# Four factors driving fixed income returns

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COLUMBIA THREADNEEDLE INVESTMENTS

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So when I think about the different ways that you can add value and manage your portfolio, there are several different levers that you can pull. One, and the most obvious one, the one that's talked about the most, would be interest rate risk. And interest rate risk to us is the risk of interest rates either rising or declining and how you want to position your portfolio to either try to minimize price losses if rates go up or to maximize price gains if rates go down. And our forecast today is not for interest rates to move in a big way but I would also say that rates are low from a historic level or a historic perspective. And so you want to be careful of not taking too much interest-rate risk within your portfolio.

When I turn to the next lever, which is credit risk, I think there is a better opportunity within credit within your portfolio, not by broadly buying high-yield or investment-grade credit but by selectively investing in certain types of bonds that, we've done some research, we can do the fundamental analysis on the company and be very confident that it is credit-worthy and you're getting adequately or more than adequately compensated for the risk. And that's something that's very difficult for an individual investor to do is to collect individual bonds and accumulate them and manage them within the portfolio but it's what we do all day long.

And two other areas, other levers that you can use within the portfolio, one would be within the currency area and currency risk. And right now, we have a modestly favorable view of the dollar but I don't think that's where you can make and lose a lot of money within the portfolio. So we don't think it's overly compelling one way or the other.

And then the fourth area would be on the inflation front. And that is an interesting area where inflation is just starting, it's below the Fed's long-term average but it's just starting to move higher. And inflation-protected securities, having more of an inflation theme in your portfolio, might be a smart, prudent trade as we look out over the next two to three to four years.

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