

STABILITY WHEN IT MATTERS: FIXED INCOME IN EQUITY DOWNTURNS

Equity markets have delivered strong returns in recent years, prompting some investors to overlook the role of bonds in a portfolio. But periods of market stress consistently highlight the value of fixed income. When equities decline, bonds have historically helped preserve capital and stabilize portfolio outcomes.

Steady Through Volatility

Two of the most recent major equity drawdowns, the Global Financial Crisis (GFC) and the COVID-19 downturn, illustrate the stabilizing role of high-quality fixed income. During the GFC, equities experienced a sharp and prolonged decline, while investment-grade bonds were relatively stable and helped preserve capital. We saw a similar pattern during the COVID-19 selloff, when higher quality bonds proved resilient.

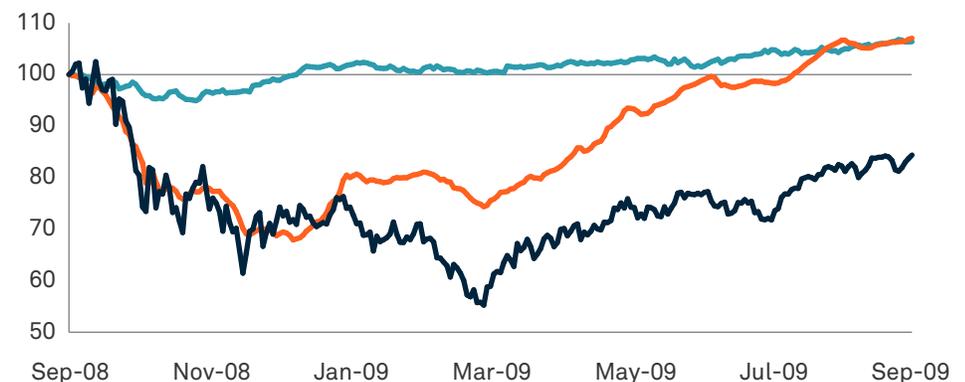
In both cases, high yield bonds, which carry greater credit risk, initially declined alongside equities but recovered stronger and faster, underscoring an important distinction that not all fixed income sectors behave the same way.

We believe these examples reinforce the importance of maintaining an allocation to fixed income. Bonds can act as a ballast, helping cushion losses and reduce overall volatility when equities are under pressure.

RECENT MAJOR EQUITY DRAWDOWNS

— Equities — High Yield Bonds — Intermediate Bonds

Global Financial Crisis



COVID-19 Downturn



Source: Bloomberg. GFC = 9/9/08–9/9/09; COVID-19 = 9/23/19–9/23/20. Equities are represented by the S&P 500, High yield bonds by the U.S. Corporate High Yield and Intermediate Bonds by the U.S. Aggregate. Rebased to 100. Each chart shows performance six months prior and six months after the market bottom, defined as the low point of the S&P 500. Current performance may differ from figures shown. See index definitions in Glossary.

Bonds Provide Counterbalance

In most years, bonds rise with equities. But history also shows that bonds have delivered positive returns when equities were negative. During these periods, bonds helped offset equity losses. We also note that it's relatively rare for both equities and bonds to decline at the same time, as in 2022. Because bonds generally pay regular interest, they can continue generating income even during equity downturns. The steady stream of payments helps support overall performance and reinforces fixed income's role as a reliable source of cash flow.

EQUITY AND BONDS

U.S. Equity and Bond Returns Since 1978



Source: BNY Investment Strategy & Research Group, Macrobond. Data as of 1/31/26. Equities are represented by the S&P 500 and bonds are represented by the U.S. Aggregate. See index definitions in Glossary.

Diversification at Work

While equities have generally performed better than bonds, they do not outperform in every market environment. Periods of economic uncertainty or elevated market volatility can expose the risks of relying too heavily on equities alone, highlighting how fixed income can help diversify equity risk.

Within fixed income itself, sectors often respond differently to changes in economic conditions and interest rates. Therefore, diversification across bond sectors can be just as important as diversification away from equities.

By allocating across multiple bond sectors, investors can reduce reliance on any single source of return while complementing equity exposure. This approach may help provide income, mitigate volatility, and strengthen portfolio resilience across changing market environments.

FIXED INCOME PERFORMANCE CHART

2018	2019	2020	2021	2022	2023	2024	2025
U.S. Trsy Bills 1.9%	U.S. Long Trsy 14.8%	U.S. Long Trsy 17.7%	U.S. HY 5.3%	U.S. Trsy Bills 1.3%	U.S. HY 13.4%	U.S. Lvgd Loan 9.0%	EMLC 16.6%
Global Agg (hdg) 1.8%	U.S. HY 14.3%	U.S. IG 9.4%	U.S. Lvgd Loan 5.2%	U.S. Lvgd Loan -0.8%	U.S. Lvgd Loan 13.3%	U.S. HY 8.2%	U.S. HY 8.6%
U.S. Int Trsy 1.4%	U.S. IG 13.8%	Global Agg 9.2%	U.S. Muni 1.5%	U.S. Int Trsy -7.8%	EMLC 11.4%	U.S. Trsy Bills 5.3%	U.S. MBS 8.6%
U.S. Muni 1.3%	EMLC 12.2%	U.S. Trsy 8.0%	U.S. Trsy Bills 0.1%	U.S. Agencies -7.9%	U.S. IG 8.2%	Global Agg (hdg) 3.4%	Global Agg 8.2%
U.S. MBS 1.0%	U.S. Agg 8.7%	U.S. Agg 7.5%	U.S. MBS -1.0%	U.S. Muni -8.5%	Global Agg (hdg) 7.1%	U.S. Agencies 3.1%	U.S. IG 7.8%
U.S. Trsy 0.9%	U.S. Lvgd Loan 8.6%	U.S. HY 7.1%	U.S. IG -1.1%	EMLC -10.3%	U.S. Muni 6.4%	U.S. Int Trsy 2.4%	U.S. Agg 7.3%
U.S. Agencies 0.5%	Global Agg (hdg) 8.2%	U.S. Int Trsy 5.8%	U.S. Agencies -1.3%	U.S. HY -11.2%	Global Agg 5.7%	U.S. IG 2.0%	U.S. Int Trsy 6.5%
U.S. Lvgd Loan 0.4%	U.S. Agencies 7.6%	Global Agg (hdg) 5.6%	Global Agg (hdg) -1.4%	Global Agg (hdg) -11.2%	U.S. Agg 5.5%	U.S. Agg 1.3%	U.S. Agencies 6.4%
U.S. Agg 0.0%	U.S. Muni 7.5%	U.S. Muni 5.2%	U.S. Agg -1.5%	U.S. MBS -11.8%	U.S. Agencies 5.2%	U.S. MBS 1.2%	U.S. Trsy 6.3%
Global Agg -1.2%	U.S. Trsy 6.9%	EMLC 4.8%	U.S. Int Trsy -1.7%	U.S. Trsy -12.5%	U.S. Trsy Bills 5.2%	U.S. Muni 1.1%	U.S. Lvgd Loan 5.9%
U.S. Long Trsy -1.8%	Global Agg 6.8%	U.S. MBS 3.9%	U.S. Trsy -2.3%	U.S. Agg -13.0%	U.S. MBS 5.0%	U.S. Trsy 0.6%	U.S. Long Trsy 5.6%
U.S. HY -2.1%	U.S. MBS 6.4%	U.S. Lvgd Loan 3.1%	U.S. Long Trsy -4.6%	U.S. IG -15.3%	U.S. Int Trsy 4.3%	Global Agg -1.7%	Global Agg (hdg) 4.9%
U.S. IG -2.1%	U.S. Int Trsy 5.2%	U.S. Agencies 2.7%	Global Agg -4.7%	Global Agg -16.2%	U.S. Trsy 4.1%	EMLC -2.2%	U.S. Trsy Bills 4.3%
EMLC -4.8%	U.S. Trsy Bills 2.4%	U.S. Trsy Bills 0.9%	EMLC -7.8%	U.S. Long Trsy -29.3%	U.S. Long Trsy 3.1%	U.S. Long Trsy -6.4%	U.S. Muni 4.2%

Sources: BNY Investment Strategy & Research Group, Macrobond. Data as of 12/31/25. See index definitions in Glossary.

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GLOSSARY

EM Local Currency Government 10% Country Capped: The Bloomberg EM Local Currency Government 10% Country Capped Index is a country-constrained version of the flagship Emerging Markets Local Currency Government Index, which is designed to provide a broad measure of the performance of local currency emerging markets (EM) debt. **Global Aggregate:** The Bloomberg Global Aggregate Total Return (USD hedged) Index is a broad-based measure of the global investment-grade fixed income market. **S&P 500:** The S&P 500 is an index designed to track the performance of the largest 500 U.S. companies. **U.S. Agencies:** Bloomberg U.S. Agencies Total Return Unhedged USD measures U.S. dollar-denominated agency debt. **U.S. Aggregate:** Bloomberg U.S. Agg Total Return Value Unhedged USD Index is a widely accepted, unmanaged total return index of corporate, government and government-agency debt instruments, mortgage-backed securities and asset-backed securities with an average maturity of 1–10 years. **U.S. Corporates:** Bloomberg U.S. Corporate Total Return Value Unhedged USD Index tracks the investment-grade, fixed-rate, taxable corporate bond market. **U.S. High Yield:** Bloomberg U.S. Corporate High Yield Total Return Index Value Unhedged USD Index tracks the performance of U.S. dollar-denominated below-investment-grade-rated corporate debt publicly issued in the U.S. domestic market. **U.S. Leveraged Loans:** The Morningstar LSTA U.S. Leveraged Loan Index is a market-value weighted index designed to measure the performance of the U.S. leveraged loan market. **U.S. MBS:** The Bloomberg U.S. Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). **U.S. Munis:** Bloomberg Municipal Bond Index Total Return Index Value Unhedged USD Index tracks the municipal fixed income market in the United States. **U.S. Treasury:** The Bloomberg U.S. Treasury Index is the U.S. Treasury component of the U.S. Aggregate Index and uses public obligations of the U.S. Treasury with a remaining maturity of one year or more. **U.S. Treasury Bills:** The Bloomberg U.S. Treasury Bill 3-6 Months Index tracks the market for treasury bills with 3 to 5.9 months to maturity issued by the U.S. government. U.S. Treasury bills are issued in fixed maturity terms of 4, 13, 26 and 52 weeks. **U.S. Treasury Intermediate:** The Bloomberg U.S. Treasury Intermediate Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with maturities of 1 to 9.9 years to maturity. **U.S. Treasury Long:** The Bloomberg U.S. Treasury Long Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with 10 years or more to maturity. Investors cannot invest directly into an index.

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