Central Banks Seen as Biggest Obstacle Facing Fixed-Income Investors

The low-interest rate environment of the last several years has forced many investors to seek alternative forms of investment yield beyond traditional fixed-income instruments Faced with that reality, we posed the following question to our readers last week:

What is the biggest obstacle facing fixed-income investors right now?

Here are the results:

As of 7:30 p.m. (Central) on Saturday, September 24, we received 4,785 votes on this poll question. The majority of respondents–54%– say that actions by central banks such as the Federal Reserve are the biggest obstacle facing fixed-income investors. Many investors believe that central banks have robbed investors of billions of dollars in lost interest income since the global financial crisis of 2007-2008 as they pumped trillions into global stock markets and have held interest rates low or, in some cases, pushed interest rates into negative territory.

A quarter of readers believes that lukewarm global economic growth poses the biggest threat to fixed-income investors, while 11% point to the aging of the populations of major economies–including Japan and the U.S–and the commensurate pension pressures associated with these populations as an obstacle for fixed-income investors.

Weekly Special Question

We were also curious to know whether our readers have abandoned fixed-income investments in their pursuit of yield. Therefore, last week's special question asked:

Do you invest in fixed-income instruments (Treasuries, bond funds, individual bonds, etc.)? What is the primary reason why you either DO or DO NOT?

In all, 982 readers offered their opinions. Among those that responded to the special question, 35.3% said they do not invest in fixed-income instruments while nearly two-thirds say they do invest in fixed-income instruments.

Among those that said they *do not* invest in fixed-income instruments, the most common reasons are:

- Yields too low/insufficient interest income (26.5% of those that do not invest in fixed-income instruments)
- Prefer to invest in stocks (15.3%)

In contrast, those that do invest in fixed-income instruments said these are the primary reasons for doing so:

- Portfolio diversification (21.4% of those that invest in fixed-income instruments)
- Risk reduction/portfolio stability (13.6%)
- Income (11.2%)

Here is a sampling of the responses:

- "All I invest in is dividend-producing stocks. They sustain my retirement income. I have been doing that for almost 40 years."
- "Current interest rates too low. Plus Central Bank insistence on 2% or more inflation. Such a combo is potentially lethal to an aging population moving toward so-called safer investments such as bonds."
- "Do not [invest in fixed-income instruments]. Rates are minuscule and bond appreciation is predicted to be negative with possible rising rates."
- "Have better results with stocks!"
- "I do not invest in anything that does not move with inflation. Therefore I have never owned a bond or a CD. I am in my late 70s. Up until 5 years ago, I was considered a fool, now I am considered a man of foresight and wisdom."

- “[Investing in fixed-income instruments] As a hedge against the volatility of the stock market.”
- “Fixed-income investments provides safety, especially when the equity markets are overvalued, or felt to be overvalued.”
- “I invest in bond funds to reduce portfolio volatility.”
- “My portfolio is all bonds right now. I am waiting for a bear market in stocks with the hope of making money using inverse ETFs. Stocks are overvalued right now, the economy is crummy and negative interest rates are simply a desperate and bad attempt to try to set things straight.”
- “To offset stock market risk, I invest in a stable value fund, short- and medium-duration bond funds. Concerned that a drop in bond liquidity could trigger a sharp drop in bond price.”

Want to weigh in? Participate in our weekly member poll, updated every Tuesday, and see the results online at http://www.aaii.com/memberquestion.