T. Rowe Price

Looking for income in 2025? These bond solutions could help

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Key Insights

- Given the heightened uncertainty and challenges financial markets face in 2025, we believe that fixed income is an attractive place for investors with a plethora of potential income opportunities on offer.
- With diverse sectors, there is flexibility for investors to find a bond solution that can help support their distinct needs and objectives.
- Corporate bond strategies may appeal to investors seeking steady income, while those looking for diversification may find a global multi-sector bond approach attractive.

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With a new year underway, investors are grappling with a number of market and economic challenges, including monetary policy divergence, political uncertainty, high fiscal deficits, geopolitical tensions, and concerns around tariffs and reflation. These crosscurrents will likely stoke volatility and be challenging to navigate, but the good news is that investors can potentially generate an attractive income stream from bonds as yields remain elevated.

Another key benefit of a fixed income allocation is that there is a diverse range of sector options and strategies on offer. This means that, in addition to potential income generation, bonds may also help investors achieve specific objectives within their asset allocation construct, such as stability, growth, or diversification. In this piece, we are delving into the characteristics of three different bond solutions and how they align to distinct investment goals.

Three bond approaches for today's uncertain markets

(Fig. 1) Investors can find solutions for a variety of needs

As of January 2025.
For illustrative purposes only. This is not to be construed to be investment advice or a recommendation to take any particular investment action. Investments involve risks, including possible loss of principal. **Diversification cannot assure a profit or protect against loss in a declining market.** See Appendix for varying risks associated with each fixed income sub-asset class.
Source: T. Rowe Price.

Three bond approaches to help meet different investor needs

1. Investment-grade corporate bond approach

Investment-grade corporate bonds can benefit from both duration and credit spread components.[1] During good times when the economy is growing and credit spreads are tightening, the asset class typically does well thanks to the credit element. By contrast, when times are tougher and the economy is weakening, the duration component may kick in as a shock absorber to help offset a widening of credit spreads. We believe this defensive attribute makes the asset class appealing for investors seeking stability as well as a regular income stream.

Even though credit spreads are tight at present, we believe that the yield on offer in the asset class is still appealing and offers a meaningful pickup over traditional government bonds. As of the end of December 2024, the average yield to worst offered by global investment-grade corporate bonds was around 4.75%.[2]

2. High yield corporate bond approach

A long-term allocation to high yield corporate bonds offers investors attractive income potential and opportunities for capital gains. As of the end of December 2024, the average yield to worst in global high yield corporate bonds was around 7.20%.[3] This level is both appealing and competitive with other asset classes. That said, the sector's risks are higher than investment-grade bonds, so investors need to balance the higher yield on offer with their tolerance for risk. Defaults are currently low, but are expected to pick up this year. This underscores the importance of individual credit research as it may help to identify companies with elevated risks.

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[1] Duration measures a bond's sensitivity to changes in interest rates. Credit spreads measure the additional yield that investors demand for holding a bond with credit risk over a similar-maturity, high-quality government security.
[2] As of December 31, 2024. Yield to worst of the Bloomberg Global Aggregate Corporates Bond USD Hedged Index. Source: Bloomberg Finance L.P. **Performance quoted represents past performance and is not a guarantee or reliable indicator of future results.**
[3] As of December 31, 2024. Yield to worst of the ICE BofA Global High Yield Index. Source: ICE BofA. See Additional Disclosures. **Performance quoted represents past performance and is not a guarantee or reliable indicator of future results.**

3. Global multi-sector bond approach

A global multi-sector bond approach has the ability to find attractive income opportunities across a wide variety of fixed income sectors. This includes government, corporate, and securitized debt from both investment-grade and high yield issuers across developed and emerging markets. The approach offers the potential to diversify return sources, which may appeal to investors seeking a lower volatility through diversification. The ability to invest across a broad range of sectors and tactically adjust allocations to the market environment may also be valued by an investor who is uncertain about what sector to buy or when to make a reallocation decision. The flexibility of a multi-sector approach takes that burden away and can be seen as a "one-stop shop" for a fixed income allocation.

The current challenges financial markets face, including political and economic uncertainty, may be unsettling for investors. But with bond yields still at elevated levels, we believe that fixed income offers potential attractive income generation. The diversity of the asset class also means that investors can choose a sector or approach that aligns with their specific objectives.

> "...a multi-sector approach... can be seen as a 'one-stop shop' for a fixed income allocation.

For definitions of financial terms used in this material please refer to - www.troweprice.com/en/us/glossary

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