



LeBaron Wealth Advisory Group



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Rethinking Bonds in Today's Economic Environment

Bonds are often viewed as the cornerstone of a stable investment portfolio. But at **LeBaron Wealth Advisory Group**, we believe the decision to allocate to fixed income should be more nuanced – especially considering current economic conditions.

Why Bond Yields *Seem* Attractive

Since 2022, the Federal Reserve has raised interest rates and ended its quantitative easing. This shift has pushed yields on fixed income investments significantly higher – from near zero to over 4% on the 10-year Treasury bond. But higher yields don't automatically translate to better outcomes. When we factor in taxes, inflation, and market dynamics, today's bond landscape looks far less appealing. On the surface, this appears to be a compelling opportunity for bond investors.

WHAT IS QUANTITATIVE EASING (QE)?

Definition:

Quantitative easing is a monetary policy used by central banks to stimulate the economy when traditional interest rate cuts aren't enough.

How it works?

1 Create Money Digitally

The central bank generates new money electronically



It uses the new money to purchase financial assets, mainly government bonds.

2 Buy Government Bonds & Assets

It uses the new money to purchase financial assets, mainly government bonds



Buying assets raises their prices and lowers interest rates

3 Lower Interest Rates

Boost spending & investment



Lower rates make borrowing cheaper, encouraging businesses and consumers to spend

Why not just cut rates?

When interest rates are already near zero

Real-World Analogy

The economy is a car stuck in mud
Interest rate cuts = pressing the gas pedal
QE = adding traction mats to help

However, we believe this environment is not as attractive as it seems. Here's why:

Four Key Risks to Bond Investors

1 Taxation Reduces Real Returns

Income from bonds (excluding municipal bonds) is taxed as ordinary income. Depending on your tax bracket, this can significantly reduce your yield.

2 Inflation Erodes Purchasing Power

We are in an inflationary environment. Inflation quietly diminishes the real value of the fixed interest earned over the life of a bond, making it harder for investors to preserve purchasing power.

INFLATION AND THE REAL VALUE OF FIXED INTEREST

<p>The Idea Over time, inflation quietly erodes the real value of fixed interest earned from a bond</p>	<p>Fixed Interest</p> <p>3%</p> <p>You earn fixed interest e.g. 3% per year</p>	<p>Inflation</p> <p>%</p> <p>But inflation makes prices rise over time</p>	<p>The fixed payments have less purchasing power in the future</p>
<p>EXAMPLE:</p>	<p>\$1,000 Interest Today</p>	<p>—————→</p> <p>ONE YEAR LATER</p>	<p>\$970 In Purchasing Power</p>

3 Rising Interest Rates Pressure Bond Prices

Even as the Fed lowers the Federal Funds Rate, market interest rates have continued to rise. Higher rates push bond prices down, which can offset the interest earned – especially bond funds that don't mature.

4 Fees

Layer on fund expenses and advisory fees, and even a decent yield can turn into a real loss after inflation and taxes.

BOND PRICES VS. INTEREST RATES

The Inverse Relationship
When you buy a bond, it pays a fixed interest rate, e.g. 3% annually

<p>Fixed Interest Bonds</p> <p>What Happens When Interest Rates Rise?</p>	→	<ul style="list-style-type: none">• New bonds pay higher, e.g., 5%• Existing 3% bond less attractive	→	<p>Bond price goes down</p>
<p>What Happens When Interest Rates Fall?</p>	→	<ul style="list-style-type: none">• New bonds pay lower, e.g., 2%• Existing 3% bond more attractive	→	<p>Bond price goes up</p>

If inflation persists and interest rates remain biased upward, bond returns may remain in the low to mid-single digits. Worse, if inflation stays elevated, real returns could be negative.

Our Preferred Approach

We generally believe investors should consider other investments that have the potential to:

- Keep pace with inflation
- Offer increasing cash flow over time

Examples include:

- **Quality equities** with a strong history of paying and increasing dividends
- **Commodities and commodity-based companies** that benefit from inflationary trends

That means quality dividend-paying equities and select commodity-based holdings that may benefit from inflationary trends.

If You Must Own Bonds ...

Depending upon your investment criteria, we believe an investor should:

- **Avoid bond funds:** These lack a maturity date, meaning you lose the ability to recover par value at maturity if prices decline.
- **Consider individual bonds:** With a set maturity, you can hold through volatility and receive full principal at maturity.
- **Focus on quality:** Choose corporate bonds from companies with a historical track record of generating and growing free cash flow.

The Takeaway

In today's environment, the old "bonds for safety" rule needs a reality check. Real wealth protection requires thinking differently about income, inflation, and risk. At LeBaron Wealth Advisory Group, we help clients cut through the noise – and help design portfolios that work in the world we live in, not the one we grew up in. Give us a call at **(941) 329-6276** to schedule your portfolio review today. Let us help you pursue your financial goals.

Investors should consider a fund's investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing. The investment return and principal value of an investment will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Past performance is not indicative of future results.

There are no guarantees that the objectives of the strategies mentioned above will be met. Investing involves risks, including the possible loss of principal invested. The return of principal in bond funds is not guaranteed. Bond funds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds owned by the fund. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall.

Income from particular municipal bond issues may or may not be subject to state and alternative minimum taxes. Capital gains tax may apply if sold prior to maturity. Changes in market conditions or a company's financial condition may impact a company's ability to continue to pay dividends, and companies may also choose to discontinue dividend payments.

The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

