# Fixed income strategies in a low-yield environment

In the current low-yield environment, investors are seeking ways to position their fixed income investments. Here are some considerations for each strategy and how Vanguard can help.

## Vanguard’s recommendation

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<th>Strategy</th>
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| Allocate to broadly diversified bond funds | • Diversifies credit risk  
• Generates income  
• Diversifies equity risk  
• Diversifies across bond segments | • Muted return expectations relative to historical performance  
(This applies to all bond-based strategies, including those listed below) | VAB  
VGV  
VBU  
VBG |

## Other strategies advisors may be considering

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<tr>
<th>Strategy</th>
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<td>Focus on principal protection</td>
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Shorten duration | • Potentially reduces volatility  
• Potentially reduces principal risk  
• Diversifies equity risk, but muted | • Potentially lowers yield relative to intermediate-term bonds  
• May not keep up with inflation  
• Does not eliminate possibility of losses if short-term rates rise  
• Lower return amplification during flight to quality | VSB  
VSG  
VSC |
| Shorten duration with floating-rate products | • Reduces interest rate sensitivity  
• Diversifies equity risk, but muted | • Significant credit risk  
• Reduces diversification benefit | No Vanguard offering |
| Buy individual bonds, separately managed accounts | • Perceived benefit of principal returned at maturity  
• Control over security selection | • Higher costs, lower liquidity and less diversified than bond funds | No Vanguard offering |
| Shift to cash | • Reduces principal risk  
• Diversifies equity risk, but muted | • May not keep up with inflation  
• Gives up substantial yield over time if short-term rates remain low | No Vanguard offering |
| Reach for yield |  
Overweight corporate bonds | • Opportunity for additional income  
• Diversifies equity risk, but muted | • May reduce diversification benefit  
• Typically underperforms broad bond market during equity market decline | VCB  
VSC |
| Lengthen duration | • Opportunity for additional income  
• Increases interest rate sensitivity | • May reduce diversification benefit  
• Higher volatility than short-term bonds | VLB |
| Higher-yielding bonds, emerging markets bonds | • Opportunity for additional income and returns | • Weaker diversification benefit due to high correlation with equities  
• Probable losses if high-yield spreads widen  
• Higher volatility than investment-grade bonds | No Vanguard offering |
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