INSIGHT

THE GREATEST WEALTH IS **YOUR PEACE OF MIND...**

BARNETT RAVENSCROFT
WEALTH MANAGEMENT

Take your risk in equities



Take your risk in equities

Bonds have had a difficult few years. Rapidly rising interest rates in 2022 and higher than expected inflation have made for a challenging environment for bondholders.

There is, however, an important silver lining. Bond yields today are considerably higher than they have been at any point since the financial crisis in 2007/2008. In simple terms, investors are now being paid considerably more to lend than they were for most of the last two decades.

That being said, focusing too closely on returns risks forgetting why bonds are held in portfolios in the first place. For most long-term investors, equities are the primary engine of portfolio growth. Bonds have a different job. Their role is principally to provide stability when equity markets are under pressure, providing what can be thought of as an insurance policy within the portfolio – we often refer to them as 'defensive assets'.

When constructing the defensive part of a portfolio, two of the most important decisions are therefore quite straightforward: who do you want to lend to, and for how long? Our answers tend to lie in the "high-quality borrowers" and "short periods of time" camp. Some may consider such bonds 'boring', but it is in these bonds one can find safety during tougher times.

There can be a temptation to make bonds work a little harder, particularly after a period in which their returns have disappointed. Investors can lend for longer and demand higher yield for doing so, accepting greater uncertainty and sensitivity to changes in market rates. Alternatively, they can lend to companies rather than governments, accepting greater credit risk - i.e., the risk of not being paid back - in exchange for a higher yield.

Taking some additional risk can be worthwhile. Choosing short-dated, high-quality bonds instead of purely holding cash, for example, can provide additional expected return for an acceptable level of risk. But the more credit and/or interest-rate risk we introduce, the more we risk compromising what we wanted from bonds in the first place. The danger is that the defensive part of the portfolio becomes less defensive precisely when it is needed most.

The chart on the following page helps to bring this to life, showing how different types of bonds have behaved when equities have been under stress. Since 1994, in the 58 months when global equities fell by more than 3%, short UK government bonds (gilts) returned an average of +0.4%, compared with -0.2% from short-dated corporate bonds and -0.5% from broader UK corporate bonds. As equity falls became more severe, the distinction became clearer with shorter, higher quality bond outcomes improving and longer, lower quality bonds deteriorating.

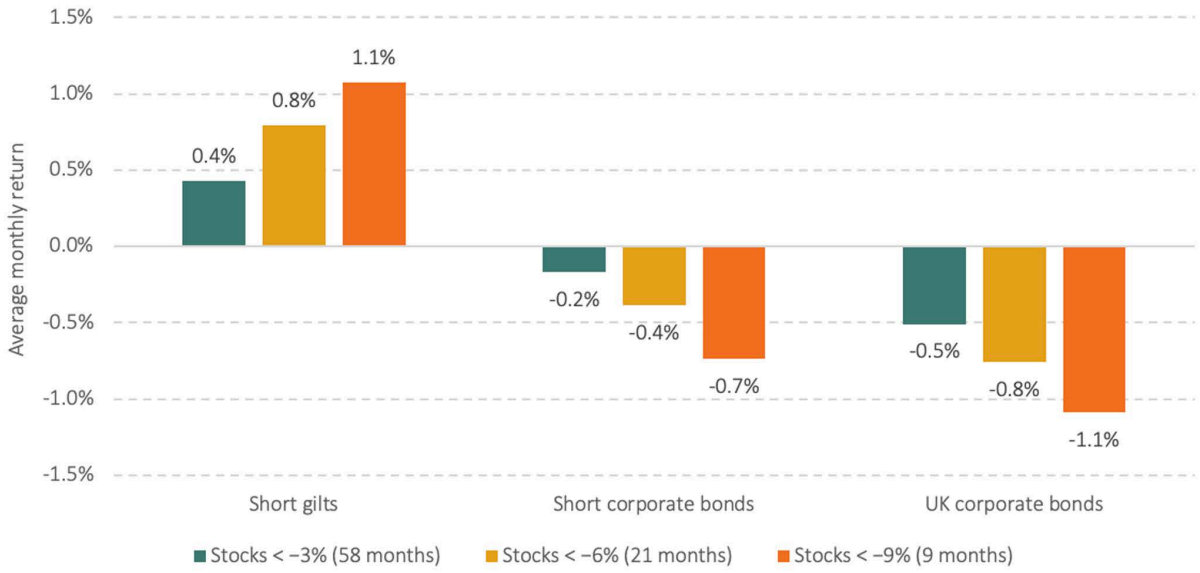


Figure 1: Average monthly bond returns when global equities are under stress

Source: Albion Research Indices. https://smartersuccess.net/indices[1].

Taking more risk within bonds can improve expected returns, but there is no free lunch. Lending to lower-quality borrowers can put bond prices under pressure alongside equities when economic conditions deteriorate. Lending for longer means prices become more sensitive to movements in interest rates. Do both, and the part of the portfolio intended to provide stability can end up taking pain from two directions at once.

When it comes to the core defensive allocation, we believe there is considerable merit in keeping the primary focus on high-quality, shorter-dated bonds. This helps preserve the characteristics we value most when equity markets are under stress.

Let bonds be boring. Take your risk in equities.

End notes

1.
Indices: Albion World Stock Market Index, Albion Short Gilt Index (0-5), Albion UK Corporate Bond Index (0-5), Albion UK Corporate Bond Index. GBP total returns, June 1994-October 2026 (389 months). Stocks < –3%: 58 months; < –6%: 21; < –9%: 9. Groups overlap.

Other notes and risk warnings

Use of Morningstar Direct© data

© Morningstar 2026. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

Risk warnings

This article is distributed for educational purposes only and must not be considered to be investment advice or an offer of any security for sale. The reference to any products is made only to make educational points and must, in no circumstances, be deemed to be any form of product recommendation.

This article contains the opinions of the author but not necessarily the Firm and does not represent a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable but is not guaranteed.

Past performance is not indicative of future results and no representation is made that the stated results will be replicated.

Errors and omissions excepted.

Barnett Ravenscroft Wealth Management is a trading name of Barnett Ravenscroft Financial Services Ltd which is authorised and regulated in the United Kingdom by the Financial Conduct Authority FRN: 225634 and registered in England and Wales under Company No. 04013532.

The registered office address of the Firm is 13 Portland Road, Edgbaston, Birmingham, B16 9HN

INSIGHT

Take your risk in equities



BARNETT
RAVENSCROFT
WEALTH MANAGEMENT

Barnett Ravenscroft Wealth Management
13 Portland Road
Edgbaston
Birmingham
B16 9HN
UK

Tel: +44 (0)121 454 0910
Fax: +44 (0)121 410 5619
Email: info@brwm.co.uk
Web: www.brwm.co.uk