

The Potential Impact of Rising Interest Rates

Beyond standard credit risk concerns in a fixed income portfolio, investors must consider market risk. The table below illustrates the duration and price performance of five generic bonds. The coupon levels (yields) are based on an upward-sloping interest rate curve. This shows the impact on each bond's price in three hypothetical rising interest rate scenarios:

	Coupon	Duration	Par Value	If interest rates rise by:		
				100 bps*	200 bps*	300 bps*
				then price would decline to:		
2-year note	0.25%	1.99	100	98	96	94
5-year note	0.90%	4.88	100	95	91	86
10-year note	2.00%	9.02	100	91	84	77
20-year bond	3.25%	14.62	100	87	75	66
30-year bond	3.25%	19.07	100	83	70	60

** Expected market value after instantaneous increase in the yield curve. 100 basis points (bps) equals 1 percent. Examples are used for illustrative purposes only and do not reflect the interest rates for any investment available for purchase. Duration is a measure used to determine a bond or bond portfolio's sensitivity to movements in interest rates. Generally, the longer the duration, the more sensitive a bond or bond portfolio is to changes in interest rates, either up or down.*

Source: Wells Fargo

The duration calculation can be used by investors to approximate the percentage change in price per 1% parallel shift in the yield curve. For example, the price of a bond with a duration of five years would be expected to rise (or fall) 5% in price for every 1% decrease (increase) in market interest rates.