not necessarily top performers the following year. For example, in the years between 2014 and 2023, seven different fixed income asset classes generated the highest returns.6

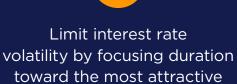
The value of staying flexible is apparent when you recognize that fixed income

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%
⁶ Annualized returns from Morningstar (Dec. 31, 2023).		

to know? Many fixed income sectors now offer attractive yields.

What do investors need

Here are a few additional considerations to keep in mind:



parts of the curve



and credit quality





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