



# ALTERNATIVE THINKING

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## Yield Floors and Asset Allocation: When Is the Role of Bonds Impaired?

Q2 2021

Over the past few years, many investors have questioned the role of bonds in a portfolio based on the belief that yields had limited room for further declines. *If* a so-called “floor” existed for bond yields, the return generation and diversification properties of bonds could be impaired. However, the existence of a floor doesn’t necessarily doom bonds. Only very restrictive yield floor assumptions matter. We estimate that a floor of 50 basis points below prevailing yield levels would have the potential to materially impact the role of bonds in a portfolio over the next year. At a floor of 100 basis points below prevailing yield levels, the bond portfolio may no longer be impaired; traditional and risk-balanced asset allocations behave almost as *if* no yield floor existed. After the recent yield increases in early 2021, a 100 basis point decline is likely possible today.

### **About the Portfolio Solutions Group**

The Portfolio Solutions Group (PSG) provides thought leadership to the broader investment community and custom analyses to help AQR clients achieve better portfolio outcomes.

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