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Should Investors Worry About Rising Real Yields?

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Many investors worry about the current level of real yields which are low from a historical perspective. Low real yields — not just on bonds but on most assets — anchor long-term future returns to low levels. A sharp increase in real yields would be even worse news as it would trigger sudden capital losses, but rising real yields are not a foregone conclusion. If real yields rise, they need not rise together and are more likely to exhibit a gradual normalization, which would be a more benign outcome than a sharp rise.

Still, given common worries about bond-related tail events, we document the response of various asset classes and strategies in historical episodes of sharply rising real bond yields. Overall, investor portfolios tend to suffer less in bond-related tail events than they do in equity-related tail events.

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