
The Best Bond Funds to Buy for 2019 as Interest Rates Rise.

In normal times, when a stock-market downturn looks likely, investors move money into bonds, the better to protect their wealth from sharp losses. But these are not normal times: It looks like the beginning of a downturn in fixed income too. Interest rates are rising, which drives down bond prices. The value of a 10-year Treasury note maturing in November 2027 has fallen 6% in the past year. And the Federal Reserve is expected to hike benchmark rates three times in 2019, putting even more pressure on prices.

Another conundrum: This is a time when many investors actually do need to rebalance their portfolios to own more bonds. The S&P 500 has risen nearly 35% since the 2016 elections, which means most investors have a higher share of stocks in their portfolio than their investment plan might dictate. An October survey by the American Association of Individual Investors found that average exposure to fixed income had dipped to a 10-year low of 13.3%, compared with a high of 25.5% in 2010.

So how can investors rebalance into bonds, and their relative safety, without taking a small but still painful beating? Amy Wasser, a financial adviser at Edward Jones, is adding short-duration U.S. Treasuries to her mix of bonds. While shorter-dated bonds tend to yield less interest than longer-term ones, their prices take less of a hit when inflation rises. (The Vanguard Short-Term Treasury [VFISX] fund is a low-cost way to play that sector.) Independent adviser Lewis Altfest recommends emerging market bonds, whose higher yields make up for the volatility of their prices. (Goldman Sachs Emerging Markets Debt Fund [GSDIX] is a popular option for those assets.)

Municipal bonds are also worth adding if you live in a high-tax state or locality, says Don Martin of Mayflower Capital. They’re less sensitive to fluctuations in interest rates, and the fact that their interest is partly tax-exempt can sweeten their payout.

One last reason to beef up your bond portfolio: Its value could rise sharply if a truly big stock plunge sends investors fleeing to bonds for shelter. “For all we know, it could be the start of the bear market,” says Greg Ghodsi, a Raymond James financial adviser.

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