InvesTips

Resilience of bonds

Staying calm during turbulence

September 2025

Bonds are the cornerstone of balanced investing – delivering steady, predictable income, tempering volatility and lending resilience to a portfolio. The modern bond market has existed for over 200 years and is valued at approximately USD 121trn as of 2025.

It is expected to grow at an annual rate of around 6% over the next five years. Evidently, bonds hold a prominent position in the investing landscape; whether you are just starting out or planning for retirement, bonds can be a steady anchor that guides your financial journey.

In this publication, we explore the foundational aspects of bonds, consider their relevance in a well-rounded financial journey, and identify strategies to integrate them into a portfolio for sustained growth, resilience and stability.

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Understanding bonds

Bonds are fixed-income instruments issued by governments, municipalities or companies to raise capital for their projects and operations. These issuers pay periodic interest payments (annual or semi-annual) and make full repayment of the principal at maturity to the investors.

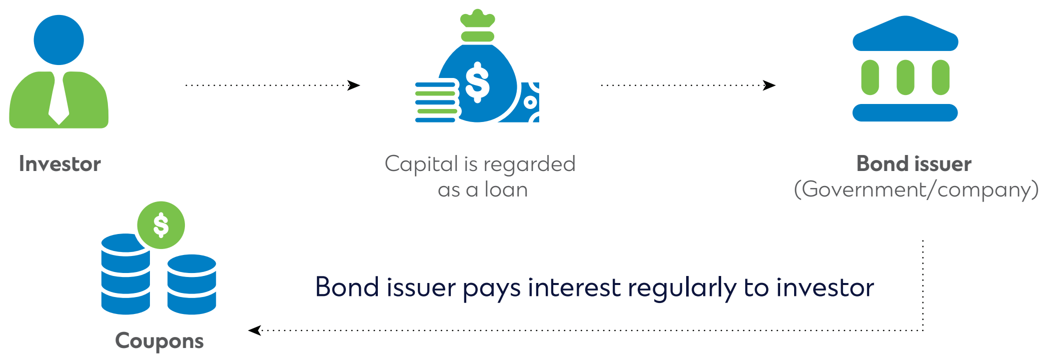
To understand the bond market, we need to familiarise ourselves with a few foundational elements.

- **Face value** is the amount a bond issuer promises to repay the investor at maturity. Bonds trade at par when priced at face value, at a discount when priced below it and at a premium when priced above it.
- **Coupon rate** is the interest rate the bond issuer pays to the investor and is expressed as a percentage of the bond's face value.
- **Term** refers to the fixed length of time a bond remains active; maturity is the specific date when the bond's term ends and the issuer repays the principal to the investor.
- **Current yield** measures a bond's annual return relative to its prevalent market price. It is derived by dividing the bond's annual interest (or coupon) payments by its current price.
- **Yield to maturity (YTM)** estimates the total return generated on a bond if it is held till maturity. This measure incorporates both coupon payments and capital gains or losses at maturity, making it a comprehensive measure of a bond's total return potential.
- **Credit ratings** reflect an issuer's ability to meet its debt obligations. S&P, Fitch and Moody's are some of the popular agencies that assign such ratings. Typically, government bonds receive high ratings such as AAA or AA, indicating a low risk of default, while lower ratings such as B or CCC suggest a higher risk of default (common among junk bonds).

Bond market workings

Now that we know a few basics about bonds, let's dive into the workings of the bond market. This market is quite different from those of other financial markets due to their structure, participants and sensitivity to macroeconomic factors. Governments and corporations use the bond market to raise capital by issuing debt and investors earn regular income in return for lending those funds.

Fig. 1
How does the bond market work?



Source: Standard Chartered, Strike

Types of bonds

There are different types of bonds, with varying risk return profiles. Understanding bond types can help investors build a comprehensive bond portfolio that mitigates risk and achieves stable returns.

Type	Description	Prominent risk exposures	Risk profile
Government bonds/ Treasury inflation-protection securities (TIPS)	Issued by national governments Generally used to fund public projects and operations	Interest rate, inflation (except TIPS), currency (for foreign bonds)	Low
Municipal bonds	Issued by local/state governments for infrastructure Often tax-advantaged in many jurisdictions	Default, interest rate, liquidity, legislative risk	Low-medium
Corporate bonds	Issued by companies to raise capital Risk varies based on issuer's creditworthiness	Default, interest rate, liquidity	Medium-high
Investment grade bonds	Bonds issued by governments, municipalities or financially stable companies Credit rating BBB- /Baa3 or higher indicating lower default risk	Default, inflation, interest rate, reinvestment	Low-medium
High-yield 'junk' bonds	Issued by companies with low credit ratings Offers higher returns than investment grade bonds	Default, liquidity, interest rate	High
Zero coupon bonds	Sold at a discount and redeemed at face value at maturity	Interest rate, inflation, reinvestment	High (price volatility)
Floating rate bonds	Interest rate adjusts periodically based on a benchmark Protects against rising interest rates	Default, benchmark risk, liquidity	Low-medium
Convertible bonds	Can be converted into shares of issuing company at a pre-determined ratio	Default, equity market risk, interest rate	Medium
Inflation-indexed bonds	Interest and principal adjust with inflation Protects purchasing power	Interest rate, deflation, liquidity	Low
Callable bonds	Can be redeemed early by the issuer	Reinvestment, interest rate, default	Medium

Source: Standard Chartered

Key drivers of bond markets

Bond markets are influenced by a range of interconnected factors; a clear understanding of these drivers can help investors anticipate market shifts, mitigate risks and position their portfolio for better outcomes.

- **Interest rates** are a key driver of the bond market, directly affecting how bond prices and yields move. Central bank actions (monetary policy) such as quantitative easing or tightening of benchmark rates and government borrowing levels influence supply, demand and pricing in the bond market. When central banks raise benchmark rates, borrowing costs increase. This typically leads to a decline in bond prices, reflecting the inverse relationship between bond prices and interest rates – a key dynamic that defines **interest rate risk**.

- **Credit risk** is the likelihood that a bond issuer may default on interest or principal payments. This risk influences bond price yields and investor confidence. Investors demand higher yields to compensate them for the increased possibility of a default, i.e. higher credit risk. **Reinvestment risk** is the chance that an investor may have to reinvest funds at a lower interest rate than the original investment.

- **Inflation expectations** play a central role in shaping the bond market dynamics. When inflation is likely to rise in the future, investors anticipate higher interest rates, which in turn drives prices of outstanding bonds lower. Several entities offer inflation-indexed bonds to help mitigate inflation risk by adjusting payments in line with rising price levels.

- Holding long-term bonds increases exposure to uncertainty (interest rate risk, credit risk), leading investors to seek additional yield known as the **term premium**. As the term premium rises, long-term bond yields increase relative to short-term bond yields.

- **Liquidity** differs across bond types and influences the bond price, yield and risk profile. Government bonds are highly liquid owing to their large issuance and active trading, translating to stable prices and lower liquidity premium. Corporate bonds, especially those with lower credit ratings, often exhibit reduced liquidity, prompting investors to seek an extra compensation in the form of a liquidity premium for reduced market accessibility.

Fig. 2
Bond market dynamics

Drivers of bond prices

Source: Standard Chartered

Understanding yield curve and duration

While the aforesaid market drivers shape overall bond market dynamics, yield curve and duration are key concepts that one should understand to gain insights into the implication of interest rate movements and to help manage portfolio sensitivity.

Yield curve

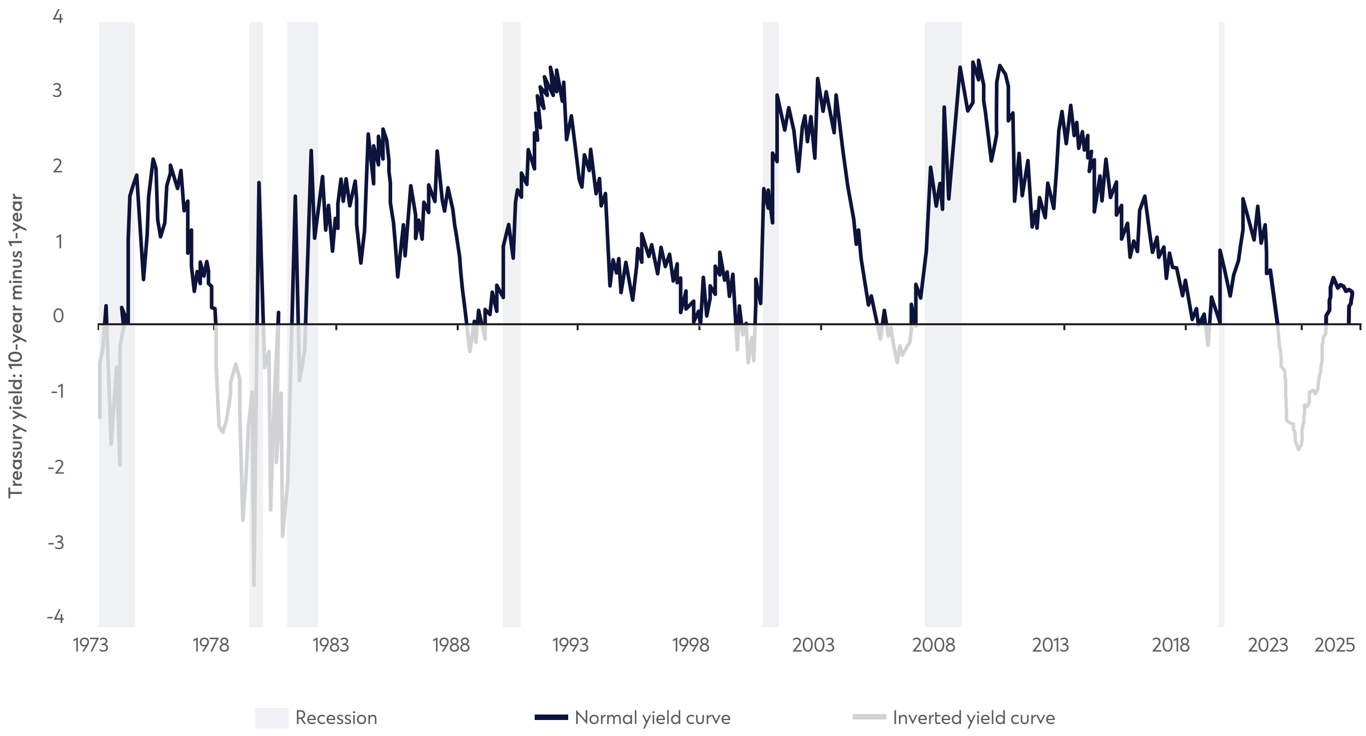
A yield curve is created by plotting the yields of bonds with the same credit rating across different maturities, showing how interest rates vary across tenors. Studying the shape of the yield curve of government bonds can provide insights into the potential future direction of interest rate and signal the phase of an economic cycle (expansion or contraction). There are four prominent yield curve shapes:

- A **normal yield curve** indicates positive investor sentiment and the likelihood of economic expansion at a steady pace. Here, short-term treasury yields are lower than long-term treasury yields.
- When short-term treasury yields are similar to long-term yields, the yield curve looks flat and is referred to as a **flat yield curve**. This type of curve signals economic uncertainty or depicts a period of transition between growth and contraction.
- An **inverted yield curve** implies that long-term yields are below short-term yields. This can be a leading indicator of potential economic slowdown or recession.
- A **steep yield curve** is when long-term yields (e.g. 10-year) are higher than short-term yields (e.g. 2-year), typically by at least 100 basis points. This is an indicator of robust economic growth.

The yield curve has historically been a leading indicator of economic health and has predicted past recessions well. While the shape of the yield curve can hint at potential shifts in the economic cycle, it is still difficult to predict a recession, its timing or the magnitude.

Fig. 3

Yield curve: Treasury yield spreads and business cycles (1973-2025)



Source: Standard Chartered, St. Louis Federal Reserve (FRED)

Duration

Bond prices are sensitive to interest rate changes, and duration measures this sensitivity by indicating how much a bond's price is likely to move when interest rates rise or fall. Duration is often confused with maturity, but the latter refers to the term (length of time) over which the bond's principal is repaid while duration is used as a risk metric. Consider both duration and maturity to construct a bond portfolio that balances interest rate risk and liquidity needs.

Long-term bonds and those with low coupons typically have longer durations and are highly sensitive to interest rate changes. Conversely, short-term or high coupon rate bonds have shorter durations and are less affected by interest rate movements. This is because short maturity bonds repay investors' principal sooner, reducing both interest rate and reinvestment risk. The chart below illustrates interest rate sensitivity across durations.

Fig. 4

Gauging interest rate sensitivity

Bonds with longer durations experience greater value fluctuations

1% rise in rates		
Duration	**% NAV change**	**Resulting value**
1 year	-1%	USD 990
5 years	-5%	USD 950
10 years	-10%	USD 900

1% drop in rates		
Duration	**% NAV change**	**Resulting value**
1 year	+1%	USD 1,010
5 years	+5%	USD 1,050
10 years	+10%	USD 1,100

Initial value of USD 1,000

Source: Standard Chartered, PIMCO

Investors can use duration to manage their fixed income investment strategies because this measure integrates several bond characteristics including maturity date, coupon payments, bond price and YTM. The duration of the bond portfolio is adjusted according to the interest rate forecasts to elevate investment outcomes.

Why consider bonds?

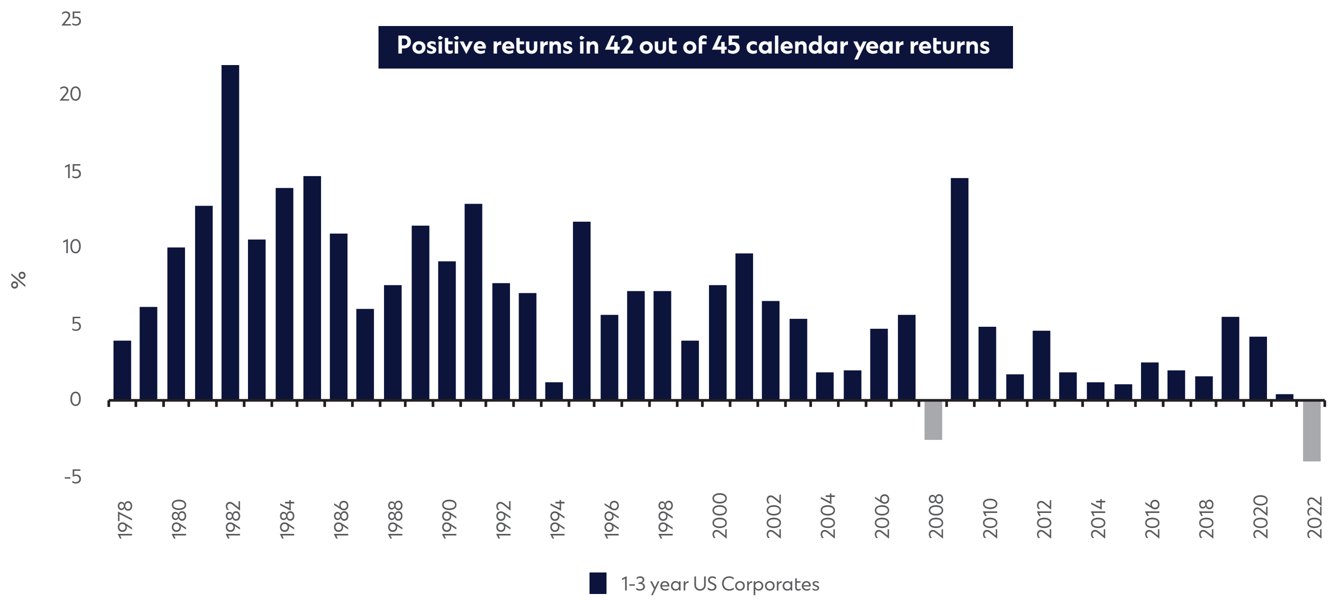
Now that we have looked at key concepts of bonds, let's see why we should consider them in our portfolio. This section explores the key reasons why bonds are a valuable component of an investment portfolio.

Reliable and steady income
Bonds provide fixed and regular interest payments, offering a predictable and reliable income source. This is ideal for investors or retirees who need regular, stable cashflow. These payments are made at periodic intervals and allow the investor to know the cash flow well in advance, facilitating prudent financial planning and budgeting. These assets experience lower volatility compared to equities and are hence, suitable for risk-averse investors and those seeking passive income. This relative stability also reduces the risk of sudden income loss.

Preserving and growing capital
A historical analysis of bonds over very long periods (40+ years) demonstrates their effectiveness in preserving and growing capital. A comprehensive study by Lord Abbett, an investment management company for the period 1978-2022 indicated that short-term US corporate bonds (1–3-year maturities) consistently delivered positive annual returns, with the exceptions being the global financial crisis and the 2022 inflation spike. While high quality, long-term and government bonds are widely recognised for their capital preservation abilities, these findings underscore that short-term corporate bonds can also support wealth preservation and growth.

Fig. 5
Bonds preserve and grow capital

Short-term corporate debt has shown consistent positive annual returns (US short maturity debt annual returns 1978-2022)



Source: Standard Chartered, Morningstar, Lord Abbett
1-3 year US Corporates represented by the ICE BofA 1-3 year Corporate Index

Portfolio diversification

Bonds are considered to be a good diversifier in a portfolio, primarily because of their low correlation to equities. The chart below shows bond and stock risk-return from 1991 to 2023. It highlights that bonds behave differently from stocks in terms of risk and return. Moreover, historically, the downside risk in bonds has been much lower than in equities, making the former a more stable component for preserving capital in a portfolio. This makes bonds a valuable part of a portfolio, offering stable returns and helping to cushion against steep market downturns.

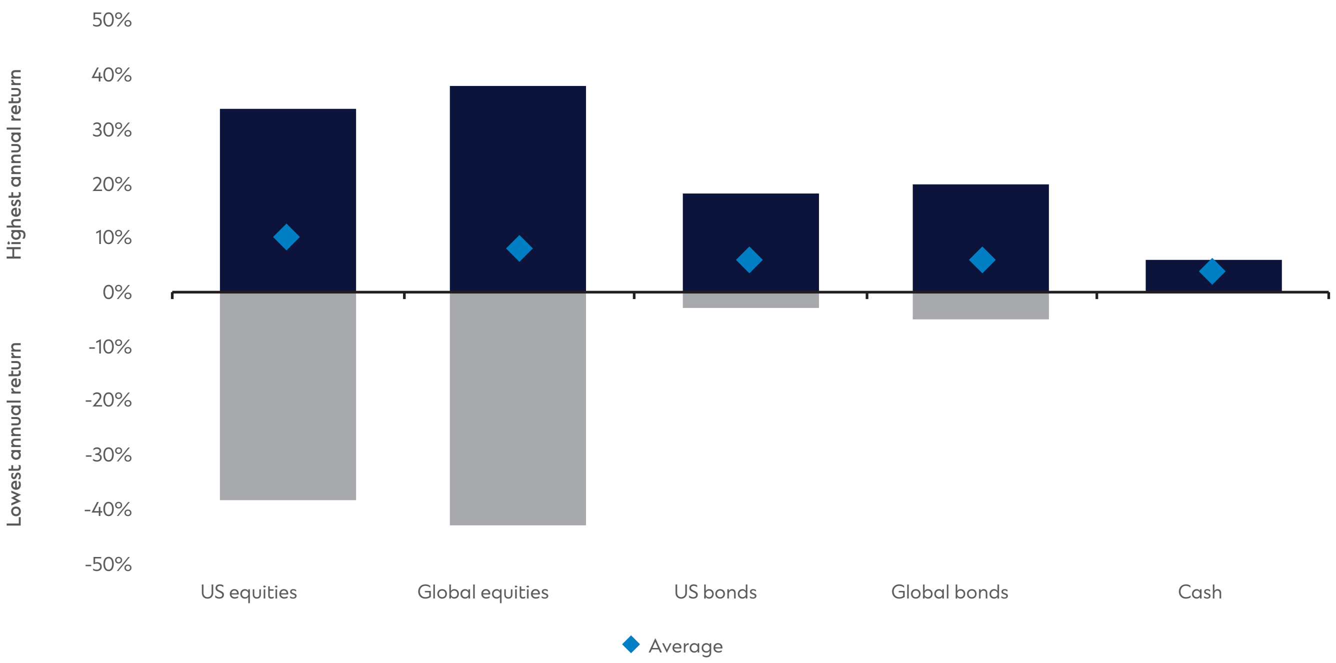
Risk mitigation

Investment grade bonds (rated BBB-/Baa3 or higher) carry lower risk than stocks. During periods of market turmoil, these bonds experience lower volatility, even relative to the riskier options within the bond universe. It is, therefore, crucial to have some exposure to these bonds in a portfolio to insulate against extreme drawdowns.

Just as an equity portfolio would be spread across sectors and geographies to reduce risk, investing across bond types, issuers, sectors, credit quality and maturities can help to build a solid bond portfolio that endures intermediate market/economic volatilities. By using a mix of maturities, investors can align their interest rate risk exposures with their risk tolerance levels.

Fig. 6

Bonds and equities – risk-return profile



Source: Standard Chartered, Bloomberg as of 31 December 2023, PIMCO

US equities are represented by the 500 Index, global equities are represented by the MSCI EAFE Net Total Return Index. US bonds are represented by the Bloomberg US Aggregate Bond Index, global bonds are represented by the Bloomberg Global-Aggregate Total Retum Index and cash is represented by the FTSE three-month Treasury Bill Index

Bond markets – a historical perspective

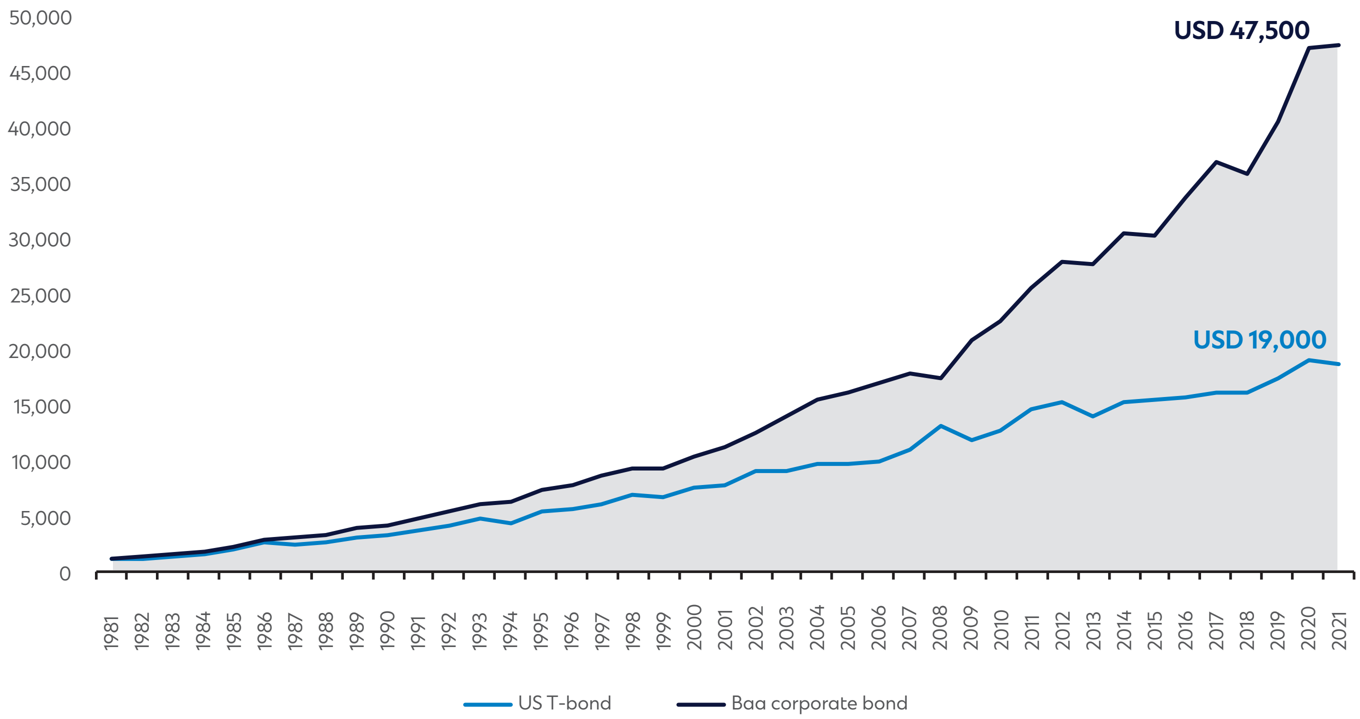
Now, let's look at how bonds as an asset class have performed in the past. While equity bull phases are widely documented, far less is written about the multi-decade bond bull market. The bond market bull run spanned about 40 years (1981–2021), driven by steadily falling interest rates.

The US Treasury bonds delivered an average annual return of 10.21% between 1980 and 1999, and 5.77% from 2000 to 2020. For the same periods, corporate Baa bonds, which are investment grade bonds issued by US corporates, delivered 12.07% and 8.04% annual returns, respectively. In fact, a modest investment of USD 1,000 in Treasury bonds at the start of 1981 would have grown to over USD 19,000 by 2021, and the same amount invested in Baa bonds would have appreciated to around USD 47,000, underpinning the potential of bonds to build long-term wealth.

Fig. 7

Bonds in the long term

T-bonds and Baa bonds performance



Source: Standard Chartered, Bloomberg

However, like all return-generating assets, bond markets have also seen their share of turbulence. We look at a few prominent instances below.

- **The great bond massacre (1994)** was triggered by an unexpected and sharp rate hike by the Fed, which soured investor sentiment. Bond investors globally lost over USD 1.5trn in value during the year. The crisis peaked in November 1994, as 10-year US Treasury yields hit 8%, however, yields subsequently fell to 6% by mid-1995, reversing much of the earlier rise. Subsequently, expectations and strategies adjusted to the new market realities, aided by the Federal Reserve's more transparent communication and policy signals, which helped rebuild confidence and contributed to the eventual stabilisation of rates.
- **The global financial crisis (2007-2009)** was marked by a sudden rise in default rates of high-risk mortgage loans against falling housing prices. The average yields on junk bonds peaked above 20% by 2009. While corporate and structured bonds experienced massive losses, treasury bonds across the world held up relatively well. By 2010, bond markets were on the road to recovery. Most segments within the bond market achieved normalcy within two years from their trough in 2009. The bond market recovery was faster than that of equities, supported by government and central bank interventions.
- **The US-China trade war (2018)** resulted in elevated prices, severe supply-chain disruptions, lower trade (economic activity) and market volatility. During this period, the bond markets also experienced significant disruptions. There was evident flight to safety and low investor confidence. However, with the execution of phase one of the US-China trade deal and amid easing trade tensions, the bond market recovered gradually.

While downturns are a part of all asset classes, the key takeaway from the above is that bond markets are resilient, and during periods of high volatility, good-quality/government bonds continue to preserve capital and provide reliable income. According to an International Monetary Fund 2019 study, bonds may experience short-term losses during economic crises, but they tend to recover lost value over time. The study also observes that bond investors with a buy-and-hold strategy and ones who enter during distress often fare better than those investors who sell during crises.

Investment strategy in bonds

Bond selection should be governed by well-defined investment objectives and risk tolerance. Having a disciplined framework that assesses factors such as issuer quality, maturity structure and credit risk can be beneficial. The key factors to consider when evaluating bond investments are:

Good credit quality

Good credit quality is essential to mitigate default risk and generate stable returns. Investors should prioritise holding investment-grade bonds from credible issuers to help protect their portfolio against severe drawdowns. Depending on one's risk appetite, selective allocations to high-yield bonds can be considered.

Bond maturity

Bond maturity is an important consideration, as it factors in the period of investment and helps investors determine whether it aligns with their financial goals and timeline. Allocating investments across various bond maturities is another popular strategy that facilitates effective risk mitigation. We look at two such approaches below.

- A **laddering approach** staggers maturities across time and reinvests proceeds at prevailing rates, thereby supporting consistent cash inflow (potentially reducing interest rate risk).
- Meanwhile, a **barbell strategy** entails investing in a combination of short- and long-term bonds. It mitigates interest rate risk by allowing proceeds from short-term bonds to be reinvested at higher rates when interest rates rise, while long-term bonds anyway offer higher yields.

Yield to maturity (YTM)

Use YTM to compare bonds with similar risk profiles and maturities to identify better return opportunities. Higher YTM may come with higher credit risk. Also, evaluate post-tax returns while investing in taxable bonds.

Liquidity

Consider liquidity of bonds to ensure they can be transacted easily. Evaluate bonds based on how well they align with your goals and timeline. A bullet strategy (entails purchasing multiple bonds that all mature at the same time) helps by matching all bond maturities to your target financial objective.

Structuring a robust bond portfolio

A bond portfolio is typically a sub-set of your overall portfolio that may include equities, gold and other alternative asset classes. Within the overall portfolio, bonds act as a diversifier. Building and maintaining a strategic mix of bonds, therefore, becomes essential as it not only needs to complement the overall portfolio, but should also help to meet specific financial goals.

To ensure consistent bond portfolio performance over time, one should start by establishing a meaningful investment strategy. Here, you can choose an active or a passive strategy that best aligns with your risk preferences and investment style.

Passive bond strategies involve a low-touch approach with the aim to match, rather than outperform, market returns. These strategies offer a low-cost option for long-term investors seeking steady returns and portfolio stability. Passive strategies can also enhance tax efficiency by limiting portfolio turnover.

- **Buy and hold** is a classic passive strategy that focuses on long-term stability by holding bonds through to maturity. This strategy provides steady and predictable cash flow, adds stability to a portfolio, helps minimise transaction costs and is suitable for both beginners and experienced investors. Interest rate changes over the investment horizon become less of an issue under this strategy, as investors are more focused on receiving regular interest payments and final principal repayment. This approach works well with high quality bonds (government/investment grade bonds) where the risk of default is low. Bond laddering and bullet strategies usually follow a buy-and-hold style of investing, although their approaches and use cases are different.
- **Index tracking** is another passive strategy wherein the bond portfolio tries to mirror a benchmark bond index. In this method, an investor builds a bond portfolio that closely matches the constituents or risk return of the bond index with the aim of achieving returns similar to the index. Since this approach gives a broad exposure to many different bonds, the risk from any single issuer is much lower. How you choose the underlying constituents to replicate the index becomes important:
  - Full replication is when an investor buys all bonds in the index in the same proportion. While this method can closely mirror the index's performance (i.e. low tracking error), it might be impractical given the large number of bonds in bond indices. Illiquidity of individual bonds can be another problem. Achieving a close alignment with the bond index may also involve significant transaction costs as the investor may have to buy and sell a large number of individual bonds to precisely match the index.
  - To solve some of the problems of full replication, one can look at sampling or stratified replication. In this method, the investor buys a representative sample of bonds from the index. Here, bonds are usually selected to match the key characteristics of the underlying index, such as duration, credit quality, sector exposure or yield. This method reduces the transaction cost, but may have a high tracking error.

Active bond strategies involve frequent buying and selling of bonds with the objective to outperform a benchmark index. Under this approach, investors may adjust their portfolio's duration or maturity profiles in line with their interest rate expectations, choose bonds that they deem to be undervalued or buy bonds of issuers whose credit profile they expect to improve. The important thing is to have a forward-looking view on the drivers of the bond market. This approach requires investors to navigate changing market conditions, such as interest rate movements, credit risk shifts and yield curve dynamics. Active strategies may offer higher returns than passive strategies, but are also riskier and entail higher costs. They are suitable for seasoned investors or those with access to experts. Barbell strategy is an example of active strategy; we look at some more examples of active strategies below.

- **Duration management** is a strategy where the average duration of a bond portfolio is adjusted to manage its sensitivity to interest rate movements. In this approach, investors select bonds based on their expectation of interest rate movements, ensuring that the risk return profile of the portfolio remains within a desired range. When interest rates are expected to rise, holding fewer long-term bonds and more short-term bonds (shortening duration) can help to reduce losses from falling bond prices. Conversely, when lower interest rates are expected, holding more longer-term bonds (increasing duration) can give a better chance of higher returns as bond prices rise.
- **Yield curve positioning** involves investing in a set of bonds to benefit from expected changes in the yield curve's shape. While duration management focuses on controlling the overall sensitivity of a bond portfolio to interest rate changes, yield curve positioning targets specific maturities to benefit from expected shifts in the yield curve. For instance, suppose an investor expects the yield curve to invert (i.e. when yields on short-term bonds become higher than those on long-term bonds), then they may favour high quality government bonds, exhibiting a flight to safety.
- Another active strategy is **sector rotation** where the investor moves investments in and out of different types of bonds (government, corporate and high yield, etc.) depending on how they expect the economy or a particular sector to perform. Different bonds outperform during different economic phases. Typically, treasuries lead during recessions, whereas high yield and corporate bonds may outperform during economic recoveries. Depending on the investor's outlook for the economy, they may add or reduce their portfolio exposure to specific bond types.

Of course, these strategies are merely a starting point. The bond market offers a wide range of complex investment strategies, making it essential to take a structured approach to portfolio construction and to understand various risk mitigation techniques.

Constructing a bond portfolio

Having understood the bond market landscape, let's see how you can build a portfolio that complements your wealth journey.

Steps to construct a bond portfolio:

01
Define goals and risk levels

A bond portfolio can help to preserve capital, provide stable and steady income, diversify and reduce risk, offer liquidity and achieve financial goals. Defining clear objectives ensures that the portfolio is aligned to its purpose.

02
Determine bond allocation approach

Choosing the right bond mix and complementary strategies can help to build a robust bond portfolio that aligns with financial goals, timelines and risk tolerance. The bond portfolio's composition should also complement your overall investment portfolio and help to optimise returns and reduce overall risk.

03
Explore selection strategy

Consider factors such as credit quality, maturity, duration, issuer type, sector and liquidity across various bond types to determine a selection strategy that best aligns with your investment objectives. Additionally, it is important to review and update the screening criteria periodically to ensure that the bond selection strategy remains aligned with your evolving financial objectives and overall market conditions.

04
Consider taxes and regulatory constraints

Taxes and regulations vary across jurisdictions. It is essential to understand the tax implications on interest income and capital gains/losses. Tax rates on gains often depend on the bond's market listing status and the holding period. Several jurisdictions allow tax-loss harvesting, enabling investors to offset capital losses against capital gains. Investors may also consider tax-efficient instruments to help optimise after-tax income in a bond portfolio.

05
Build, monitor and rebalance

A well-constructed portfolio requires ongoing monitoring and periodic rebalancing to keep it aligned to your evolving investment objectives, risk tolerances and changing market conditions. Establishing a structured approach with well-defined triggers can optimise both costs (including taxes) and the portfolio's performance.

Source: Standard Chartered

Risk management in bond investing

Bonds are an essential asset class for building a foundational portfolio, offering steady income, stability and diversification. Despite their stabilising role, they are not immune to downside risk, making it important to manage risk exposures in a bond portfolio proactively.

Apart from sticking with bonds with good credit quality and maintaining liquidity, other methods to manage risks in a bond portfolio are:

Regularly reviewing issuer updates and rating agency reports to check for any deviation in the issuer's perceived credit risk.

Diversifying across geographies, maturities, sectors and issuers to limit exposure to any single factor and to improve the portfolio's resilience. Having a good mix of government, municipal, corporate and international bonds across various duration levels can help to build a robust bond portfolio.

Investing in inflation-linked bonds can offer protection against inflation. These investments also help to preserve real returns during inflationary periods.

Staying alert to central bank actions, fiscal policy shifts and regulatory changes allows investors to anticipate and respond to changes in interest rates, inflation and market liquidity.

By leveraging technology, investors can manage risk through real-time analytics, AI-driven credit monitoring, scenario simulations and timely alerts. This allows for faster and informed decisions while also improving portfolio resilience.

In short, it is important to make risk management an integral part of portfolio construction and maintenance to ensure that your bond portfolio works towards your financial success.

Conclusion

Bonds remain one of the core investment pillars, lending resilience and stability to a portfolio. They offer diversification, predictable income and capital preservation across market phases. Their lower volatility and steady coupons support income stability while tempering overall risk exposure. A thoughtful bond allocation helps investors to maintain liquidity and safeguard capital throughout market phases.

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