How to Invest When Both the Stock Market and Bonds Are Falling
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A portfolio balanced between both stock and bond holdings has been a classic strategy for investors throughout market history. Although equites generally outperform bonds in the long run, the stock market can be volatile. Bonds typically move opposite to stocks in price, so these fixed income holdings have traditionally been used to help smooth a portfolio's ride when the equity markets seem like a roller coaster. However, so far in 2022 there has been a dramatic departure from this relationship. Due to a combination of rising rates, inflation, and slowing economic growth, we have seen both stock and bond prices steeply decline in value at the same time.

This break from the norm has jarred investors worldwide, with many wondering where to go from here. A lot can depend on one's time horizon and situation in life, but there are a few courses of action that can be considered.

1. Take a breath. Although drastic, there is an abundance of evidence that shows time will return this complementary relationship back to a more normal state.

2. Rebalance. Although both asset classes have declined, bonds have held their value more so than stocks at this point. By adjusting your holdings back to your intended mix during periods of volatility, you may benefit as buying equities on the dip can produce outsized gains compared to holding onto the same bonds.

3. Reduce duration. As their relationship is inverse, a rise in interest rates from near all-time lows was the main cause for the decline in bonds. If rates continue to rise, bonds with longer maturities will continue to underperform. Lowering the average term, or duration, of your bond holdings could reduce future swings in principal on this part of

the portfolio. Remember, lower duration can mean lower yield on your bonds, so make sure you are comfortable with the trade-off.

4. Consider further diversification. Although most investors consider stocks, bonds, and cash to be the three main asset class pillars, “real assets” are considered a fourth. Underused due to a decade’s worth of relative underperformance, this category focuses on assets that can be physically touched. Agriculture, real estate, energy, as well as base and precious metals can fall into this category. Historically physical assets perform well in an inflationary environment, especially compared to fixed income. If inflation remains elevated for some time, this can add another layer of stability to a balanced portfolio. However, investing in real assets can be complex, and there are vast differences between some of the subcategories. Many investors would be wise to educate themselves fully to their various risks and dynamics or use specific expertise when considering adding it to a portfolio.

All of these can be easier said than done, especially during volatile economic times like we are currently experiencing. It’s best to compare all options and develop a long-term game plan before making any changes. Regardless of which path is taken, keeping discipline in the future requires confidence on why you chose it in the first place.

About the Author

Trevor Conlon has over 20 years of experience as a Financial Advisor. His main concentrations are on individual asset and portfolio management, income generation, retirement planning, and 401(k) plan advisor services for businesses. He is an alumnus of LaSalle University in Philadelphia. Mr. Conlon can be reached at tconlon@wsfsinvestments.com. WSFS Wealth Investments, WSFS Wealth Investments, 3801 Kennett Pike, Suite C200, Greenville, DE 19807.

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