

Bonds 101 A simple investor guide to navigating today's high yields

Saxo Bank · 2026-09-29 · English original

Key points:

- Bond yields have risen sharply, making fixed income more relevant again for investors seeking income, diversification or greater portfolio stability.
- The opportunity is not simply a call that yields have peaked. Higher starting yields mean investors can earn more income while taking a more measured view on interest rates.
- But higher yields do not necessarily mean it is time to go all-in on long-duration bonds. Inflation, oil prices, government borrowing and further Federal Reserve tightening could keep yields elevated or push them higher still.

Why bonds are back in the conversation

Bond yields have risen sharply again, bringing fixed income back onto investors' radar.

For much of the last decade, bonds offered relatively little income. Investors often had to take more equity risk, move into lower-quality credit or rely on other income-producing assets to generate meaningful returns. That trade-off has changed.

The US 10-year Treasury yield has moved above 5%, after another sell-off in global bond markets. The Federal Reserve has also just raised interest rates for the first time in more than three years, taking the policy rate to 3.75–4.00%, while signalling that inflation remains a concern and further tightening may be required. Higher oil prices, resilient economic growth, persistent inflation and worries about government debt have all contributed to upward pressure on longer-term borrowing costs.

For investors, that creates an important question:

If bonds are now paying around 5%, is it time to put them back into the portfolio?

The recent rise in yields means investors can now earn more income from high-quality bonds than they could for much of the post-financial-crisis period. That does not mean yields have peaked or that bond prices cannot fall further, but it does make the starting point more attractive.

The better question today is therefore not simply whether it is a good time to buy bonds. It is what role bonds should play in a portfolio.

A quick bond refresher

A bond is essentially a loan to a government or company. In return, investors usually receive interest payments, while the principal is repaid when the bond matures, assuming the issuer can meet its obligations.

Bond prices and yields generally move in opposite directions. When new bonds offer higher yields,

existing bonds become less attractive and their market prices tend to fall. If market yields later decline, the prices of existing bonds can rise.

At today's higher yields, the income component can do more of the work. Investors no longer need a large fall in rates for bonds to be useful.

Early career: balance and shorter-term goals

For younger investors with a long investment horizon, equities may still do most of the work when it comes to long-term wealth creation. Bonds can nevertheless help provide a lower-risk pool for money that may be needed within the next few years and can reduce reliance on equity markets alone.

It is important not to assume that bonds will always rise when equities fall. Stocks and bonds can decline together, particularly when inflation is high and central banks are raising interest rates. Diversification can reduce dependence on one source of return, but it does not guarantee protection in every market environment.

Mid-career: matching investments with future goals

As financial goals become clearer, bonds can become more useful. School fees, a home purchase, a sabbatical or another major expense may have a reasonably defined date attached to them.

Someone who expects to need money in five years could consider bonds that mature around that period instead of keeping the entire amount exposed to equity-market risk.

The caveat is inflation. Matching a bond's maturity to the date when money is needed can improve certainty around the nominal amount available, but it does not guarantee the same purchasing power. If inflation is higher than expected, the future cost of the goal may rise faster than the value of the bond proceeds.

Pre-retirement: building more predictable cash flows

Bonds can become more important as retirement approaches because the portfolio objective starts to change. Investors still need growth, but protecting accumulated wealth and preparing for future spending become more important.

A bond ladder can help here. Instead of buying one bond, an investor holds several bonds that mature at different dates. The proceeds from those maturities can then be used for spending or reinvested.

The benefit is greater visibility over when capital becomes available. The risks do not disappear, because inflation, credit risk and interest-rate risk still matter.

Retirement: supporting spending without abandoning growth

Retirees need income and liquidity today, but retirement can last for decades, which means portfolios still need exposure to long-term growth.

Bonds can help cover part of expected spending and reduce the need to sell equities during a market decline. At the same time, moving too heavily into fixed-rate bonds can create inflation risk because the real value of those payments may fall over time.

For many retirees, bonds are therefore best used to complement growth assets rather than replace them.

Income-focused: investors who want more predictable income

Short- and intermediate-duration government bonds and high-quality corporate bonds can provide regular income without requiring investors to take the same level of market risk as equities.

With yields now higher, investors may also have less need to move into lower-quality credit simply to generate additional income. The highest-yielding bond is rarely automatically the best investment, because that extra yield usually reflects additional credit, liquidity or interest-rate risk.

Where investors can look today

The right part of the bond market depends on the objective.

1. Short-term bonds

These can suit investors who prioritise stability and liquidity. They are less sensitive to changes in market interest rates, although investors face reinvestment risk if yields are lower when the bonds mature.

2. Intermediate bonds

Intermediate maturities can offer a balance between income and interest-rate sensitivity. They allow investors to lock in yields for longer than cash or short-term bonds without taking the full volatility of very long-dated bonds.

For many investors rebuilding a fixed-income allocation, this can be a useful core area to consider.

3. Long-term bonds

Long-duration bonds can benefit more if yields fall, but they also suffer more if yields rise. They are therefore more sensitive to views on inflation, growth and the future path of interest rates.

This makes them a more active part of the bond allocation rather than simply a higher-income version of short-term bonds.

4. Government bonds

High-quality government bonds generally carry lower credit risk and can provide liquidity, income and some defensive potential if growth weakens.

5. Corporate bonds

Investment-grade corporate bonds can provide additional yield, but that extra return comes with credit risk. If economic conditions deteriorate, credit spreads can widen and corporate bond prices can fall.

With government yields already more attractive than they were in the past, investors have less reason to reach aggressively into lower-quality credit simply to generate income.

6. Inflation-linked bonds

Inflation-linked bonds, such as TIPS, can help protect purchasing power because their principal adjusts with inflation.

They can complement traditional bonds for investors concerned that inflation remains structurally higher than it was in the 2010s.

A simple guide

Treasury bills / short-term government bonds

Higher inflation pushes long yields higher

What about bond ETFs?

For many retail investors, bond ETFs can be the simplest way to access fixed income because they provide diversification across many bonds in a single investment and can be bought and sold like shares.

They can also make it easier to choose the type of exposure needed, such as short-term government bonds, investment-grade corporate bonds, inflation-linked bonds or longer-duration government bonds.

There is one important difference versus owning an individual bond. An individual bond has a maturity date, so an investor who holds it to maturity and is repaid as expected has greater visibility over when principal is returned. A bond ETF usually does not have one final maturity date because it continually replaces bonds as they mature.

That means bond ETF prices can continue to move with interest rates and credit spreads, even for long-term holders.

For investors choosing a bond ETF, it is therefore useful to look beyond the headline yield and consider:

- duration, which shows how sensitive the portfolio is to interest-rate moves;
- credit quality, which indicates how much default risk is being taken;
- average maturity, which helps show where the fund sits on the yield curve;
- currency exposure, particularly for investors buying overseas bonds;
- distribution policy, if regular income is an important objective;
- fees and liquidity, which can affect realised returns.

Bond ETFs can work particularly well for investors who want diversified fixed-income exposure without selecting and managing individual bonds. Investors trying to match a very specific future spending date, however, may prefer individual bonds or target-maturity bond ETFs where available.

What are the main risks?

Higher yields have improved the case for fixed income, but bonds are not risk-free.

- Interest-rate risk: bond prices can fall if market yields rise.
- Inflation risk: fixed payments may lose purchasing power over time.
- Credit risk: issuers may struggle to repay their debt.
- Reinvestment risk: yields may be lower when short-term bonds mature.
- Currency risk: overseas bond returns can be increased or reduced by FX moves.
- Liquidity risk: some bonds can be harder to sell at a fair price during stressed markets.

These risks vary significantly across the bond market, which is why deciding to own bonds is only the

first step. Maturity, credit quality, currency and the investor's own time horizon matter just as much.

The investment takeaway

The attraction of bonds today is not that investors can be certain yields have peaked. It is that higher starting yields have made fixed income useful again for a wider range of portfolio objectives.

Younger investors can use bonds to separate shorter-term goals from long-term equity exposure. Mid-career investors can begin matching assets with future liabilities. Pre-retirees and retirees can use bonds to create more predictable cash flows and reduce the need to sell equities during difficult markets.

The right bond allocation should therefore start with the investor's goal rather than a forecast for the next central-bank meeting. Once the objective is clear, choices around maturity, credit quality and inflation protection become much easier to make.

Source: <https://www.home.saxo/content/articles/macro/bonds-101-a-simple-investor-guide-to-navigating-todays-high-yields-29092026>