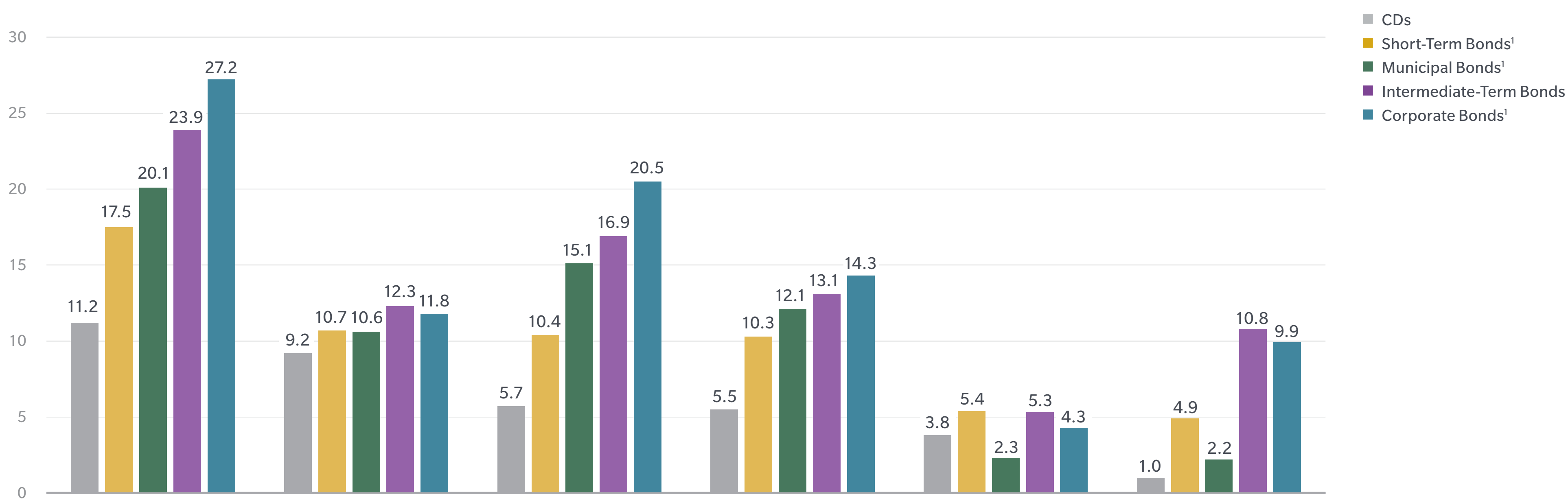
MARKET SNAPSHOT

# CDs: Opportunity or Potential Opportunity Lost?

As the US Federal Reserve began raising interest rates, many investors began investing in certificates of deposit (CDs) due to the higher relative yields being offered and also due to heightened concerns about the volatility in the bond markets. With the Fed close to ending their interest rate tightening cycle we believe it may benefit investors to add exposure to bond funds. Over the last 40 years, CD rates peaked near or at the end of the last six Fed tightening cycles. Historically, in the twelve months after CD rates peaked (dates shown below), indexes representing a diversified mix of short-term bonds, municipal bonds, a diversified mix of intermediate-term bonds and corporate bonds have generally generated stronger total returns than CDs. While bond market volatility may continue, the end of the Fed hiking cycle may provide a backdrop to start allocating maturing CD balances into bond funds exposed to to areas of opportunity within fixed income markets.

## Generally, investing in CDs at peak rates has left money on the table

One-year subsequent total return from peak CD rate (%)




| 1984 | 1989 | 1995 | 2000 | 2007 | 2019 | **Peak Year** |
|---|---|---|---|---|---|---|
| 11.24% | 9.21% | 5.69% | 5.52% | 3.79% | 1.00% | **CD Peak Rate** |
| 8/01/84 – 7/31/85 | 4/1/89–3/31/90 | 2/1/95–1/31/96 | 6/1/00–5/31/01 | 9/1/06–8/31/07 | 5/1/19–4/30/20 | **One-year period after peak CD rate** |

## It may be time to consider adding credit and duration exposure to help drive long-term value.

[1] Short-Term Bonds, Municipal Bonds, Intermediate-Term Bonds, and Corporate Bonds are represented by the Bloomberg 1-3 Year U.S. Government/Credit Bond Index, the Bloomberg Municipal Bond Index, the Bloomberg US Aggregate Bond Index and the Bloomberg US Corporate Bond Index, respectively. See the reverse side for additional information.

Source: CD rates from Bankrate.com. CD rate dates are from month that 1-year national average CD rates peaked. For CD return, money was invested at the peak 1-year CD rate for that period. Please see the back page for index definitions.



**See next page for important disclosures.**

## Opportunity Costs

While CDs generally have offered more stability, that stability may come with a cost. As demonstrated in the chart below, bond funds have generally delivered more growth (green boxes) than CDs during the periods highlighted below. Moreover, very few investors can successfully time the market, and waiting for the right time has historically meant missing the best days of a market rebound. The opportunity cost can be substantial over time.

### Growth Opportunity with initial $100,000 investment[2] when investing at peak CD rates

outperformed CDs   underperformed CDs

| | | | | | | |
|---|---|---|---|---|---|---|
| **CDs** | $ 111,240 | $ 109,210 | $ 105,690 | $ 105,520 | $103,790 | $ 101,000 |
| **Short-Term Bonds** | $117,502 | $110,663 | $110,394 | $110,314 | $105,418 | $104,944 |
| **Municipal Bonds** | $120,083 | $110,552 | $115,053 | $112,143 | $102,298 | $102,162 |
| **Intermediate-Term Bonds** | $123,913 | $112,339 | $116,945 | $113,115 | $105,261 | $110,842 |
| **Corporate Bond** | $127,248 | $111,753 | $120,480 | $114,293 | $104,321 | $109,884 |
| **Performance Dates** | 8/1/84–7/31/85 | 4/1/89-3/31/90 | 2/1/95–1/31/96 | 6/1/00–5/31/01 | 9/1/06–8/31/07 | 5/1/19–4/30/20 |

Source: CD rates from Bankrate.com. CD rate dates are from same month that 1-year national average CD rates peaked. For CD return, money was invested at the peak 1-year CD rate for that period. All other data from Morningstar Direct.

[2] Growth Opportunity represents the index total returns, reinvesting all income and capital gains distributions. Green boxes in table depict time periods where the category outperformed the CD total return and red boxes depict underperformance.

 CDs are FDIC insured and have principal and interest guarantees but offer no opportunity for growth of capital or income. The principal value and return of an investment in mutual funds will fluctuate with changes in market conditions. Bonds generally offer higher income than either CDs or money market funds.

**Index Definitions: Short-term Bonds:** Bloomberg 1-3 Year U.S. Government/Credit Bond Index - measures the performance of the short-term (1 to 3 years) investment-grade corporate and U.S. government bond markets. **Municipal Bonds:** Bloomberg Municipal Bond Index - measures the performance of the tax-exempt bond market. **Intermediate-Term Bonds:** Bloomberg U.S. Aggregate Bond Index - measures the performance of the U.S. investment grade, fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with at least one year to final maturity. **Corporate Bonds:** Bloomberg US Corporate Bond Index - measures the investment grade, fixed-rate, taxable corporate bond market.



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**Important Risk Considerations**: Investments in debt instruments may decline in value as the result of, or perception of, declines in the credit quality of the issuer, borrower, counterparty, or other entity responsible for payment, underlying collateral, or changes in economic, political, issuer-specific, or other conditions. Certain types of debt instruments can be more sensitive to these factors and therefore more volatile. In addition, debt instruments entail interest rate risk (as interest rates rise, prices usually fall). Therefore, the portfolio's value may decline during rising rates. Portfolios that consist of debt instruments with longer durations are generally more sensitive to a rise in interest rates than those with shorter durations. At times, and particularly during periods of market turmoil, all or a large portion of segments of the market may not have an active trading market. As a result, it may be difficult to value these investments and it may not be possible to sell a particular investment or type of investment at any particular time or at an acceptable price. The price of an instrument trading at a negative interest rate responds to interest rate changes like other debt instruments; however, an instrument purchased at a negative interest rate is expected to produce a negative return if held to maturity.

**Keep in mind that all investments, including mutual funds, carry a certain amount of risk including the possible loss of the principal amount invested.**

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