

Headwinds and Tailwinds: The Importance of Fixed Income in Portfolios

July 2022

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Global Macroeconomic Outlook

 Global Economy	<ul style="list-style-type: none"> ▪ U.S. Growth to Moderate ▪ Stagflation Emerges as a Risk ▪ COVID-19, Real Estate Sector Muddy China's Outlook
 Inflation	<ul style="list-style-type: none"> ▪ Rising Shelter and Energy Costs to Keep Inflation Elevated ▪ The U.S. Labor Force has Structurally Shrank ▪ Emerging Markets Inflation Remains Mixed
 Monetary Policy	<ul style="list-style-type: none"> ▪ Fed Sets Sights on Soaring Inflation ▪ Europe Focuses on Reducing Bond Buys ▪ China Seeks Supportive Measures
 Interest Rates	<ul style="list-style-type: none"> ▪ U.S. Rates Have Risen Significantly, Could Climb Modestly Higher ▪ Geopolitics to Keep European Yields Low ▪ Rates Remain Higher in Emerging Markets

Notes

Views as of 3/31/2022

Source: American Century Investments

Opinions and estimates offered constitute our judgment and along with other portfolio data, are subject to change without notice.

Inflation - reflects rising prices for consumer goods and services, or equivalently, a declining value of money.

Monetary policy – control of the quantity of money available in economy and the channels by which new money is supplied.

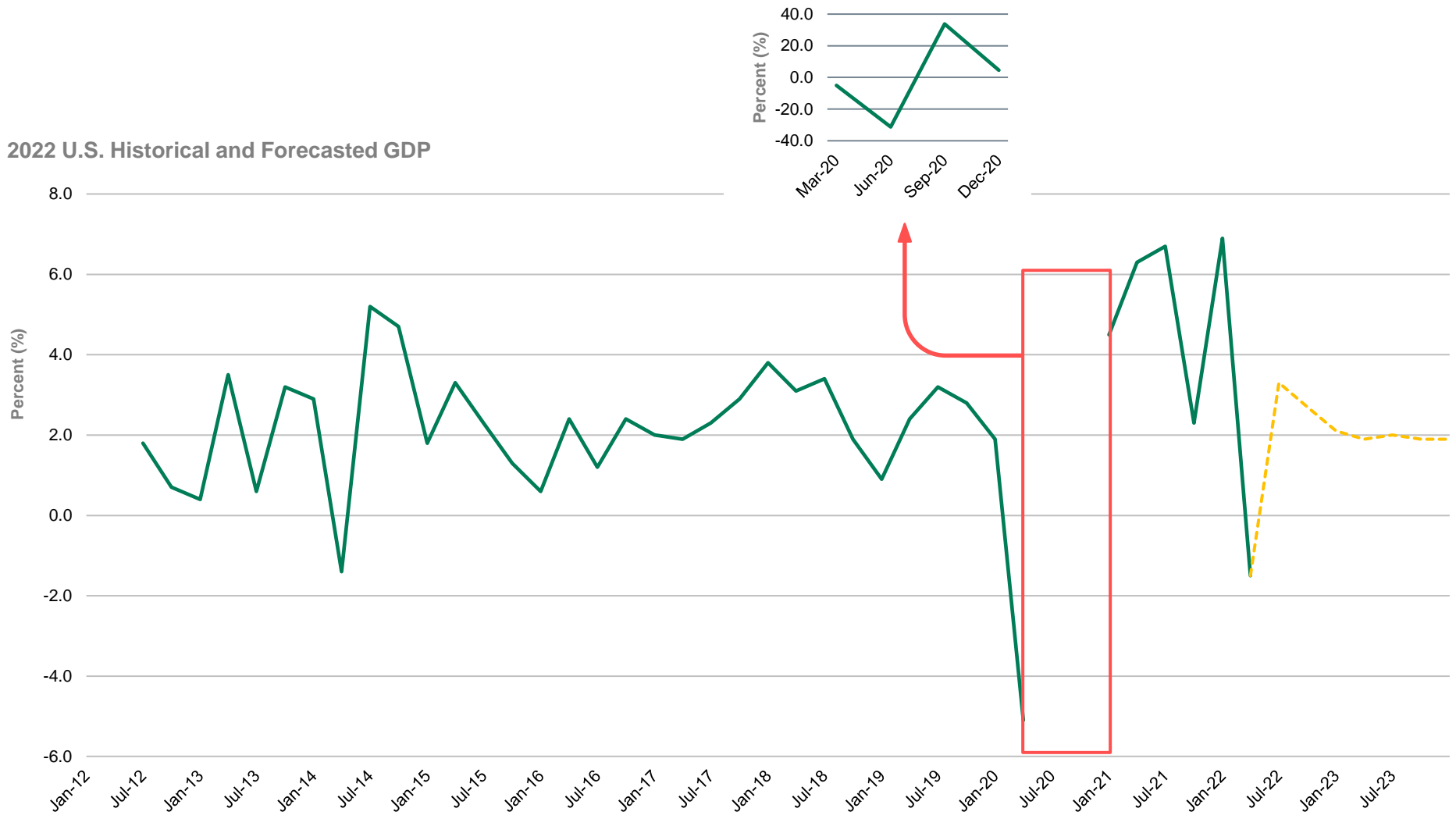
Stagflation - Persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

Yield – For bonds and other fixed-income securities, yield is a rate of return on those securities.

Interest Rates - Proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding.

U.S. Growth to Moderate

2022 U.S. Historical and Forecasted GDP



Data from 5/31/2012 to 5/31/2021
Source: Bloomberg

----- Forecasted Projection

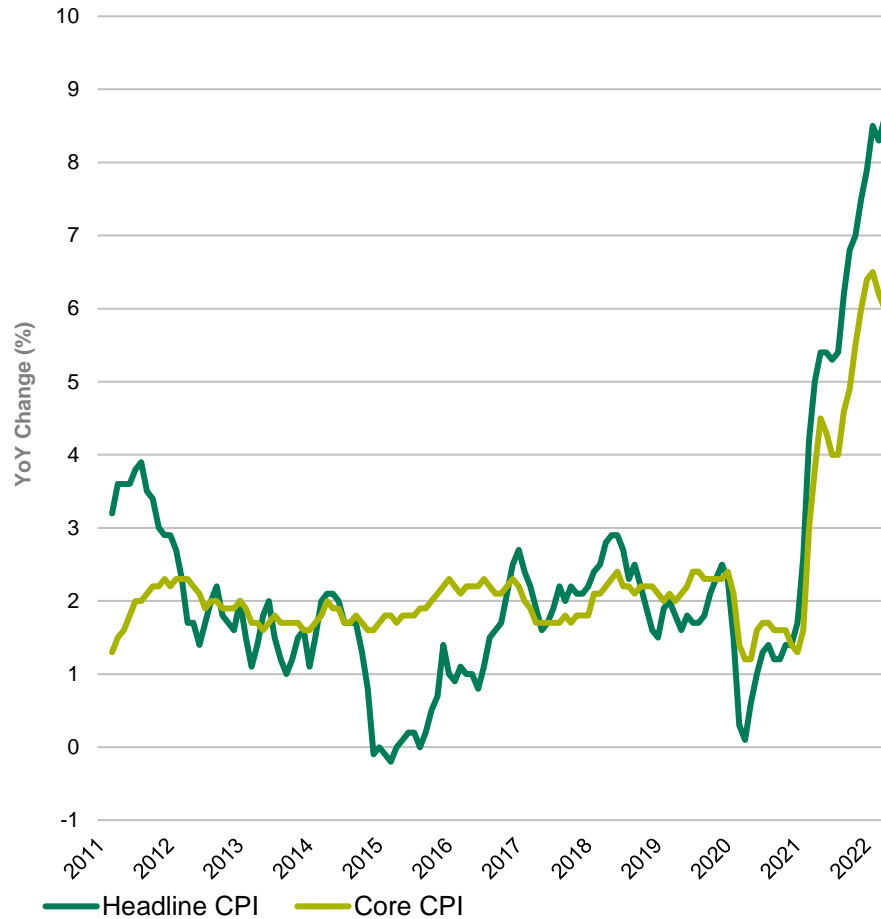
Gross Domestic Product - Gross Domestic Product (or GDP) is a measure of the total economic output in goods and services for an economy.



Inflationary Pressure Felt Across All Parts of Economy

United States Inflation

Year-Over-Year Percent Change



Data as of: 5/31/2022

Source: Bloomberg

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Consumer Price Index (CPI) - CPI is the most commonly used statistic to measure inflation in the U.S. economy. Sometimes referred to as headline CPI, it reflects price changes from the consumer's perspective. It's a U.S. government (Bureau of Labor Statistics) index derived from detailed consumer spending information. Changes in CPI measure price changes in a market basket of consumer goods and services such as gas, food, clothing, and cars. Core CPI excludes food and energy prices, which tend to be volatile.

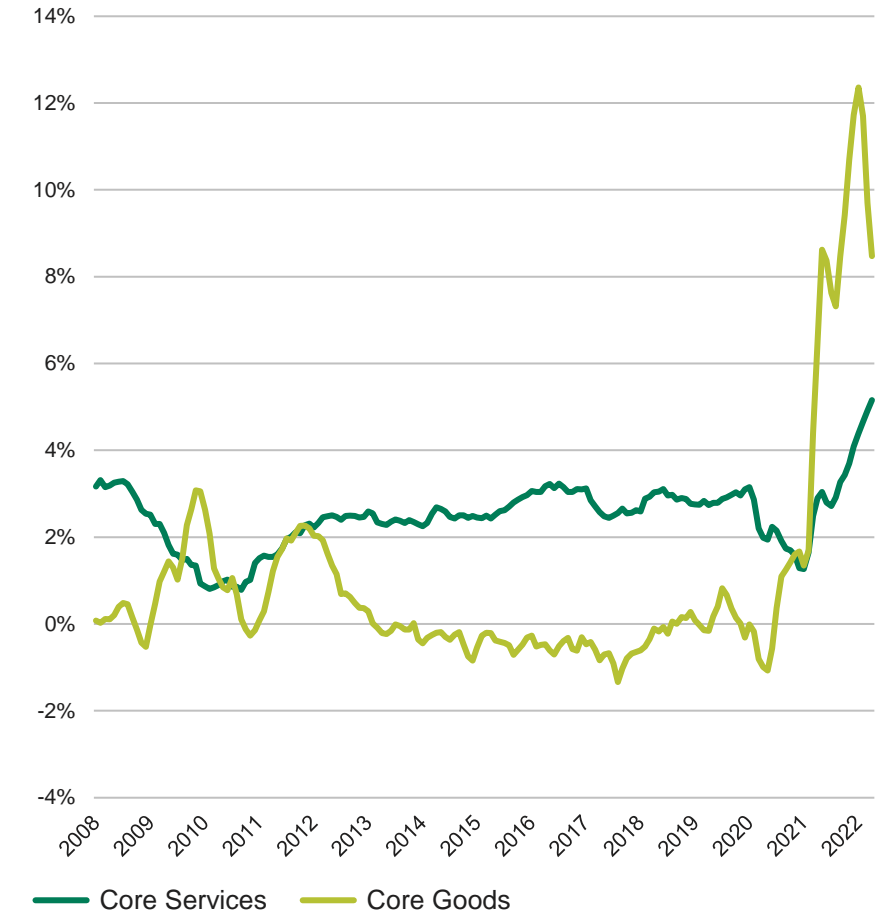
Core CPI - An aggregate of prices paid by urban consumers for a typical basket of goods, excluding food and energy.

Core Service - Essential to the public's health and safety

Core Good - Goods with an expected useful life of at least three years, excluding transportation equipment.

CPI Core Services vs. Core Goods

Year-Over-Year Percent Change

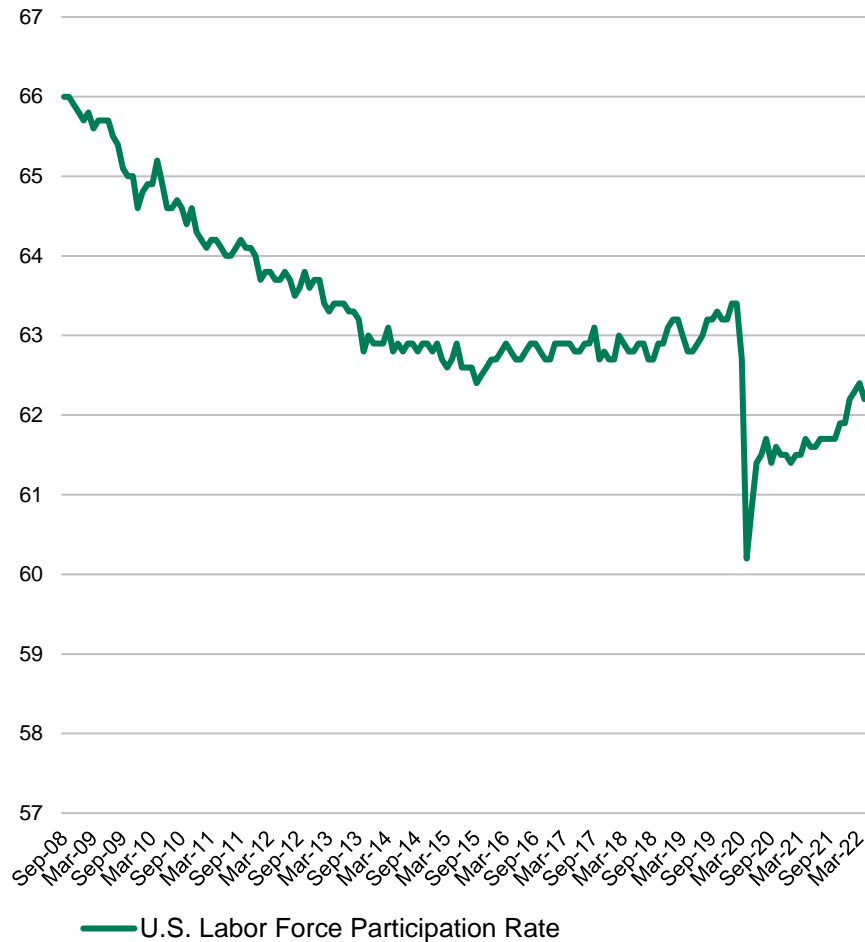


Data from 2/29/2008 to 5/31/2022

Source: FactSet, BLS. Data is seasonally adjusted.

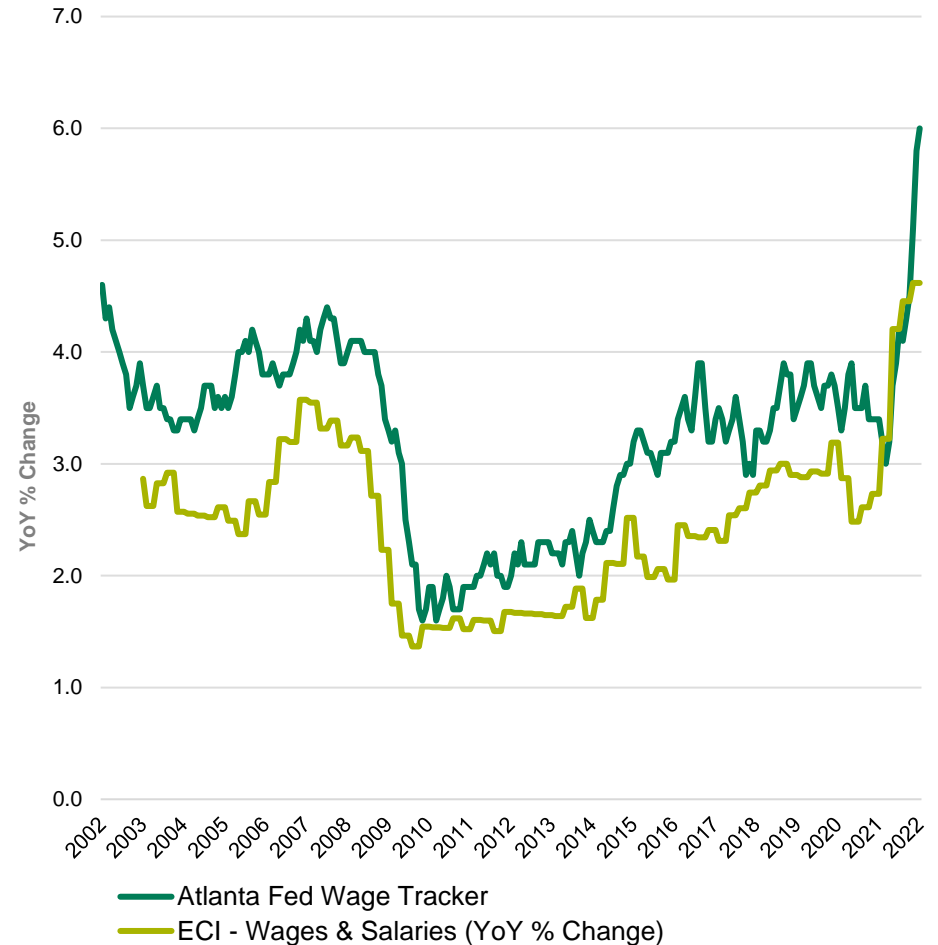
Reduced Labor Participation has Fueled Wage Inflation

U.S. Labor Participation Rate



Data from 9/30/2008 to 5/31/2022
Source: Bloomberg

Wage Growth



Data from: 3/31/2002 to 3/31/2022
Source: FactSet

Labor force participation rate - the percentage of the civilian noninstitutional population 16 years and older that is working or actively looking for work

Wage Growth - Rise of wage adjusted for inflation

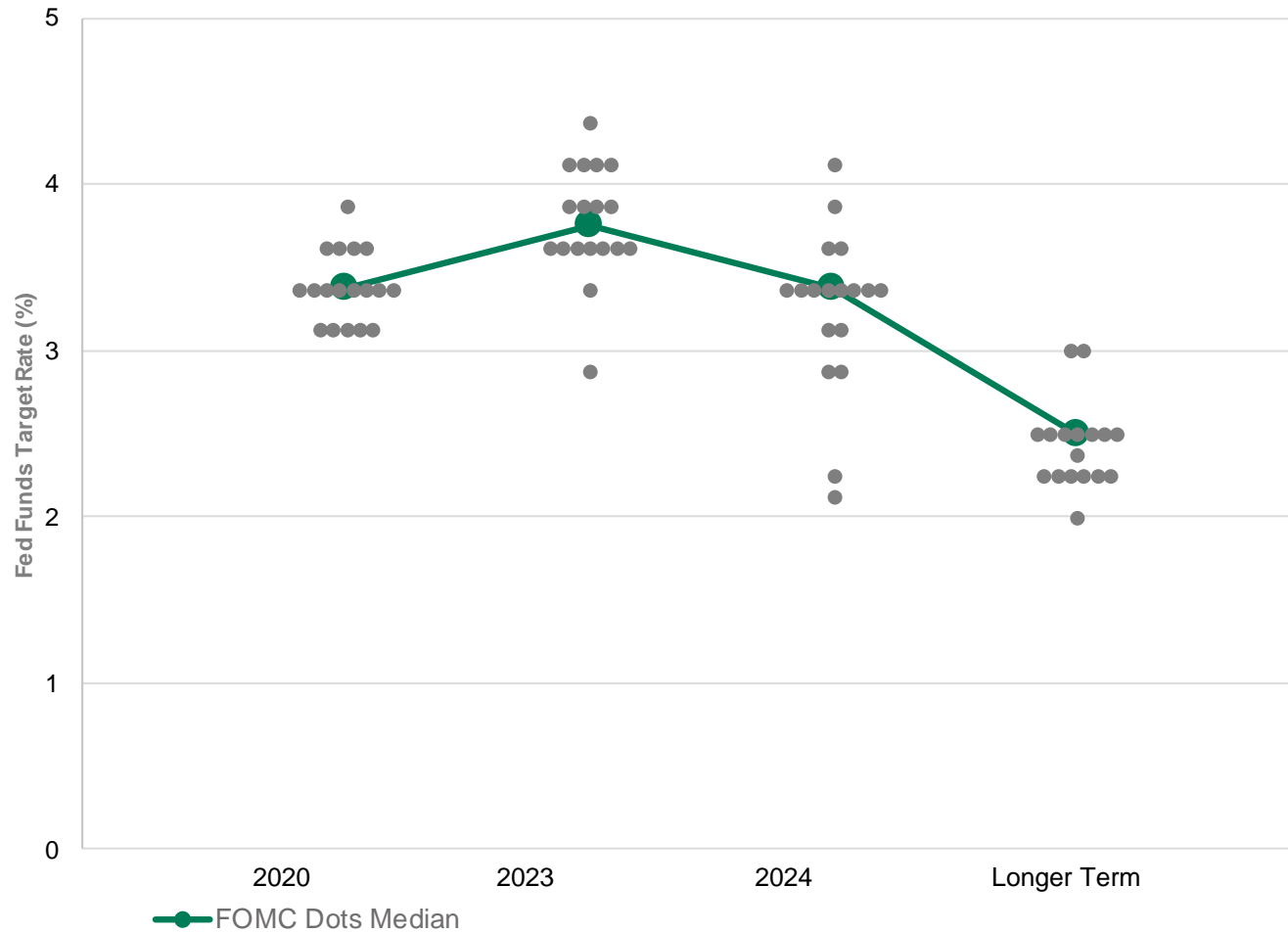
Employment Cost Index (ECI) - quarterly economic series that measures the growth of total employee compensation

Atlanta Fed Wage Tracker - measure of the nominal wage growth of individuals

Year-Over-Year (YoY) Growth - Key performance indicator comparing growth in one period against the comparable period twelve months before the previous year.

The Fed is Very Engaged with Inflation

FOMC Participants' Assessment of Appropriate Monetary Policy



As of FOMC Meeting on 6/13/2022
Source: Bloomberg

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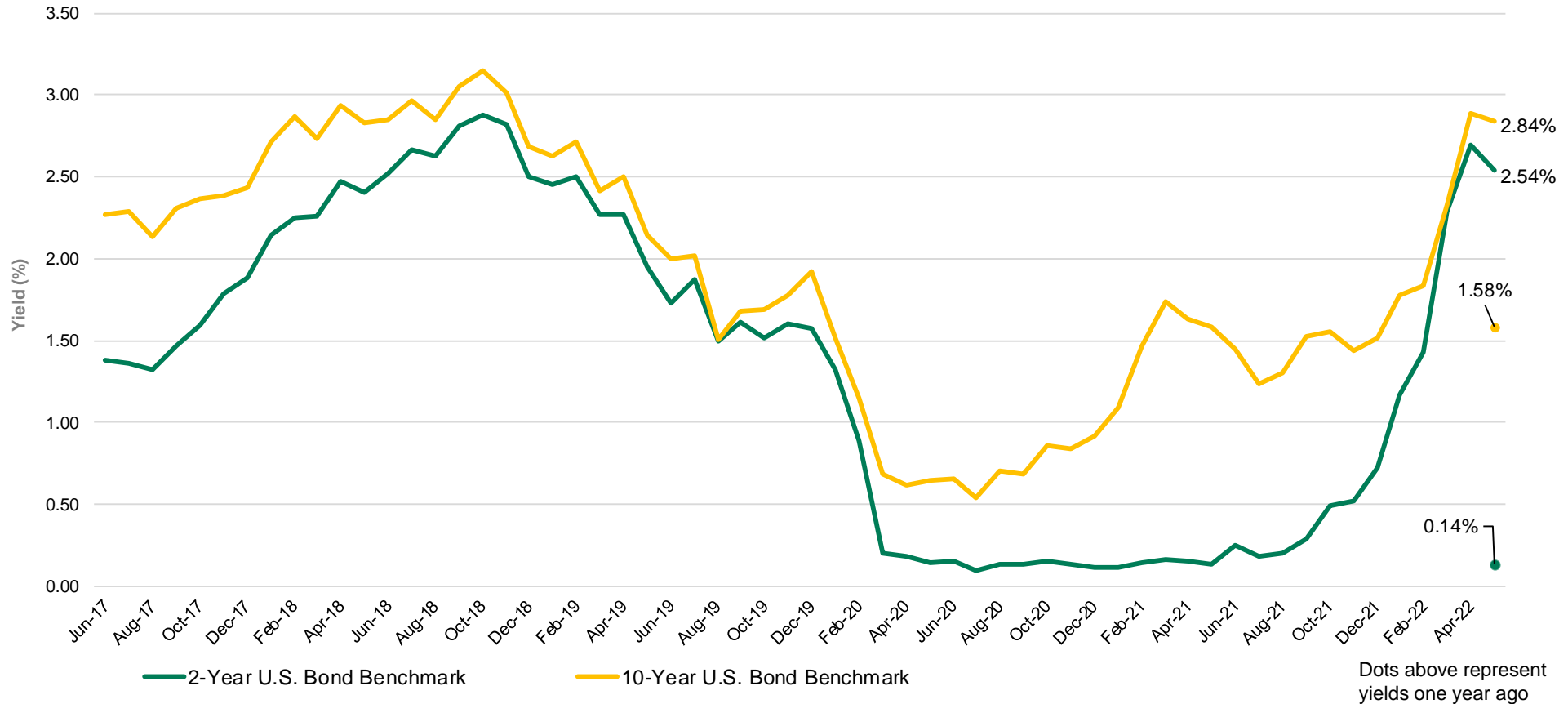
Monetary policy - control of the quantity of money available in economy and the channels by which new money is supplied.

Federal Open Market Committee (FOMC) - branch of the Federal Reserve System that determines the direction of monetary policy.

Federal Funds Target Rate - the target interest rate set for the Federal Open Market Committee.

The Fed's Policy Shift Results in Higher Income Potential from Bonds

U.S. Treasury Yields



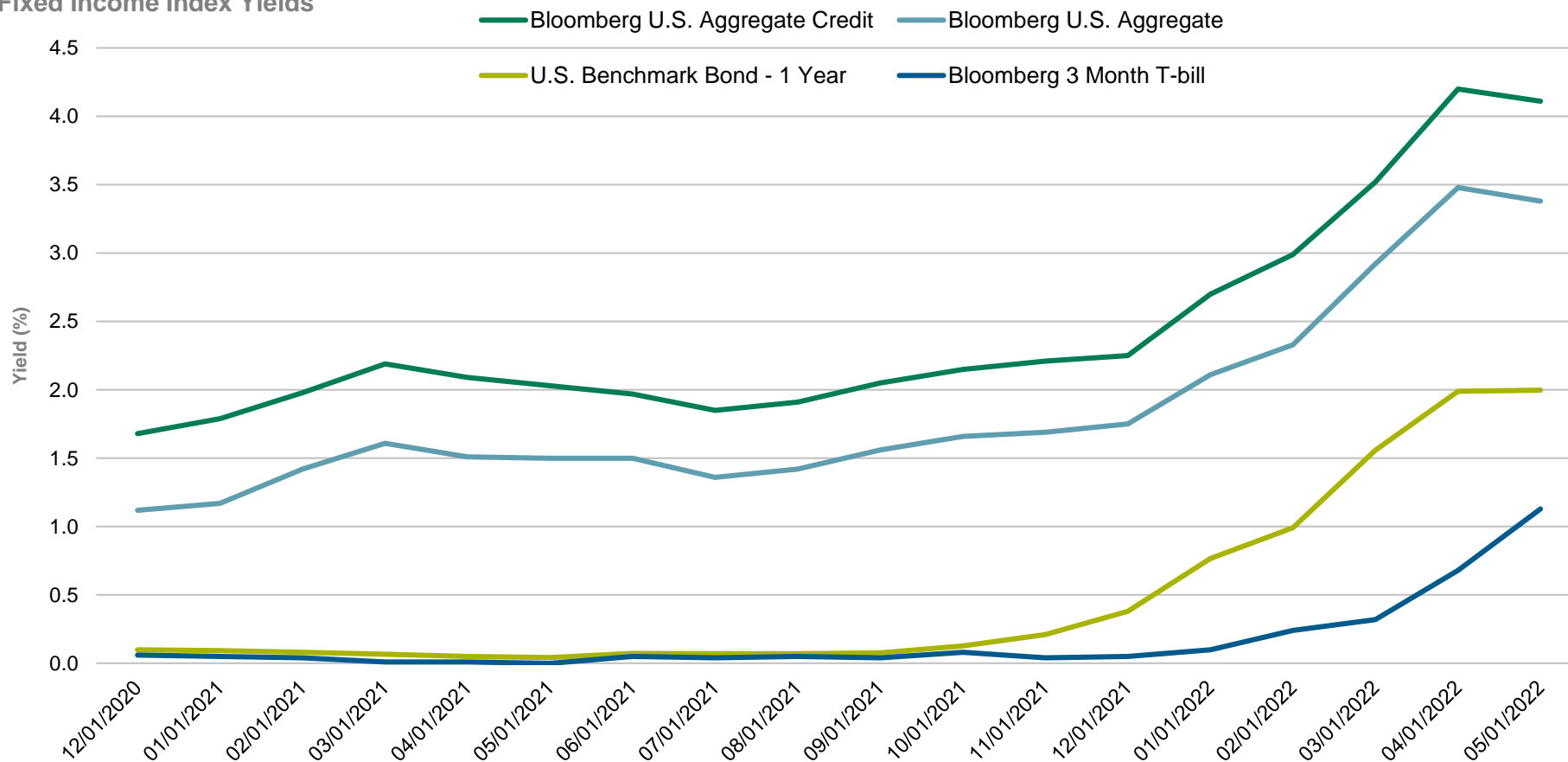
Data from 6/30/2017 to 5/31/2022
Source: FactSet

Yield – For bonds and other fixed-income securities, yield is a rate of return on those securities.
Treasury yield - The yield of a Treasury security (most often refers to U.S. Treasury securities issued by the U.S. government).
Benchmark Bond - A bond that provides a standard against which the performance of other bonds can be measured.



Inflation has been a Positive Tailwind for All Fixed Income Yields

Fixed Income Index Yields



Data from 12/31/2020 to 5/31/2022
Source: FactSet

Yield – For bonds and other fixed-income securities, yield is a rate of return on those securities.

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Bloomberg U.S. Aggregate Bond Index - Represents securities that are taxable, registered with the Securities and Exchange Commission, and U.S. dollar-denominated. The index covers 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.

Bloomberg U.S. Aggregate Government/Credit 1-3 Years Index - Bloomberg U.S. Aggregate 1-3 Year Government/Credit Bond Index is a component of the U.S. Government/Credit Bond Index, which includes Treasury and agency securities (Government Bond Index) and publicly issued U.S. corporate and foreign debentures and secured notes (Credit Bond Index). The bonds in the index are investment-grade with a maturity between one and three years.

Benchmark Bond - A bond that provides a standard against which the performance of other bonds can be measured.

Bloomberg U.S. 1-3 Month Treasury Bill Index - A sub index of the Bloomberg U.S. 1-3 Treasury Bill index, the Bloomberg U.S. 1-3 Month Treasury Bill Index is composed of zero-coupon Treasury bills with a maturity between 1 and 3 months.


Key Takeaways

- The strong post-pandemic economic bounce has moderated.
- Inflation has been a headwind for growth, and all parts of the economy are feeling it.
- The Federal Reserve is now fully engaged with tackling more persistent and higher than expected inflation.
- The resulting rising rate environment created negative returns for existing fixed income investors.
- But, with fixed income yields now much higher, the entry point has gotten much more attractive for new money.

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