A 401(K) PARTICIPANT'S GUIDE TO BUYING BONDS

With interest rates at historical lows and increased stock market volatility, many 401(k) participants are wondering what role bond funds should play in their overall asset allocation. This short guide seeks to help 401(k) plan participants understand the potential benefits of owning bonds, make sense of the different types of bond funds that your 401(k) plan provides, and offer a commonsense approach to bond investing based upon your risk tolerance.

Why Bonds, Why Now?

Historically, the primary reason to buy bonds was to earn a steady, predictable stream of income. In 2022, however, interest rates are at historical lows offering bond investors minimal returns. A logical question therefore is why buy bonds in the first place? The primary reason to invest in bonds now is to offer a buffer or cushion in the event of a substantial stock market drop.

Consider the first quarter of 2020. During this three-month period the S&P 500® Index fell by 19.60% while the Bloomberg U.S. Aggregate Bond Index rose by 3.15%. Put another way, a 401(k) participant who was diversified with half stocks and half bonds would have suffered an 8.23% loss. Even a participant who only had 25% in bonds would have incurred a loss of 13.91%, far less than the 19.60% loss incurred by stock-only investors.

Curbing portfolio losses during periods of economic turmoil are critical for long-term success. The reason is because losses and gains are asymmetrical. In other words, a 5% loss is not recovered by a 5% gain, nor is a 20% loss recovered by a 20% gain. As the table below illustrates, the larger the loss, the larger the gain that is required for investors to make their money back.

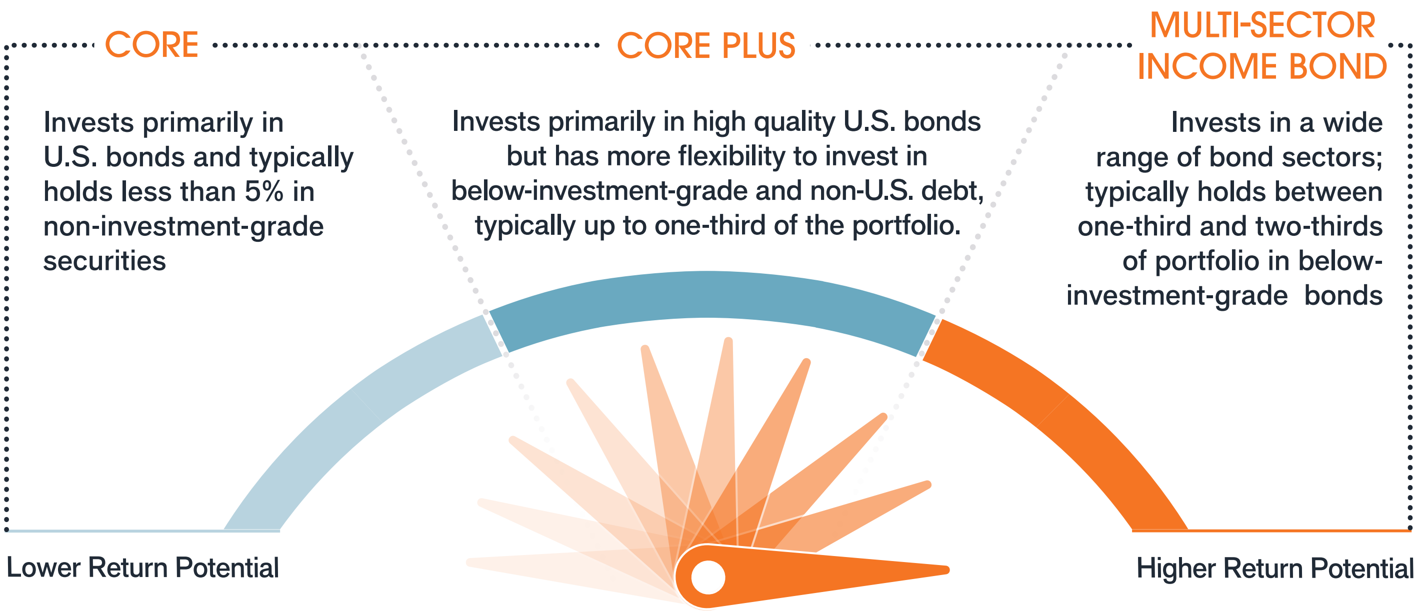
Winning Through Not Losing Over the Long Term

	75% stocks and 25% bonds	50% stocks and 50% bonds	25% stocks and 75% bonds
Portfolio return for the period January – March 2020	-13.91%	-8.23%	-2.54%
Return needed after March 2020 to breakeven	16.16%	8.96%	2.61%
Difference	30.07%	17.19%	5.15%

Source: Janus Henderson Analytics, April 2021.

Meet the "Big Three"

If the primary purpose of owning bonds is to buffer against stock market losses and employ a winning through not losing approach, what types of bond funds should 401(k) participants invest in? Most 401(k) plans offer participants one or more of what we call the "Big Three." These funds invest primarily in U.S. government and corporate bonds, offering participants an ideal place to start. The differences among these three different options, as defined by Morningstar, are explained in the table below. In your plan, Core may be called Core Bond; Intermediate Bond, Aggregate Index; Core Plus may be called Total Return; and Multi-Sector Bond may be called Income or Strategic Income.



For many 401(k) participants, a good rule of thumb is that at least half of the bond allocation should be invested in core, core plus and/or multi-sector. For example, a 70% stock and 30% bond investor should consider allocating 15% to one or more of the big three. A 30% stock and 70% bond investor should consider allocating 35% to one or more of the Big Three. Participants with a conservative risk tolerance may choose to invest primarily in core or a core plus, while participants with a more aggressive risk tolerance may choose to be more heavily weighted in a multi-sector bond fund. Of course, the options that are available will depend upon each participant's own 401(k) plan. Examples are illustrated in the table below.

How to Anchor A Portfolio with Bonds

Participant	Risk Tolerance	Typical Stock-Bond Allocation	Big Three Allocation	Bond Fund Allocation
A	Aggressive	80%-20%	10%	More Multi-Sector
B	Moderate - Aggressive	70%-30%	15%	↑
C	Moderate	60%-40%	20%	
D	Moderate - Conservative	40%-60%	30%	↓
E	Conservative	30%-70%	35%	More Core/Core Plus

Rounding Out a Bond Portfolio

The final step in the process is to complete the bond portfolio. Notice that participant A has another 10% to allocate to bonds while participant E has another 35%. In addition to the Big Three, most 401(k) plans will offer other bond investments. For example, plans typically offer capital preservation options such as a money market or stable value fund. These options are the lowest risk investment available but also offer limited return potential. Another relatively lowest risk investment is a short-term/low duration bond fund. These investments do not guarantee principal but may offer better return potential compared to a money market or stable value fund. Capital preservation and short-term bond funds are typically most appropriate for conservative investors approaching retirement.

Other plans may offer the opportunity to purchase bonds from governments and corporations overseas. The two primary types of funds are international fixed income and global fixed income. International funds invest only in non-U.S. securities while global funds, as the name implies, can go anywhere in the world. These investments tend to be best suited for investors with a moderate to aggressive risk tolerance. The table below illustrates how to put all these pieces together to construct a bond portfolio inside a 401(k).

Participant	Risk Tolerance	Typical Stock-Bond Allocation	Big Three Allocation	Other Bond Allocation	Other Bond Fund Allocation
A	Aggressive	80%-20%	10%	10%	More International/Global
B	Moderate - Aggressive	70%-30%	15%	15%	↑
C	Moderate	60%-40%	20%	20%	
D	Moderate - Conservative	40%-60%	30%	30%	↓
E	Conservative	30%-70%	35%	35%	More cash/Short-term Bond

Conclusion

This short guide was written to help 401(k) plan participants better understand the opportunities of bond investing. To recap, despite low interest rates, bonds have a place in almost every portfolio, even among investors with an aggressive risk tolerance. Approximately half of bond allocations should consider an allocation among the Big Three: toward multi-sector for more aggressive investors and toward core or core-plus for more conservative investors. Finally, for moderate and aggressive investors, the balance of a bond allocation should consider an allocation among non-U.S. securities, while leaning more toward cash and short-term bond funds for more conservative investors approaching retirement.

FOR MORE INFORMATION, PLEASE VISIT **JANUSHENDERSON.COM**

Janus Henderson INVESTORS

Investing involves risk, including the possible loss of principal and fluctuation of value.

The opinions and views expressed are as of the date published, are subject to change and may not reflect the views of others in the organization. They are for information purposes only and should not be used or construed as an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell or hold any security, investment strategy or market sector. There is no guarantee that the information supplied is accurate, complete, or timely, nor are there any warranties with regards to the results obtained from its use.

Past performance is no guarantee of future results.

The information contained herein is for educational purposes only and should not be construed as financial, legal or tax advice. Circumstances may change over time so it may be appropriate to evaluate strategy with the assistance of a financial professional. Federal and state laws and regulations are complex and subject to change. Laws of a particular state or laws that may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of the information provided. Janus Henderson does not have information related to and does not review or verify particular financial or tax situations, and is not liable for use of, or any position taken in reliance on, such information.

A retirement account should be considered a long-term investment. Retirement accounts generally have expenses and account fees, which may impact the value of the account. Non-qualified withdrawals may be subject to taxes and penalties. For more detailed information about taxes, consult a tax attorney or accountant for advice.

Foreign securities are subject to currency fluctuations, political and economic uncertainty, increased volatility and lower liquidity, all of which are magnified in emerging markets. **Fixed income securities** are subject to interest rate, inflation, credit and default risk. As interest rates rise, bond prices usually fall, and vice versa.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.