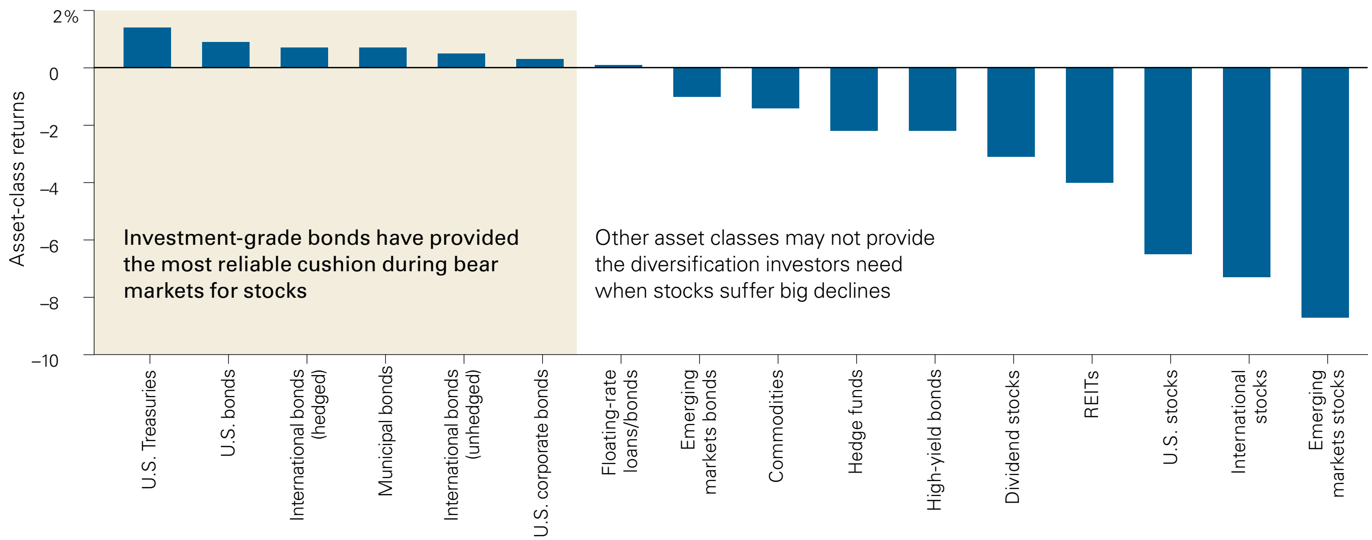
FIXED INCOME SERIES

Investment-grade bonds are among the best diversifiers of equity risk[1]

Average monthly asset-class returns during periods of bottom-decile returns for U.S. stocks, January 1, 1988–June 30, 2017



1 Investment-grade bonds include U.S. Treasuries and other fixed income securities with a credit rating of Baa3 or higher by Moody's or a credit rating of BBB- or higher by Standard & Poor's or Fitch.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. The data in the above chart represent monthly asset-class returns of bottom-decile performance for U.S. stocks from January 1988 through June 30, 2017. (Bottom decile refers to periods when returns were among the bottom 10% for that asset class, in this case U.S. stocks.) U.S. stocks are represented by Dow Jones Wilshire 5000 Index through April 22, 2005, MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter; emerging markets stocks are represented by MSCI Emerging Markets Index; international stocks by MSCI AC World ex US Index; REITs by FTSE NAREIT All Equity Index; dividend stocks by Dow Jones U.S. Select Dividend Total Return Index; commodities by S&P GSCI Commodity Index; high-yield bonds by Bloomberg Barclays U.S. Corporate High Yield Bond Index; emerging markets bonds by Bloomberg Barclays Emerging Markets USD Aggregate Index; hedge funds by HFRI Fund Weighted Composite (USD) Index; floating-rate bonds by Credit Suisse Leveraged Loan USD Index; investment-grade corporate bonds by Bloomberg Barclays U.S. Corporate Investment Grade Index; U.S. bonds by Bloomberg Barclays U.S. Aggregate Bond Index; U.S. Treasuries by Bloomberg Barclays U.S. Treasury Bond Index; international bonds (unhedged) by Bloomberg Barclays Global Aggregate ex-USD Bond Index; and international bonds (hedged) by Bloomberg Barclays Global Aggregate ex-USD Bond Index. Dow Jones U.S. Select Dividend Index starts in January 1992, Bloomberg Barclays Emerging Markets USD Sovereign Bond Index starts in January 1993, HFRI Fund Weighted Composite (USD) Index starts in January 1990, and Bloomberg Barclays Global Aggregate ex USD Bond Index starts in January 1990.

Source: Vanguard calculations using data from Morningstar, Inc. and Factset.

- Many of the asset classes purchased to generate yield, such as high-yield or floating-rate bonds, behave more like equities than bonds during periods of equity market stress.
- As the chart shows, the lower the credit quality of the bonds, the more their returns correlate with those of stocks during bear markets, reducing their diversification benefit.
- Given current low yields, bonds may not provide the same level of returns and downside risk protection in a balanced portfolio as they have in the past, when higher yields provided a bigger buffer.

For more information about Vanguard funds or Vanguard ETFs, please contact your financial advisor to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

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. Investments in stocks and bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. Emerging markets stocks and bonds are subject to national and regional political and economic risks and to the risk of currency fluctuations. These risks are especially high in emerging markets. High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings.

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

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