Not All Duration Is Created Equal

Weitz | INVESTMENT MANAGEMENT

Advisors and investors continue to focus on how best to position bond portfolios from a duration perspective.

Recent economic data pointed to a softening labor market, with inflation in line with expectations but still elevated. With the Fed meeting approaching, the Fed Funds Futures curve now suggests that a 25-basis-point cut is imminent, bringing the Fed Funds rate below 4%. While easing at the front end of the curve doesn't necessarily translate to lower rates across the curve, it does reinforce the potential for rate volatility.

This backdrop has prompted renewed focus on duration positioning. The reality is that **not all duration is created equal.**

DURATION VS. SPREAD DURATION

When investors think about duration, they often assume a single measure of risk. In reality, there are two dimensions:

- **Duration** measures a bond's price sensitivity to interest rate changes.
- **Spread duration** measures its price sensitivity to changes in credit spreads—the difference in yield between a credit-risk sensitive bond (like a corporate) and one that is considered credit risk-free (like a U.S. Treasury).

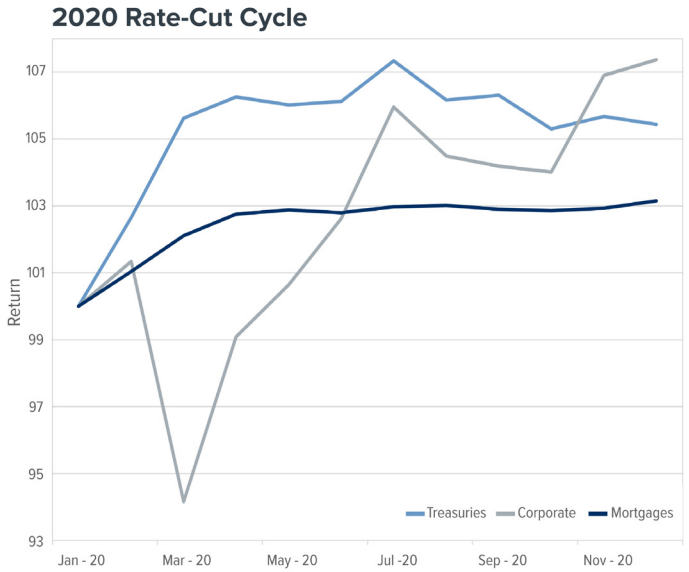
In essence, **duration** reflects risk from interest rate fluctuations, while **spread duration** reflects risk tied to changes in perceived creditworthiness.

WHY THIS DISTINCTION MATTERS

Consider three intermediate-term bond portfolios, each with a duration of 6 years, but each constructed with different types of securities:

- One portfolio achieves its duration using interest-rate-sensitive securities, such as U.S. Treasuries.
- Another achieves its duration using credit-sensitive securities, such as investment-grade corporate bonds.
- A third achieves its duration using mortgage-backed securities, which carry both rate sensitivity and unique prepayment risk dynamics.

On paper, the durations look identical. In practice, the exposures are very different. The point of this example is not to suggest that one approach is better than the other, but to illustrate how the same duration number can mask different sources of risk.



Source: Bloomberg. Treasuries are represented by the Bloomberg US Treasury Index (LUATTRUU), Corporates by the Bloomberg US Corporate Index (LUACTRUU), and Mortgages by the Bloomberg US MBS Index (LUMSTRUU).

As illustrated in the chart, history shows this clearly. In 2020, during the Fed's rate-cut cycle:

- **Treasuries** rallied strongly as yields fell.
- **Corporates** initially sold off as credit spreads widened, before recovering as conditions stabilized.
- **Mortgages** were steadier, reflecting both rate sensitivity and the impact of prepayment expectations.

These examples highlight how securities with similar duration can behave very differently in the same environment.

THE TAKEAWAY

Duration is more than a number. It's essential to understand what type of duration exposure a portfolio holds—whether driven by rate sensitivity, credit spread sensitivity, or mortgage/prepayment risk.

In reality, most diversified intermediate portfolios blend all three major building blocks—Treasuries, corporates, mortgages. This mix helps balance risk and return in ways that no single security type can achieve alone.

At Weitz, we encourage advisors and investors to look beyond headline measures and dig deeper into their fixed-income allocations to fully understand exposures and potential risks. Our team is here to provide insights and help put these dynamics into context.

IMPORTANT DISCLOSURES

The opinions expressed are those of Weitz Investment Management and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through 9/16/2025, are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This commentary is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.