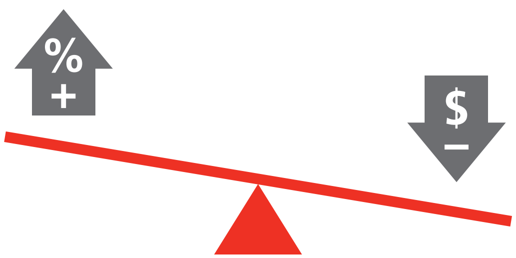
THE IMPACT OF RISING INTEREST RATES

Although a bond's face value does not change, its market price can move up and down nearly every business day due to changes in interest rates. It's important to note that bonds with longer maturities typically offer higher yields but are more susceptible to interest rate risk. On the flip side, bonds with shorter maturities tend to be less susceptible to interest rate risk but offer lower yield.

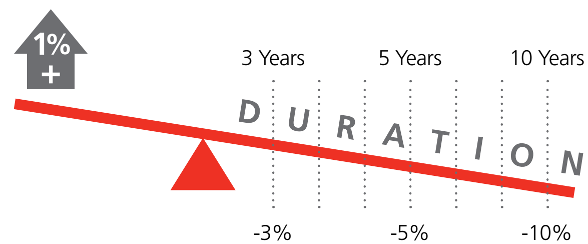
The Inverse Relationship Between Interest Rates and Bond Prices



When interest rates rise
the price of existing bonds will fall because investors can purchase newly issued bonds at the more favorable higher rate.

Inversely, **when interest rates fall**
the price of existing bonds rise because of demand from investors who want to purchase bonds with a higher rate from existing bond holders.

Duration: The Longer the Road, the Riskier the Ride



Duration is a measure of
a bond's price sensitivity to a change in interest rates.[†]

The Rule of One:
For every one year in duration of a bond (or bond fund), a 1% change in interest rates will result in an approximate 1% change in the price of the bond.[‡]

Let's see what this means using actual rates and values.

[†] Investopedia, copyright 2015.
[‡] Blackrock, blackrock.com, "Duration: What it Is, and Why it Matters," accessed January 29, 2016.

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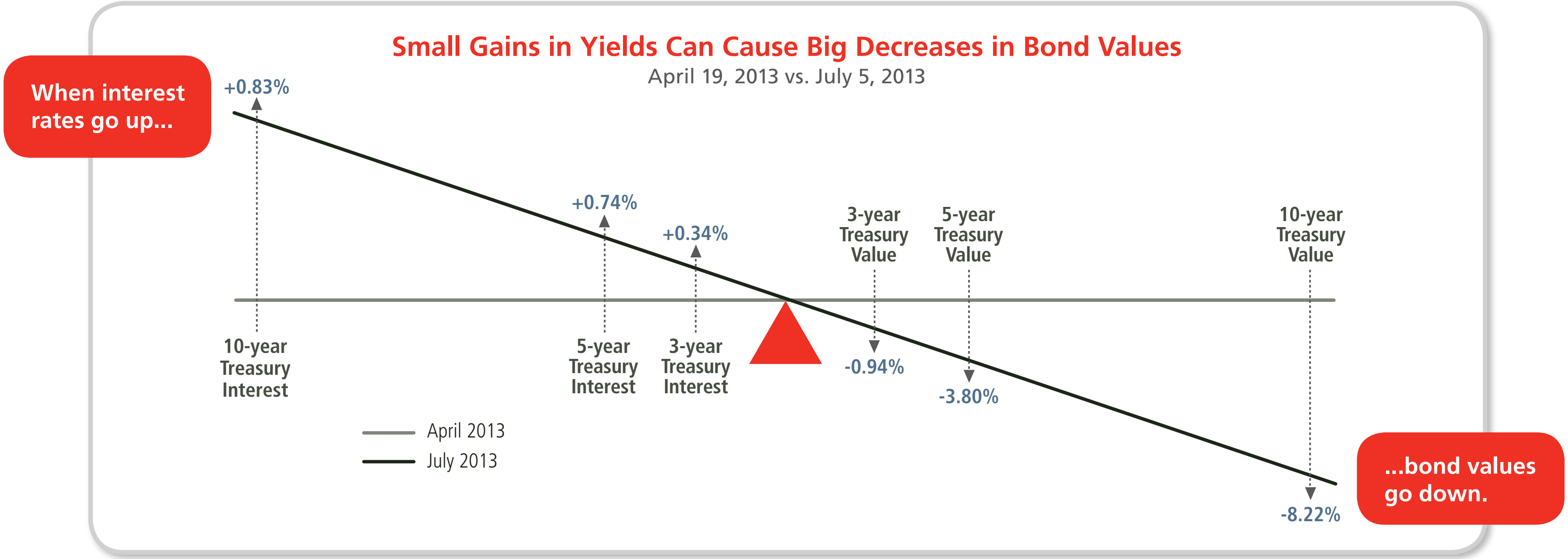
Now that you've seen how rising interest rates can be a potential problem for bond investors, let's go a step further. What you might find surprising is how interest rate movements may not be proportional to bond values. Consider what occurred in 2013 as illustrated below—a 0.74% interest rate increase caused the 5-year Treasury bond to lose 3.80% of its value. And the damage only got worse for bonds with longer maturities. On the 10-year Treasury bond, interest rates went up 0.83%, and the value went down a shocking 8.22%.



Source: Jackson® compared interest rates from the U.S. Federal Reserve and bond values from the U.S. Department of the Treasury for April 19, 2013 and July 5, 2013 to calculate the changes in interest rates and the percentage change of bond values.

Contact your representative today to learn more about hedging against interest rate risk.