



CIO thinks quality bonds will continue to play a critical role in an uncertain environment as they offer an attractive source of durable income. (UBS)

# Quality bonds can help stabilize portfolios

26 February 2025, 2:22 pm CET, written by UBS Editorial Team US Editorial Team

**US Treasuries have gained for five straight days on haven demand amid stock volatility, with the 10-year yield falling 10 basis points on Tuesday to 4.3%, the lowest level in more than two months. Since mid-January, the 10-year yield has dropped 50 basis points as investors grew increasingly concerned over how the US economy will cope with the potential impact of tariffs.**

US consumer confidence in February has fallen the most since August 2021, according to the latest Conference Board survey, marking a third consecutive month of decline. The expectations index, which measures sentiment about the economy six months ahead, fell sharply to an eight-month low of 72.9. Historically, a sustained reading below 80 has signaled a higher recession risk, though most respondents still do not expect an outright downturn.

The data followed recent disappointments in retail sales and service activity, with Walmart's conservative forward guidance adding to concerns about consumer spending.

The US economy is still in good shape, and we do not think the announced tariffs will necessarily lead to a major negative impact on growth. But we believe market volatility will likely persist, and the recent movement in bonds reaffirmed that quality fixed income should remain an integral part of a resilient portfolio that can help investors navigate uncertainty ahead.

**The return outlook is appealing.** The initial yield has historically been a good proxy for longer-term expected returns and return potential, and the 10-year yield remains at the higher end of its distribution since 2008. The current yields should also help cushion the total return outlook if yields rise in the event of a tariff shock or a strong growth scenario. Our

base case calls for two additional interest rate cuts by the Federal Reserve later this year as inflation moderates, supporting the potential for capital appreciation.

**Quality bonds can help stabilize portfolios.** Quality bonds are among the safest investments in an investor's portfolio, in our view, as they can help preserve capital and reduce equity volatility. If US growth slows more quickly than expected, we would expect swifter monetary policy easing to underpin a sharp rally in quality bonds.

**Bonds outperform cash, provide durable portfolio income.** Historically, the probability of bonds outperforming cash rises with longer holding periods—from 65% over 12 months to 82%, 85%, and 90% over five, 10, and 20 years, respectively. With the global rate-cutting cycle still having further to go, we think investors should optimize their cash holdings and consider ways to boost portfolio income.

So, we think quality bonds will continue to play a critical role in an uncertain environment as they offer an attractive source of durable income. Investors can also consider diversifying and boosting portfolio income through diversified fixed income strategies, senior loans, and private credit, and equity income strategies.

Original report: [Bonds rally amid stock volatility, 26 February 2025.](#)

#### Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

**This document and the information contained herein are provided solely for your information and UBS marketing purposes.** Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

**Additional Disclaimer relevant to Credit Suisse Wealth Management:** Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website

<https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.