LPL Financial

Rate and Credit View

Fighting the Last War: 2022's Long Shadow and the Case for Extending Maturity

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Executive Summary

- **2022 left a lasting mark.** The worst year in modern bond market history pushed conservative investors into record cash balances, where much of that money remains today, despite a broad consensus that a repeat is unlikely.
- **Cash feels safe but carries hidden risks.** Its yield is set by the Federal Reserve (Fed), resets continuously, and is guaranteed to fall when policy eases, leaving investors exposed to reinvestment risk precisely when they can least afford it.
- **The math favors extending maturity.** Laddered portfolios lock in today's elevated yields, convert reinvestment into a tailwind, and pull to par on a defined date, neutralizing the volatility that drove the flight to cash.
- **Investment takeaway:** For clients seeking defined outcomes and durable income, a laddered Treasury or corporate Separately Managed Account (SMA) is the disciplined way to come off the sidelines and take advantage of still-high yields.

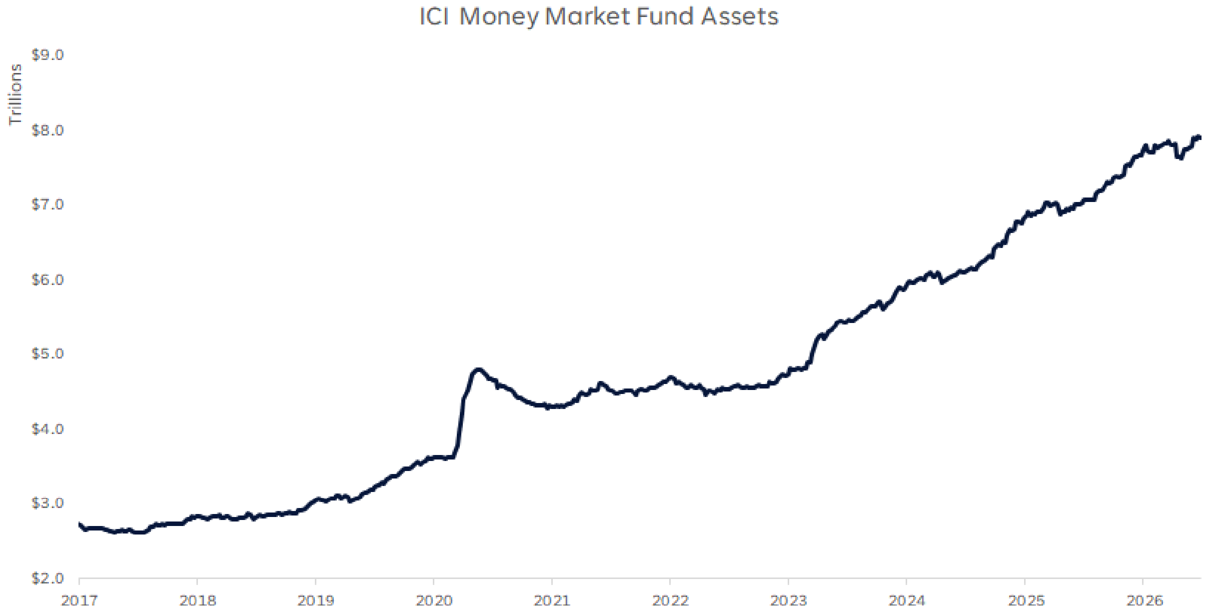
Fighting the Last War

2022 was the worst year in the modern history of the bond market. The Bloomberg U.S. Aggregate Index fell more than 13%, its worst calendar year on record, and it did so at a time when investors needed it most. Stocks and bonds went down in the same year, and the 60/40 equity/fixed income portfolio that was supposed to diversify offered nowhere to hide. Duration, the quiet ballast that had cushioned every equity drawdown for a generation, became the thing doing the damage. Clients who had never seen a calendar loss of more than 3% watched their conservative allocation lose double digits in the part of the portfolio they trusted the most.

People do not forget an experience like that. They flee it. Money market balances swelled to records and have stayed there, well north of $7 trillion, long after the panic that created them faded. The flight made sense in 2022. What is harder to explain is why the money is still parked there in 2026, earning a yield the Fed can cut at any meeting, held by the very investors who will tell you plainly that they do not expect a repeat of the year that scared them into it.

That is not a forecast. It is a scar. And scars tend to make bad asset allocation decisions.

Money Market Fund Assets Remain Elevated



Source: LPL Research, Bloomberg 06/26/26.
Disclosure: Past performance is no guarantee of future results.

What is a Bond Ladder?

Before discussing the case for moving, let's review the structure itself. A bond ladder is an advisory portfolio of individual bonds with maturities spaced at regular intervals across a defined range. A one-to-five-year ladder holds roughly equal positions maturing in one, two, three, four, and five years. Each maturity is a rung. As the nearest rung matures, the proceeds reinvest at the far end, which keeps the maturity profile constant over time.

The design diversifies across the dimension most investors ignore, which is time. Instead of one bet on a single point of the curve at a single moment, a ladder spreads investments across maturities and keeps a portion of the portfolio rolling continuously. You are never all in at one point on the curve, and you are never waiting on a single date. For an investor who got burned making one large duration bet at the wrong moment, that distinction is the whole point.

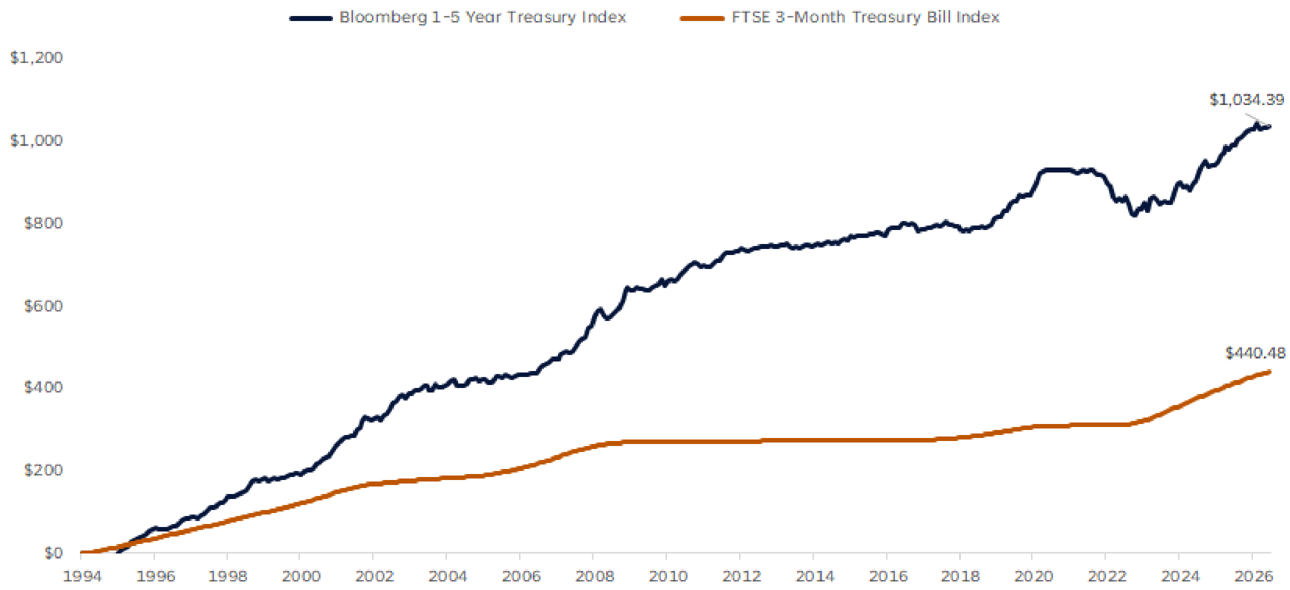
The Costs of Feeling Safe

Cash may feel safe for a reason that has nothing to do with returns. It does not produce a statement that prints red. The principal sits there, visible and whole, and the yield arrives without the indignity of a mark-to-market loss along the way. After 2022, that absence of volatility is worth more to many clients than any amount of incremental yield. This is loss aversion doing exactly what the behavioral literature says it does. A dollar of visible loss hurts far more than a dollar of invisible opportunity cost, so the portfolio gets built around avoiding the first and ignoring the second.

But cash carries a risk that never shows up on the statement, and it is precisely the risk a scarred investor is least equipped to see. Its yield is set by the Fed; it resets continuously and is guaranteed to follow policy down whenever the Committee decides to cut. The income is real, but it is on loan from a central bank under no obligation to keep it where it is.

A client sitting in cash who does not expect another 2022 is holding the one position whose chief virtue is protection against an event similar to 2022, while giving up the income and the price upside that was reset after that challenging year. They are paying a premium against an event they do not expect to occur. They hedge against it because the memory does the framing for them, and the memory is louder than the math.

Sitting in Cash Has "Cost" Investors Over Time



Source: LPL Research, Bloomberg 06/26/26
Disclosure: Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

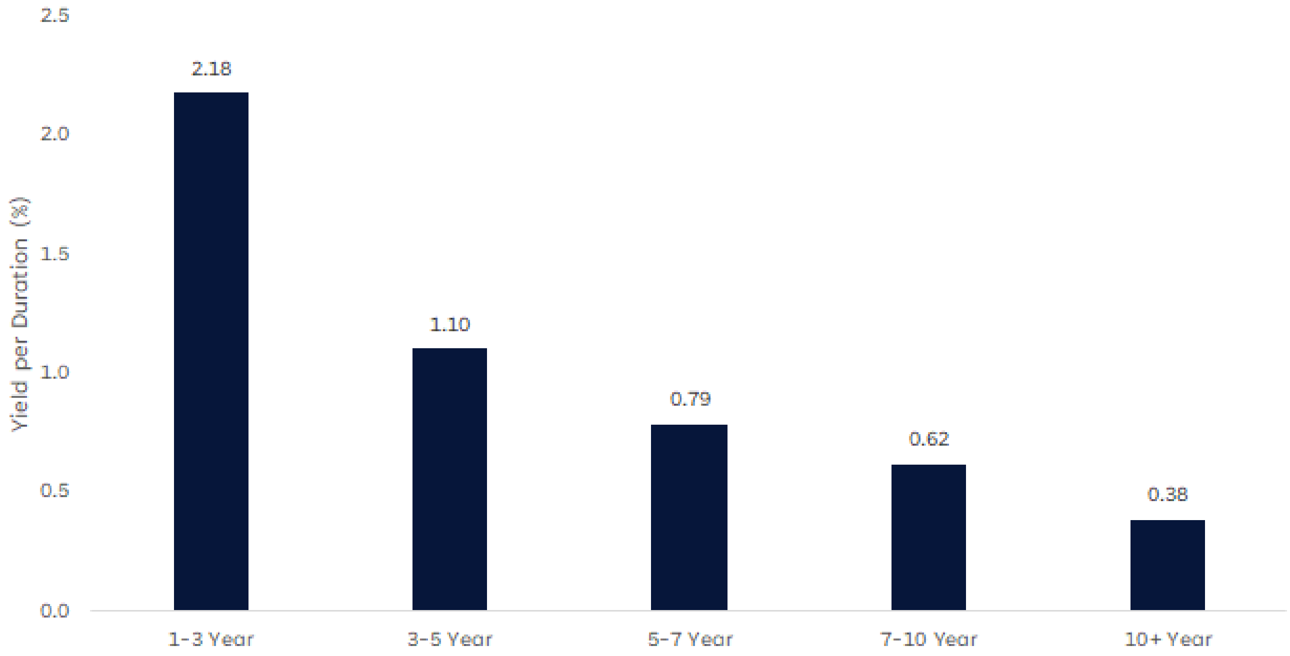
The Math Favors Extending Maturity (But Not Too Far)

Strip out the emotion, and the arithmetic is not close.

Start with what you lock in. A ladder fixes today's yield for the life of each rung. Cash fixes nothing. It reprices to whatever the Fed sets next. As long as the front end stays elevated, that difference is muted and cash looks competitive, which is exactly why the sidelines feel comfortable right now. The moment the Fed begins cutting again, the gap opens up quickly. The laddered investor keeps collecting the rates they locked, while the cash investor watches their yield reset lower and reinvests at the mercy of policy. This is known as reinvestment risk, and in a cutting cycle it runs entirely against the person who chose to stay short for safety. The cruel irony is that the move into cash, made to avoid the pain of falling prices, hands the investor a different pain instead: a falling income stream they do not control.

Then there is the duration that did the damage in 2022. The same property that made duration painful when rates rose makes it valuable when rates fall. A defined, modest duration in a one-to-five-year ladder gives the portfolio price appreciation if yields decline, on top of the locked income. With front-end Treasury yields between 4.0–4.15%, rates would have to rise materially and quickly, effectively a second 2022, before that income gave back the price. The yield available to investors per year of duration favors the front end of curves. The 1–3-year and 3–5-year segments are offering over a 1% yield per year of duration, whereas extending out further than 5-years isn't providing just compensation, in our view.

The Most "Bang for Your Buck" Is Still in the Front End of the Treasury Curve



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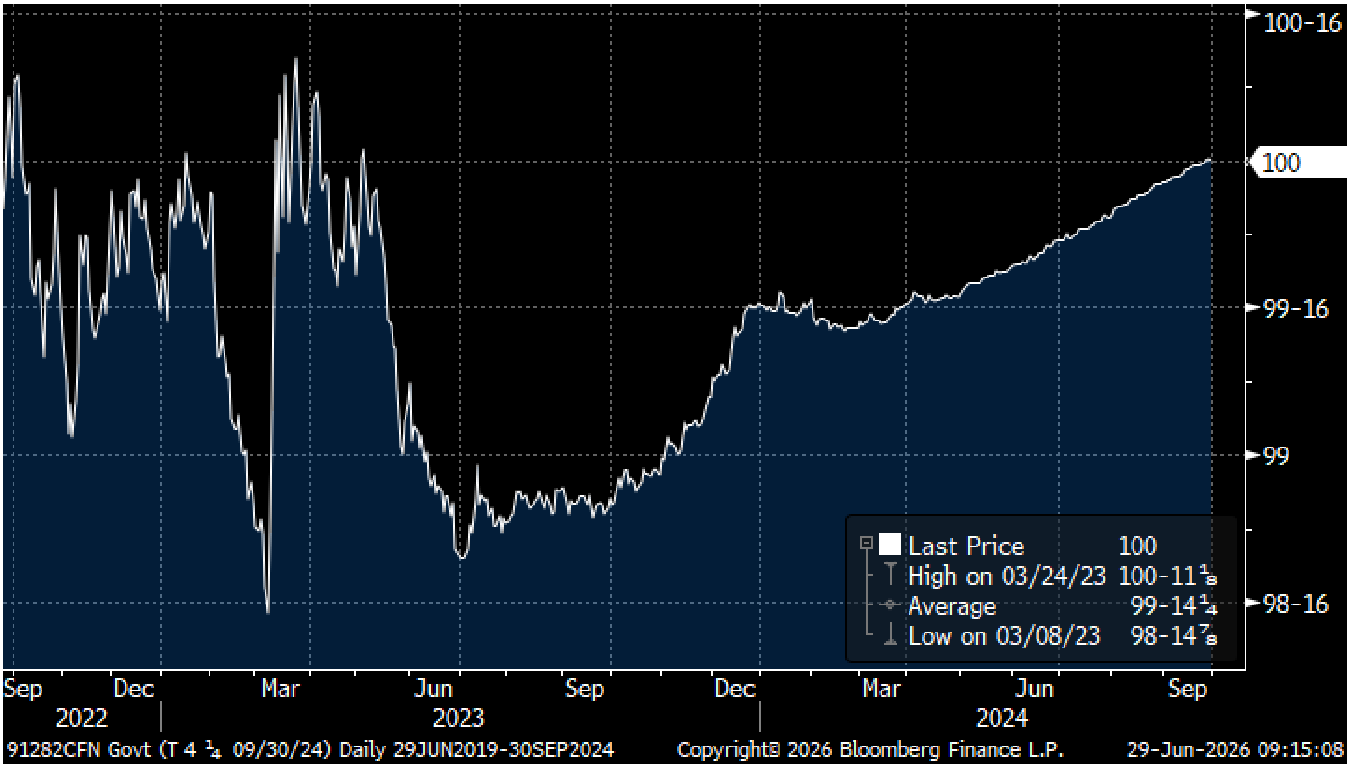
Finally, the cost of waiting. The investor holding cash for the perfect entry point is making a market-timing bet, the same kind of bet that produced the 2022 wound in the first place. A ladder retires that bet entirely. It puts money to work across maturities and across time, averaging into the curve rather than guessing its turn. You do not have to be right about the top in yields. You only have to be willing to stop trying to call it. Even if the Fed were to raise interest rates, the impact would be negligible (and temporary) but could provide additional income for rungs further out on the ladder.

Pull to Par: The Antidote to the Wound Itself

It is worth being precise about what actually hurt in 2022, because the ladder speaks directly to it. The losses that year were price losses, marks on bonds whose yields had jumped. They became permanent only for the investors who sold. An investor who simply held to maturity got par.

That is the quiet power of a defined maturity structure. Every rung in a ladder has a date on which it returns par, regardless of the path the price takes to get there. In a regime of elevated rate volatility, that path will be noisy. But the destination is fixed and dated, which is exactly the assurance a 2022-scarred client needs to hear. The mark may move. The bond still matures at par on the day we always knew. Cash can only ever be worth exactly what it is worth today, at a yield someone else controls.

Despite Interim Volatility, Bonds Mature at Par



Source: LPL Research, Bloomberg 06/26/26.

Disclosure: Past performance is no guarantee of future results. Chart highlights the price history of a U.S. Treasury bond issued in September 2022 and maturing in September 2024.

Two Ladders, Two Jobs

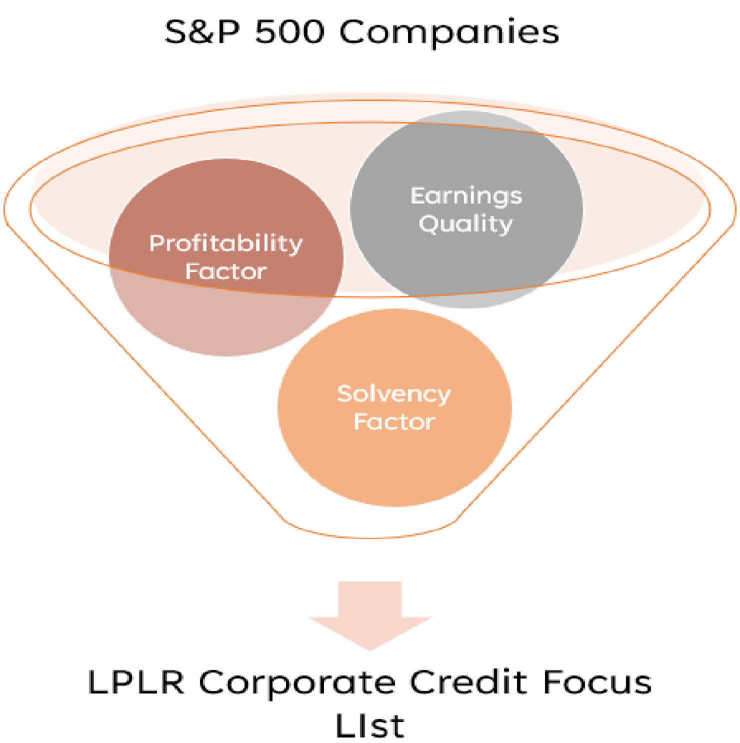
The same structure carries very different cargo, and the cargo defines the job.

A Treasury ladder holds only government debt. Low credit risk, the deepest liquidity in the world, and a yield that is a clean expression of rates and term. Its job is high-quality core, a defined-maturity anchor for precisely the conservative money that is currently hiding in cash. A corporate ladder layers credit spreads on top, earning incremental income for taking issuer risk, which makes it depend on something the Treasury version does not: credit selection.

The bonds in our corporate ladders come from the LPL Research (LPLR) Corporate Credit Focus List. We start with the S&P 500 universe — companies your clients likely already know. Then we run them through a proprietary quality screen built to answer one overarching question: will I get paid back when these bonds mature. The process looks at things like balance sheet strength, free cash flow, business model durability, et cetera, with 18 different factors in total.

That process narrows 500 companies down to 70–75 high-conviction issuers, representing over 1,000 individual bonds across maturities. Issuers that clear the bar make the list. Those whose fundamentals or valuations deteriorate come off it. For each rung, we then select the specific bonds from focus-list issuers that fit the target maturity and offer the best relative value among the vetted names. The list defines who we are willing to lend to. The ladder defines the structure. A bond has to clear both tests, the issuer's credit and the rung's fit, before it ever reaches a client's portfolio. The result is a higher-quality portfolio than a corporate bond index with yields above what you'd get from Treasuries.

High Quality Factors Result in a Higher Quality Portfolio



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What Does This Mean for Investors?

The cash on the sidelines is a monument to a bad year, which we don't think will be repeated anytime soon. The ladder is a strategy for moving forward on that conclusion without dismissing the fear behind it. It respects what 2022 taught: defined maturities, pull to par, no single timing bet, never all-in at one point on the curve. And it leans into what the math now says: higher yields, reinvestment that works for the investor instead of against them, and a duration profile that finally pays for the risk it carries. Cash asks clients to keep winning a bet against the Fed every day. And cash is a perfectly good investment again for investors with a time horizon measured in a few quarters or even a few years.

But for investors who have a longer time horizon, we think it is prudent to extend the maturity of cash holdings (not a lot, but a few years) to take advantage of these higher rates. The problem with cash, for those investors with a longer time horizon, is that they are renting that cash rate rather than locking in these longer-term yields, and we think over the next few years, those cash rates are likely headed lower as the Fed resumes its rate-cutting campaign. Unlike cash, the ladder portfolio allows investors to make one disciplined decision and then let the structure do the work. And in this regime, we think that is the better decision.

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Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise, and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

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The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg U.S. Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

The FTSE 3 Month U.S. T-Bill Index Series is intended to track the daily performance of 3-month U.S. Treasury bills.

All index data from FactSet.

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