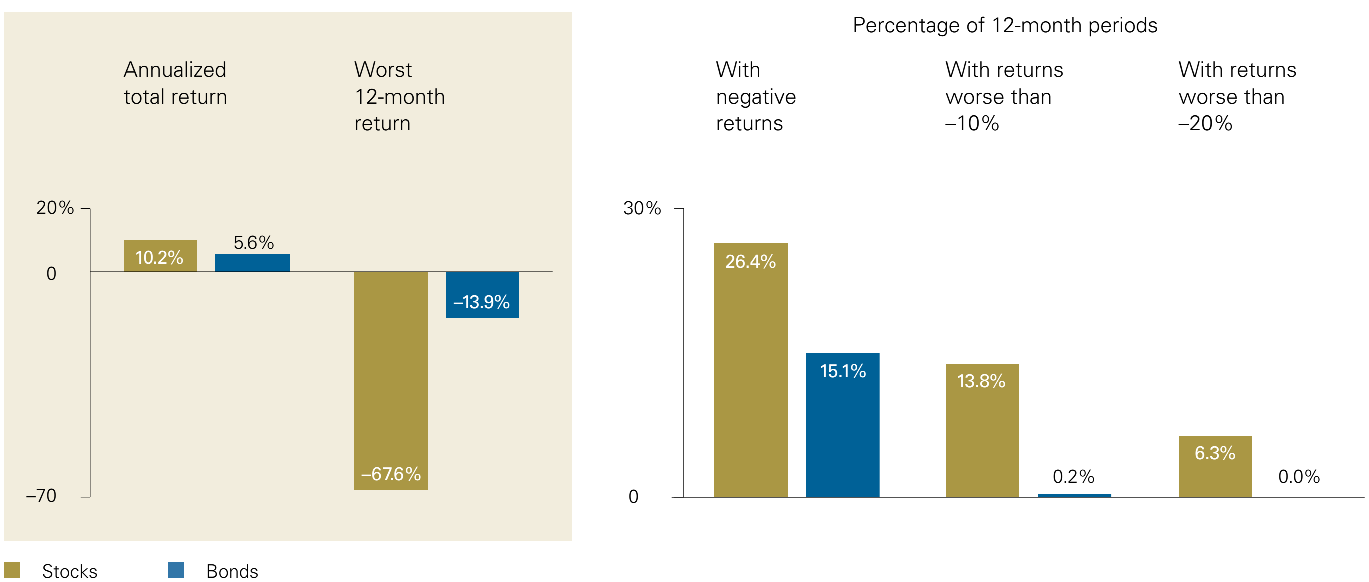
FIXED INCOME SERIES

Bonds have never reached the depths of a bear market for stocks

U.S. financial markets, 1926–2012

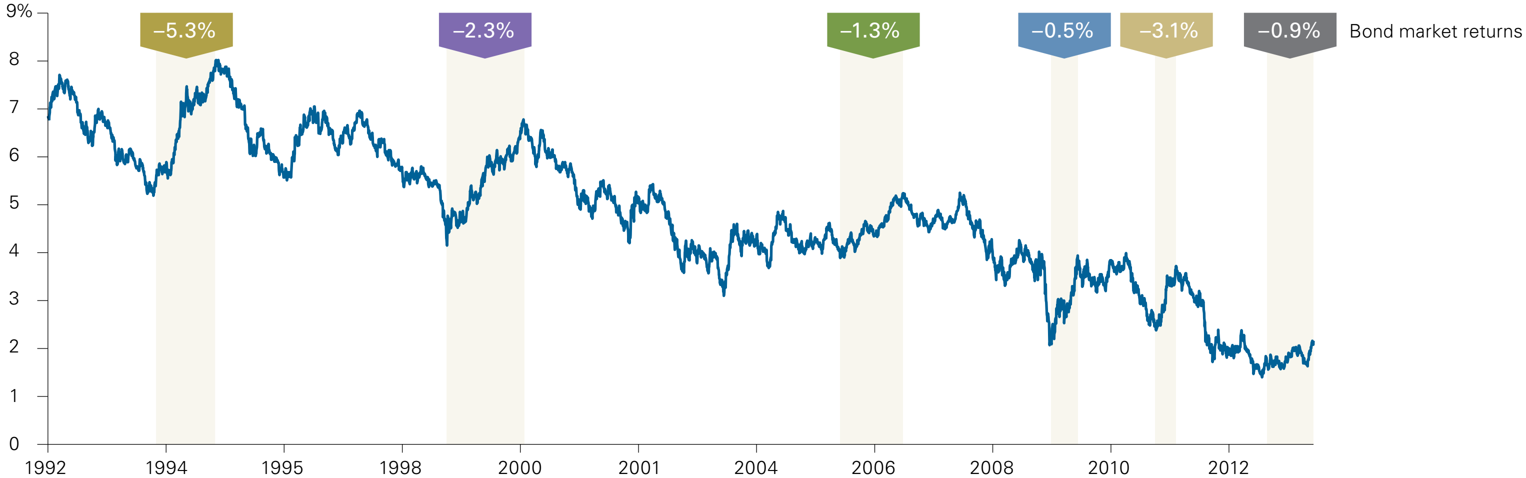


- Vanguard believes that investment-grade bonds may provide total annualized returns of 1% to 2% over the next decade.
- With current low yields, bonds have a higher chance of posting negative return over the short run, stemming from falling prices if interest rates spike.
- But, historically, the worst 12-month return for bonds has not come close to what would qualify as a bear market for stocks.
- When rates rise, bond mutual fund and ETF returns can benefit from higher income.
- When bonds have declined in the past, the equity portion of a balanced portfolio often more than offset the decline. (See table on reverse.)
- When stocks decline, investment-grade bonds remain among the best diversifiers.

Past performance is no guarantee of future results. The performance of an index is not representative of any particular investment, as you cannot invest directly in an index. The following indexes were used for U.S. stock market returns: S&P 90 Index,1926–March 3, 1957; S&P 500 Index, March 4,1957, through 1974; Dow Jones Wilshire 5000 Index, 1975 through April 22, 2005; and MSCI US Broad Market Index thereafter. For U.S. bond market returns: S&P High Grade Corporate Index, 1926–1968, Citigroup High Grade Index, 1969–1972; Lehman Brothers U.S. Long Credit AA Index, 1973–1975; Barclays U.S. Aggregate Bond Index, 1976–2009; and Barclays U.S. Aggregate Float Adjusted Index thereafter.

Source: Vanguard calculations using data from S&P, MSCI, Citigroup, and Barclays, as of December 31, 2012.

10-year U.S. Treasury yields, 1992–2013



Date range	Yield at start	Yield at end	Rate increase in percentage points	Cumulative return of Barclays U.S. Aggregate Bond Index	Cumulative return of S&P 500 Index	Cumulative return of 60% stock, 40% bond portfolio
10/15/1993 – 11/07/1994	5.19%	8.02%	2.83	–5.3%	1.6%	–1.2%
10/05/1998 – 01/21/2000	4.15%	6.78%	2.63	–2.3%	48.2%	28.0%
06/02/2005 – 06/26/2006	3.89%	5.24%	1.35	–1.3%	5.9%	3.0%
12/30/2008 – 06/10/2009	2.09%	3.94%	1.85	–0.5%	6.8%	3.9%
10/08/2010 – 02/10/2011	2.38%	3.71%	1.33	–3.1%	14.2%	7.3%
07/24/2012 – 06/07/2013	1.40%	2.16%	0.76	–0.9%	25.4%	14.9%

Yields for the 10-year U.S. Treasury note are from January 1, 1992, through June 7, 2013. Total cumulative returns for the broad U.S. bond market are represented by the returns of Barclays U.S. Aggregate Bond Index; the S&P 500 Index was used to represent the returns of the broad U.S. stock market. For more information about this topic, see the Vanguard paper *Reducing bonds? Proceed with caution* (Kinniry, Scott, 2013).

Source: Vanguard calculations using data from Bloomberg and Barclays.

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All investing is subject to risk, including possible loss of principal.

Bond funds are subject to interest rate risk, which is the chance bond prices overall will decline because of rising interest rates, and credit risk, which is the chance a bond issuer will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.

Diversification does not ensure a profit or protect against a loss.

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