

With a combined 50+ years of experience, 2X Wealth Group is committed to educating and empowering investors. We firmly believe financial literacy helps people make better decisions.

Does Your Portfolio Need Bonds?

Traditionally, the answer for most investors has been a resounding yes. For decades, many benefited from the positive performance of the standard 60/40 portfolio (60% equities/40% bonds). But times change, and bonds may not provide the security they used to. We review the primary benefits of bonds, discuss which types are the best portfolio diversifiers, and when bonds can be most effective.

When diversifying a U.S. equity-based portfolio, it's important to add assets that are not closely correlated with stocks. Bonds often stay flat or rise in value when equities decline which smooths out portfolio performance over time, a characteristic that reassures risk averse investors.

No hedge is perfect. In certain environments, stocks and bonds can become correlated and both decline in tandem. With this in mind, we show other ways to protect an equity portfolio when bonds don't do the job.

Who Benefits Most from Owning Bonds?

- **Retirees:** Bonds often yield higher income than equities, making them attractive for retirees seeking regular cash flow. In addition to income, bonds offer diversification and reduce reliance on potentially volatile stock investments.
- **Accumulating Investors:** For those still building wealth, bonds' main benefit is diversification, which can help smooth out the ups and downs of an equity-heavy portfolio.

Which Bonds are the Best Portfolio Diversifiers?

- **High-Quality Bonds (Especially Treasuries):** A bond is a debt obligation of the issuer, such as the U.S. Treasury, U.S. agencies and corporations. High quality bonds have credit ratings of BBB or better by Moody's or S&P. These bonds have historically provided strong diversification benefits, acting as effective ballast against stock market movements.

- **Cash:** Essentially short-term debt instruments with maturities under a year. Recently, cash has served as an excellent diversifier, sometimes even outperforming U.S. Treasuries in this role.

Which Bonds Have Weak Diversification Benefits?

- **High-Yield (Junk) Bond Funds:** A high yield bond is a debt obligation of an issuer who is considered less credit worthy - with credit ratings of BB or below. Investors demand more yield to compensate for higher default risk. These bonds tend to move in tandem with equities, offering little diversification because their performance is closely tied to the overall health of the economy and corporate credit. While not ideal for diversification, small allocations to high-yield bonds offer a yield boost to U.S. Treasuries, currently 2.5% to 4%.
- **Core and Core-Plus Bond Funds:** These popular types of funds include more investment grade corporate and mortgage bonds and fewer Treasuries. They come with commensurately higher credit risk. While they are less effective diversifiers than Treasuries or cash, they provide somewhat higher income streams for retirees.

What about Municipal Bonds?

- There are two types of municipal bonds - general obligation bonds and revenue bonds. General obligation bonds are backed by the full faith and credit of the issuing state or city. Revenue bonds are backed by the revenue generated by a specific project or source, such as a utility, hospital or housing project. Typically, munis are not as strong as Treasuries or cash for diversification, and they mainly provide benefits for investors in high tax brackets. Over extended periods of time, municipal bonds have generally helped buffer equity volatility.

Why Do We Worry About U.S. Treasuries Protecting Portfolios?

As we prepared to send this blog, Israel bombed Iran, targeting Iran's nuclear facilities. The reaction of the U.S. treasury market was unusual. Typically bond prices rise and yields fall during periods of global unrest. Today, the opposite happened. It seems we aren't the only ones worried about U.S. debt. This [video](#) from the Wall Street Journal is an excellent tutorial on the problem. It is worth a listen.

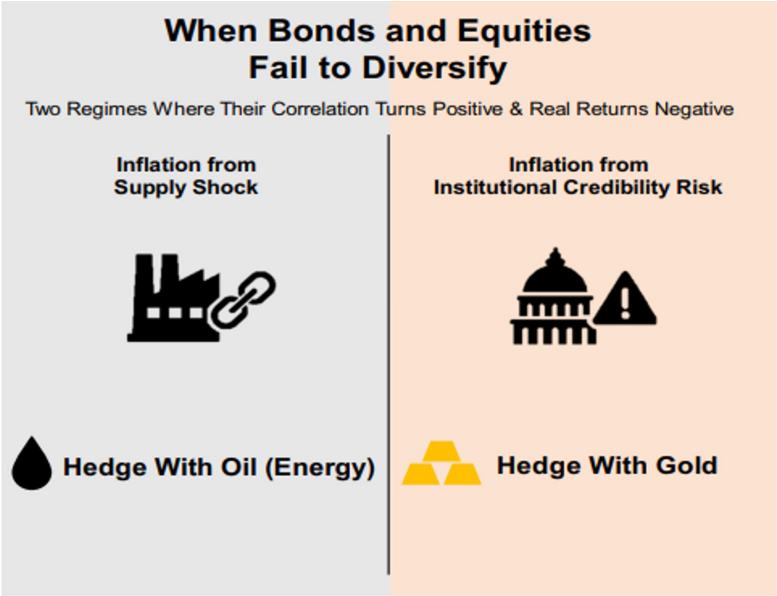
- U.S. debt levels are extremely high. Currently debt held by the public is 99% of GDP and growing.
- Higher debt means a larger supply of bonds, and increased supply likely means yields will have to rise to attract incremental investors. As yields rise, prices on existing bonds will fall, hurting existing bond holders.
- Further, Japan, China and the UK have recently been quietly selling U.S. Treasuries, putting downward pressure on bond prices.
- Some foreign bonds are now offering an attractive alternative to U.S. Treasuries.

How to Hedge Your Portfolio in Cases Where Bonds and Equities Sell-Off Together

- In higher inflation environments, bonds become more correlated to stocks. Bonds didn't help protect stock portfolios in the 1970s inflationary period or during inflation in 2022. Further, bonds did not help portfolios in 2025 during the initial tariff shock in April or when Israel bombed Iran in June.
- **This positive correlation between bonds and equities undermines fixed income's value proposition as a portfolio diversifier.** "This typically happens during inflation shocks stemming from eroded US institutional credibility, prompting a sell-off in both

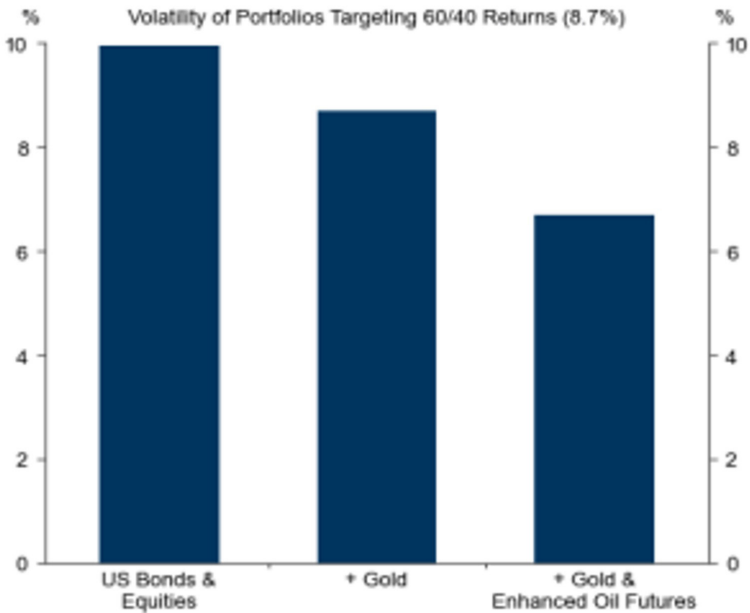
bonds and equities (as happened in the 70s when inflation ran away following fiscal easing and Fed subordination), or during negative commodity supply shocks that depress equity and bond returns through higher inflation and slower growth (as happened in 2022)." *GS The Strategic Case for Gold and Oil in Long-Run Portfolios May 28, 2025.*

- Hedging with both energy and gold helps to offset the effects of inflation.



Source: Bloomberg, Haver Analytics, Goldman Sachs Global Investment Research

The chart below demonstrates how adding both gold and energy investments to long run portfolios helps to reduce portfolio volatility. To understand the relationship between volatility and risk, please see our previous blog [Volatility ≠ Risk](#).



Monthly data of US bonds, US equities, and gold from 1970; oil from 1974.
Source: Bloomberg, Haver Analytics, Goldman Sachs Global Investment Research
World Gold Council

Gold's Historical Role

Gold has a long history of acting as a “safe haven” asset. Gold tends to perform well during periods of market stress, high inflation, or when confidence in fiat currencies and government debt wanes. In the last few years, foreign governments have been accumulating gold while selling U.S. Treasuries. Importantly, gold's price movements are often uncorrelated—or even negatively correlated—with both stocks and bonds.

Bond-equity & Gold-equity rolling 24-month correlations*



*Correlations are computed using monthly returns in US dollars between 31 January 1973 and 30

How Much Gold is Enough?

- Traditional portfolios might hold 2–5% in gold.
- In periods of high equity/bond correlation or heightened macroeconomic risk, some investors increase this to 5–10%.
- The right amount depends on your risk tolerance, investment goals, and views on the macro environment.

How Much Oil is Enough?

- Developed economies like the U.S. have become less reliant on oil. It stands to reason that oil shocks will not have the effect that they had in the 1970s, but historically the correlation has been negative between bonds and oil.
- The current environment with high spare oil capacity, a willingness of OPEC+ to raise production and strong non- OPEC ex Russia supply growth also diminishes the need for overweighting oil.
- For our portfolios, we allocate to energy sources other than oil and hold a small oil stock position to hedge against the risks we have described in this blog.

The Long Game

- Holding long term positions in gold and energy buffers portfolio volatility when inflation, geopolitical instability, or falling institutional credibility disrupts markets.
- In the current environment, few seemed to be worried about oil supply disruptions until Israel bombed Iran *today*. Hedges are meant for these unexpected events.
- Adding oil and gold can help maintain resilience and reduce risk in changing market environments and when traditional diversification fails.

At 2X Wealth Group, We Put Our Money Where Our Mouth Is

We have long held gold as an uncorrelated asset, first [blogging](#) about it in 2019. We have increased our allocation over time in response to the elevated uncertain macro environment with higher inflation, geopolitical risk and as stocks and bonds became more correlated.

We maintain an overweight to energy stocks. Currently, we have a small position in oil, preferring natural gas and uranium.

Need help sorting this all out? Make an appointment with us to help you through it.

Contact Us:

Lori Zager

Lori@2xwealth.ingalls.net
212-269-7757

Lisa James

lisa@2xwealth.ingalls.net
212-269-7758

www.2xwealth.ingalls.net

The material included herein is not to be reproduced or distributed to others without the Firm's express written consent. This material is being provided for informational purposes and is not intended to be a formal research report, a general guide to investing, or as a source of any specific investment recommendations and makes no implied or express recommendations concerning the manner in which your specific accounts should be handled based on your individual circumstances. Any opinions expressed in this material are only current opinions and while the information contained is believed to be reliable there is no representation that it is accurate or complete and it should not be relied upon as such. Investing involves risk, including loss of principal, and no assurance can be given that a specific investment objective will be achieved.

The Firm accepts no liability for loss arising from the use of this material. However, Federal and state securities laws impose liabilities under certain circumstances on persons who act in good faith and nothing herein shall constitute a waiver or other limitation of any rights that an investor may have under Federal or state securities laws.

2x Wealth Group is a team at Ingalls & Snyder, LLC., One Rockefeller Plaza, New York, NY 10020. If you would like to unsubscribe, please click [here](#).