



Market Commentary

Weekly perspective on current market sentiment

October 14, 2026

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Last week's S&P 500 Index: +1.2%

Bond investors: Look past the bumps in the road

Key takeaways

- Higher bond yields can cause short-term declines but increase income and future return potential.
- Rather than leaving the bond market, investors may benefit from repositioning toward shorter maturities and considering tax-loss-harvesting opportunities.

If you've recently opened your statement, seen declines in your bond holdings, and wondered whether bonds still belong in your portfolio, you're not alone. Bond prices and yields generally move in opposite directions, and yields have moved sharply higher in recent months. That has created some uncomfortable price declines. Before making any changes to your bond portfolio, it helps to focus on where the road is heading, not just the bump you're driving over today.

Higher yields can improve future returns

One of the most important drivers of future bond returns is the yield available when you invest. While rising yields have hurt bond prices in the short term, they also mean bonds are generating more income going forward. In other words, today's setback may improve the outlook for future returns.

Repositioning isn't the same as getting out

Many investors treat every bond sale the same, but intent matters. Selling to hold cash means leaving the market entirely. If yields fall and bond prices recover, you may miss that opportunity. Repositioning is different. It means remaining invested while adjusting your portfolio to better reflect today's environment. If you need cash for spending needs, selling may make sense. If you're simply reacting to market volatility, repositioning may be the better approach.

Why we continue to favor shorter maturities

We favor short-term investment-grade bonds over long-term investment-grade bonds. Shorter maturities are less sensitive to rising rates and allow investors to reinvest sooner at higher yields while longer maturities face greater price swings if rates rise. While they may perform well if rates decline, we continue to believe the risk of higher rates remains.

Consider tax-loss-harvesting opportunities

Higher rates have left many bond positions trading below their purchase price. For investors with taxable accounts, that may create an opportunity to realize losses that can help offset gains elsewhere in the portfolio. Importantly, harvesting losses does not mean abandoning bonds. Investors can often reinvest in similar securities or use proceeds to reposition toward short-term maturities, where we continue to see value.

Bottom line

Higher yields create short-term discomfort but improve future income potential. Rather than reacting to short-term market moves, investors may want to consider how their bond portfolios are positioned for the road ahead. Talk with your financial professional about what makes sense for you.

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Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk.

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