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Bonds Look Enticing Even If Rate Cuts Come Later Than Expected.

Even if higher-for-longer interest rates are applying downward pressure on bond prices — and conversely, upward pressure on yields — bonds still look enticing. Vanguard has a few bond-focused exchange-traded funds (ETFs) that are worth considering.

The prolonging of rate cuts is adding a speed bump to the equities rally, and likewise, bonds. While the Federal Reserve continues to fish for econometrics that provide the green light to institute rate cuts, the environment is still ripe for picking bonds as long as investors know in which corners of the market to look.

“Still, fixed income experts see the rate climate improving if the Fed manages to push through a cut or two later in the year,” Barron’s reported. “Yields are attractive, and if the economy stays healthy, credit metrics should hold up, supporting prices in corporate debt. All that could make for good opportunities within the bond universe, particularly in investment-grade corporate, junk bonds, and floating-rate bank loans. Municipal bonds also are attractive.”

“Adding exposure to high-quality bonds is a good idea for investors sitting in cash,” said Matthew Palazzolo, senior investment strategist at Bernstein Private Wealth Management. “You can get an attractive level of income and price appreciation.”

As the report mentioned, corporate debt presents a compelling option to fixed income investors. One fund to look at is the Vanguard Short-Term Corporate Bond Index Fund ETF Shares (VCSH). The fund seeks to track the performance of a market-weighted corporate bond index with a short-term dollar-weighted average maturity. It employs an indexing investment approach designed to track the performance of the Bloomberg Barclays U.S. 1-5 Year Corporate Bond Index. As of April 12, it offers a 30-day SEC yield of 5.24%.

A Treasury and Muni Option to Consider

Those who don’t want the additional credit risk of corporate debt can stay within the confines of safer Treasuries via the Vanguard Short-Term Treasury ETF (VGSH). It offers ideal exposure to short-term Treasury notes, focusing on maturity dates that fall within one to three years. Its 30-day SEC yield stands at 4.80%.

The Barron’s report also mentioned munis, so another fund to consider is the well-diversified Vanguard Tax-Exempt Bond ETF (VTEB). The fund tracks the Standard & Poor’s National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. Overall, this index includes municipal bonds from issuers, primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes, and the federal alternative minimum tax. Its 30-day SEC yield is 3.49%.

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