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Third Quarter 2025 - Bonds For You?

What's a bond? It's simply an I.O.U. from a borrower. The borrower may be a company, a state, a municipality or the U.S.A. They all have a few things in common.

They all have a stated interest rate that they will pay the lender. They have a "maturity" date, the date on which the principal is to be returned to the lender. Some have sweeteners such as the ability to swap them for shares of stock in the issuing company (convertible bonds).

What is their place in a portfolio? First, the interest payments (coupon) can provide income during the period that the bond is held. Second, they are used to counter the risk of owning stocks since they are expected to hold market value when stocks are declining. That is not always the case, but that's what the theory says.

With that in mind, we referred to the October 6, 2025 issue of *The Wall Street Journal.* It provided performance data for the top (by size) 14 mutual funds and ETFs that invest in bonds.

For the period 10/1/24 to 9/30/25 only 6 of the 14 produced total returns (appreciation plus interest) in excess of 3%, for the 5 year period that ended on September 30th, 6 had **negative** results and only 2 showed gains exceeding 2%. The 10 year figures were not much better. Only 12 of the funds had 10 year track records and only a single one was over 4%! Three of the funds returned more than 3% while the remaining 8 were below that. Interestingly, the largest of the funds listed had a 5 year return of -0.5% per annum and a 10 year "profit" of 1.8% per year.

The same page recapped the results of the 20 largest stock mutual funds and ETFs, 19 of which had a 10 year history. The weakest performer returned 8.3% per year while the top performer rewarded its investors with 20.3%. Overall, the 19 stock funds delivered an average of 13.77% for the 10 years. The 12 bond funds? Average return was 2.4%.

We can even look at tax issues. Most bond issues provide income that is fully taxable as ordinary income. Many stock funds pay "qualified dividends" which are taxed more favorably. Capital appreciation is only taxed when the asset is sold and (based on the holding period) may receive long term capital gains treatment.

Would we say that investors should not hold bonds based on the above figures? No. We are saying that the history is not inviting. The future might be better. Who knows? That's our commentary for quarter #3, we hope you find it interesting.

Thanks as always. Comments and questions are always invited.

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