

UNDERSTANDING DURATION RISK TODAY

Bonds not only play important diversification and income generating roles in an overall portfolio, they also tend to perform well in a low interest rate environment. Remember, bond prices fall when rates rise. With a possibility of rising rates, how could they affect your bond portfolio? “Duration” can help you find out.

The longer a bond’s duration, the more sensitive it is to changes in interest rates.

Keep in mind that all investments, carry a certain amount of risk, including the possible loss of the principal amount invested. Investments in debt instruments may decline in value as the result of declines in the credit quality of the issuer, borrower, counterparty, 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 share price may decline during rising rate environments as the underlying debt instruments in the portfolio adjust to the rise in 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.

No investing strategy can guarantee a profit or protect against a loss.

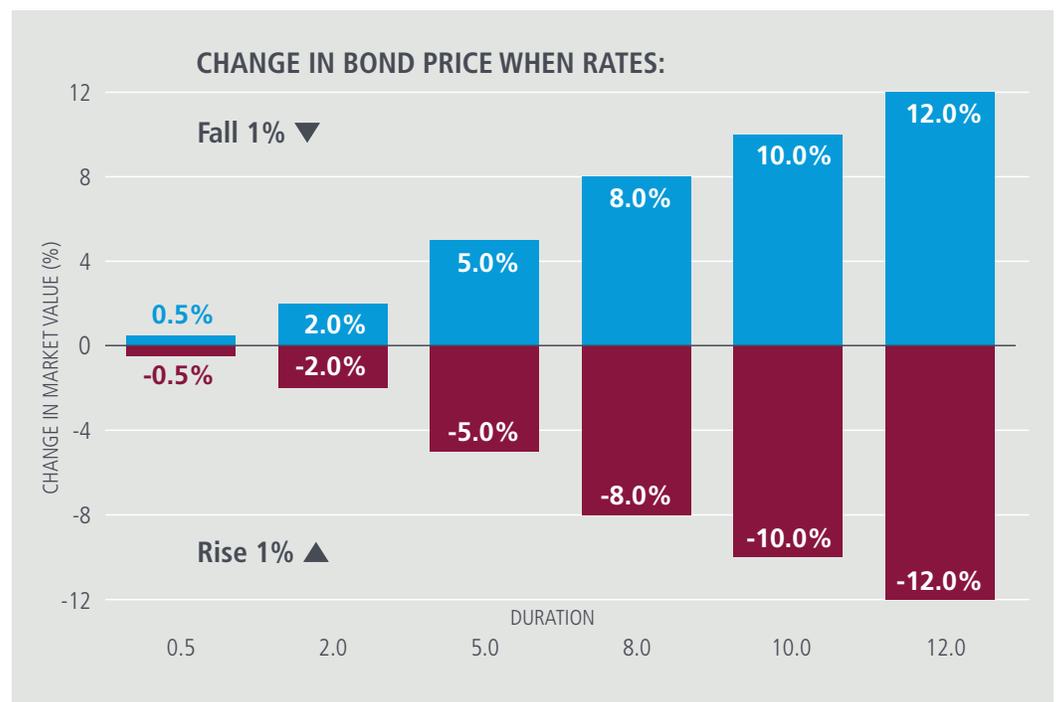
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What is duration?

Duration measures a bond’s sensitivity to changes in interest rates. It is calculated and expressed as a number of years from a bond or bond fund’s purchase date. Generally, if interest rates change by 1%, a bond or bond fund’s price would be expected to change by its stated duration.

As a rule of thumb, the longer a bond has until maturity, the longer its duration. The longer a bond’s duration, the more sensitive it is to changes in interest rates. Additionally, the greater the coupon rate the shorter the duration.

The relationship between interest rates, duration and bond prices



Source: MFS research. This hypothetical example is for illustrative purposes only and not intended to represent the future performance of any MFS product.

How can I reduce the duration risk in my bond portfolio?

While you cannot control interest rates, you can manage what is in your portfolio. Of course, low duration does not mean low or no risk. Bonds also have credit, inflation and other risks to consider. The types of bonds you hold should always sync up with your own needs, circumstances and goals. Before rates rise, work closely with your financial advisor to

- review any holdings that may be prone to duration risk
- explore diversifying your bond holdings globally
- determine whether rebalancing your portfolio makes sense

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