



ALTERNATIVE THINKING

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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