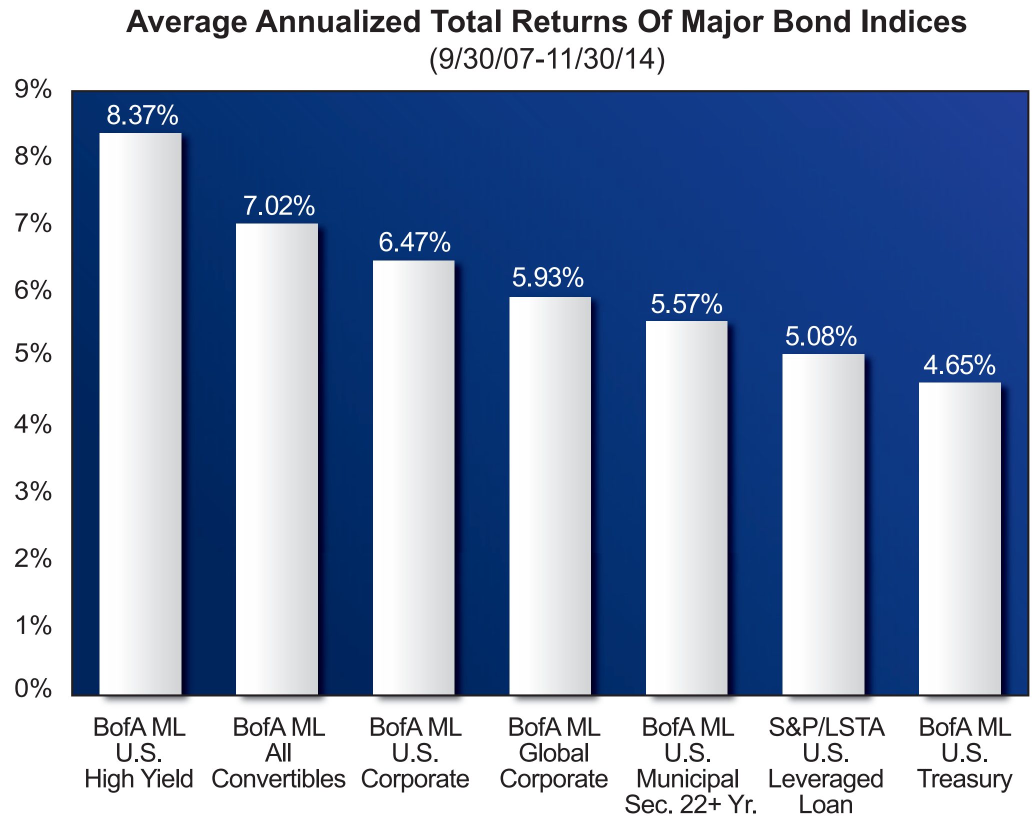
# The Risk-Return Tradeoff In The Bond Market




*Source: Bloomberg. Past performance is no guarantee of future results.*

## View from the Observation Deck

1. One of the negative side effects from the financial crisis (systemic meltdown) in 2008-2009 was that some investors lost trust in "Wall Street," in our opinion. For some, the system looked broke.
2. The risk-return tradeoff in investing implies that potential return rises with an increase in risk. In theory, investing in corporate bonds is inherently more risky, from a credit standpoint, than investing in government securities.
3. The Federal Reserve attacked the financial crisis primarily by lowering the federal funds target rate in the U.S. from 5.25% to 0.25% (9/18/07-Present) and by initiating three rounds of quantitative easing (11/25/08-10/31/14).
4. While opinions may vary as to how influential/responsible these efforts were in getting the capital markets functioning properly, the Fed's involvement likely played a role in tempering the panic that permeated the markets, in our opinion.
5. At a base level, investors should be encouraged that the risk-return tradeoff in the capital markets largely functioned as one would have expected over the period (see chart). Those investors who assumed more risk generally achieved higher returns.



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