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Fixed Income Renaissance: Why Bonds Are Back at the Core of Portfolios



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Executive Summary



The global fixed income market, at over **\$130 trillion outstanding**, is entering a new era. After more than a decade of ultra-low yields and central bank dominance, the post-pandemic reset has restored bonds as a central source of income, diversification, and strategic allocation. Yields across sovereigns, corporates, and emerging markets remain materially higher than in the 2010s, offering investors compelling entry points with more attractive risk-adjusted returns relative to equities.

The U.S. Treasury market, now above **\$27 trillion**, anchors global pricing but faces persistent supply challenges as fiscal deficits remain **above 6% of GDP**. Corporate credit, by contrast, benefits from deleveraged balance sheets, with investment-grade spreads near **110 bps** over Treasuries and defaults in high yield contained at around **2.5%**. Emerging markets add diversification, with local yields in the **6–9%** range and idiosyncratic opportunities in reform-driven economies.

For investors, the strategic takeaway is clear: bonds are back, not merely as defensive ballast but as active return generators. The challenge is to calibrate exposures across sovereigns, corporates, and alternatives while managing liquidity and structural risks. We believe fixed income allocations will regain primacy in global portfolios, marking the most durable renaissance in the asset class since the Global Financial Crisis.



Global fixed income market, largest asset class by o/s value

\$130T

5–6%

Average yield range on U.S. investment-grade corporate bonds

Total Outstanding U.S. Treasuries in 2025

\$27T

2.5%

Current U.S. high yield default rate

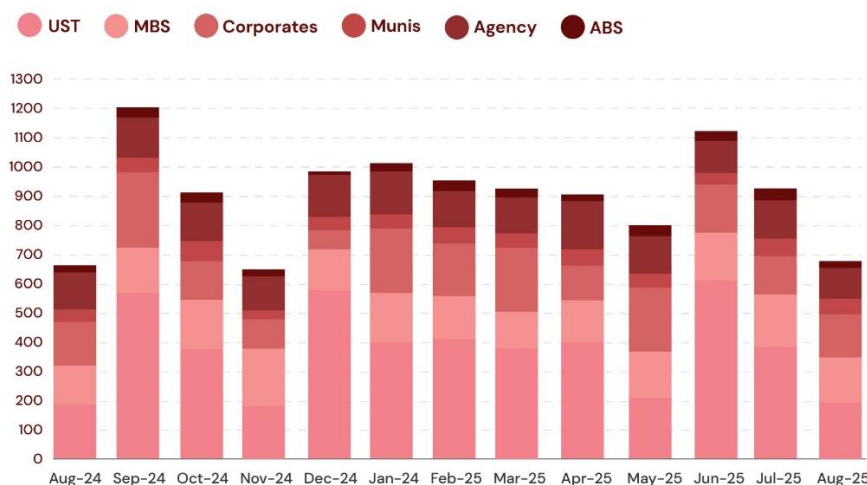
A Market Repriced: How Fixed Income Became Investable Again

1

Fixed income securities constitute the backbone of global financial markets, providing both a stabilizing anchor for investors and a critical source of funding for governments, corporations, and households. Unlike equities, where future value is contingent on uncertain earnings growth, fixed income instruments are contractual by design—promising specified cash flows of interest and principal. This structural difference explains why fixed income markets have historically dwarfed equity markets in size, and why, in times of volatility, capital rotates toward bonds as a safe harbor. In 2025, amid shifting inflation dynamics, evolving monetary policy regimes, and a renewed appetite for yield, the fixed income universe has reasserted itself as a central pillar of portfolio construction.

According to the Securities Industry and Financial Markets Association (SIFMA), the **U.S. fixed income market alone stood at approximately \$56 trillion outstanding at year-end 2024**, a figure that encompasses U.S. Treasuries, corporate bonds, municipal securities, mortgage-backed and asset-backed securities, and federal agency debt. By comparison, U.S. equities represented roughly \$47 trillion in market capitalization, underscoring the depth and liquidity advantages of bonds as a funding channel. Globally, the fixed income market exceeds \$130 trillion in notional outstanding, reflecting the universal reliance on debt financing to underpin fiscal policy, corporate investment, and household credit. This vast size not only speaks to the essential role of fixed income markets but also highlights their interconnectedness with macroeconomic cycles, regulatory frameworks, and cross-border capital flows.

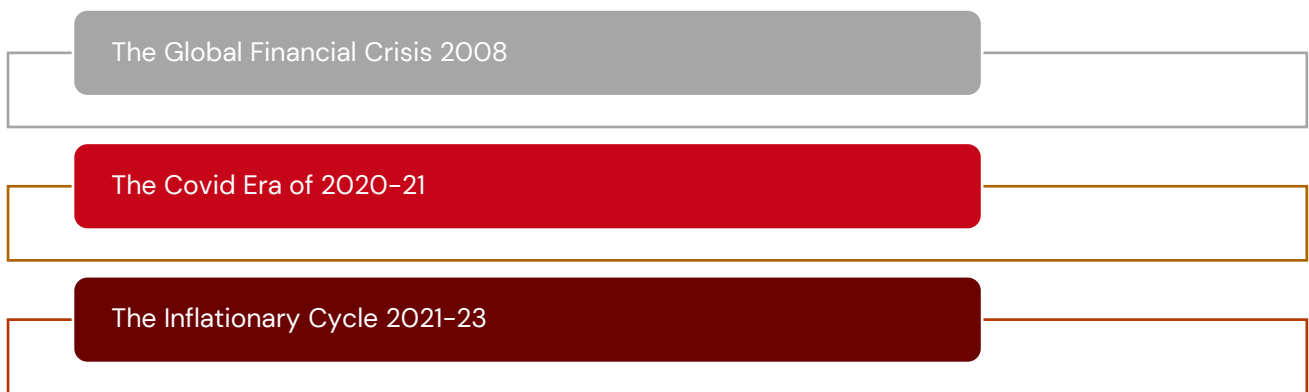
Figure 1: YTD Fixed Income Securities Issuance in the U.S. ~\$7.3T, +8.6% Y/Y and Trading ~+18% Y/Y



Source: Securities Industry and Financial Markets Association (SIFMA) Research. Accessed September 11, 2025

The fixed income market is not monolithic. Its architecture spans multiple segments, each with unique risk–return profiles, investor bases, and sensitivities to macroeconomic conditions. At the core are sovereign bonds, anchored by U.S. Treasuries, which function as the global risk–free benchmark. These securities provide pricing references for virtually all other asset classes and attract a diverse investor base ranging from central banks to pension funds. Alongside sovereigns, the investment–grade corporate bond market—roughly \$9 trillion in the U.S.—offers incremental yield for credit risk and has become a favored destination for institutional investors seeking predictable cash flows. High yield bonds and leveraged loans represent the riskier end of the spectrum, often sensitive to growth conditions and corporate balance sheet health, while securitized products such as mortgage–backed securities (MBS) and asset–backed securities (ABS) redistribute credit risk tied to households and small businesses. Municipals, meanwhile, serve a uniquely U.S. function, offering tax–advantaged income streams to domestic investors while financing local infrastructure.

Figure 2: Three Transformative Events That Shaped the Fixed Income Landscape Over the Past Two Decades



Source: RCK Analytics Research

The evolution of fixed income over the past two decades has been shaped by three transformative episodes. First, the Global Financial Crisis of 2008 fundamentally reshaped perceptions of credit risk and triggered sweeping regulatory reforms, particularly in securitized credit and bank capital requirements. Second, the pandemic era of 2020–2021 brought unprecedented central bank intervention, with the Federal Reserve purchasing corporate bonds for the first time and expanding its balance sheet beyond \$9 trillion, leaving a lasting imprint on liquidity dynamics and the role of quantitative easing in stabilizing markets. Third, the inflationary cycle of 2021–2023, marked by the fastest Fed hiking cycle in four decades, reintroduced investors to the risks of duration, after a generation accustomed to declining yields. By 2025, with inflation moderating and policy rates peaking, investors are once again reassessing the balance between interest rate risk, credit opportunities, and the role of fixed income in multi–asset portfolios.

One striking trend in this evolution is the shift in issuance patterns. Sovereign borrowing has expanded rapidly as governments financed pandemic support measures and ongoing fiscal deficits. In the U.S., net Treasury issuance remains elevated, sustaining demand for both domestic and foreign buyers. Corporations, in contrast, used the low-rate era of 2020–2021 to refinance aggressively, resulting in deleveraged balance sheets and extended maturity profiles, as noted in recent commentary from market strategists. This shift has set the stage for the resurgence of accrual strategies in 2025, where investors benefit from locking in high nominal yields without significant credit deterioration risk. Meanwhile, the rise of passive investing has altered the market’s plumbing: bond ETFs, once a niche product, now hold over \$1.5 trillion in assets, transforming liquidity access for retail and institutional investors alike.

Fixed income’s role in global asset allocation is also being reframed. During the zero-rate era, bonds were derided as “return-free risk,” incapable of delivering income or hedging equity drawdowns. Today, with U.S. Treasuries yielding 4–5% across much of the curve and investment-grade corporates offering spreads that compensate adequately for risk, fixed income has reclaimed its seat at the strategic core of portfolios. Importantly, it is not merely a defensive asset class but an arena of active opportunities—whether through duration positioning in anticipation of policy shifts, credit selection as corporate fundamentals diverge, or global allocation across developed and emerging markets. The breadth, scale, and structural evolution of fixed income markets underscore why a comprehensive understanding of this asset class is indispensable for investors navigating the complex macro-financial landscape of 2025 and beyond.

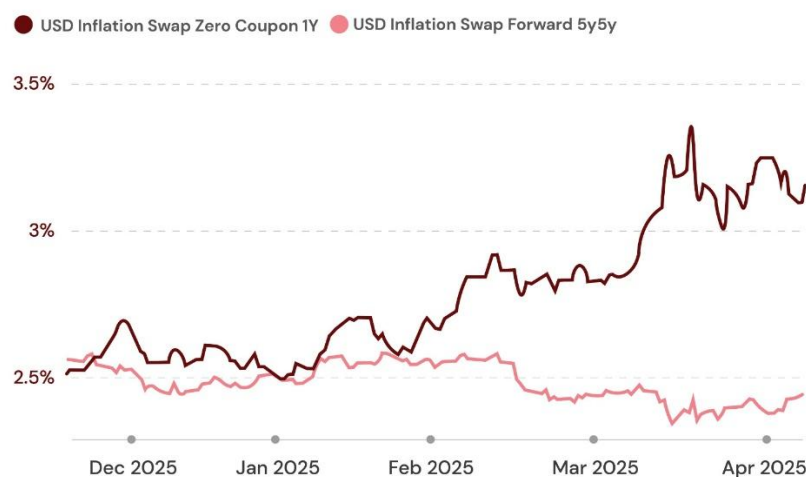
Macro Reset: Inflation, Policy, and the New Yield Regime

2

The fixed income market is fundamentally a macro asset class, with valuations, flows, and issuance patterns all deeply conditioned by monetary policy, inflation dynamics, and the fiscal environment. While equity markets can, at least in part, trade on micro narratives such as corporate earnings or disruptive innovation, bond markets remain tethered to the evolution of interest rates and credit risk premia. In 2025, this interplay between central banks, inflation outcomes, and fiscal deficits defines the operating environment for fixed income investors worldwide.

The most important policy anchor remains the Federal Reserve. After raising the federal funds rate to a peak of 5.50% in 2023—the sharpest hiking cycle in four decades—the Fed has adopted a more balanced stance in 2025, calibrating policy to balance a slowing but resilient economy with inflation that has moderated but not fully normalized. Headline CPI has eased from a peak above 9% in mid-2022 to approximately 2.6% in early 2025, enabling policymakers to pivot toward a data-dependent approach. For bond investors, the implication is twofold: first, the front end of the curve has stabilized, allowing accrual strategies to thrive; second, the longer end remains sensitive to fiscal supply pressures, investor demand from foreign central banks, and term premium dynamics. The yield curve, which had been deeply inverted through 2023, is in the process of normalizing, a trend that reflects both market anticipation of lower policy rates in 2026 and persistent structural issuance of long-dated Treasuries.

Figure 3: Near-term Inflation Expectations Rise While Long-run Expectations Have Declined

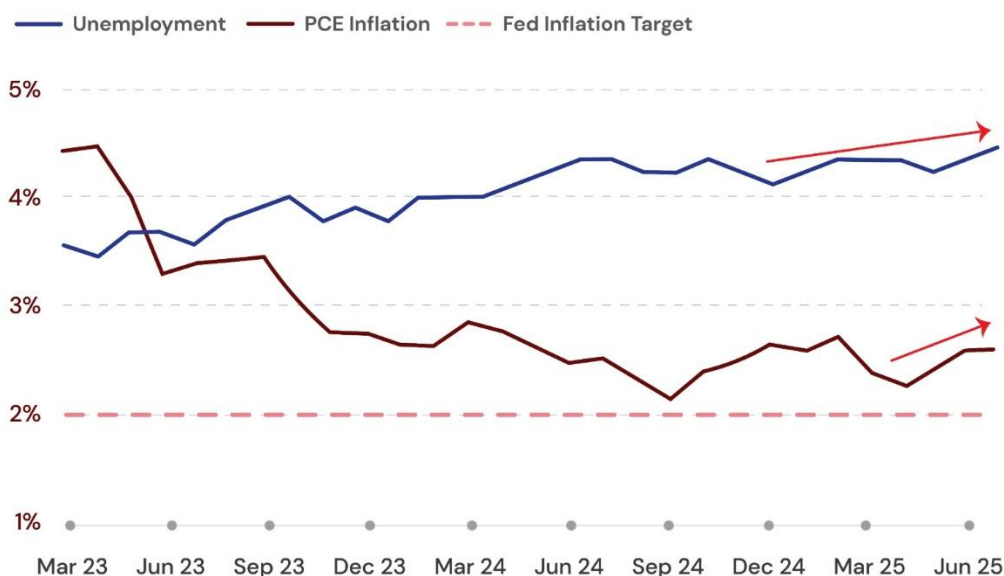


Source: “You can run, but you can’t hedge” – BlackRock Systematic, data from Bloomberg, as of May 2025.

Inflation remains a central variable. The “tariff storm” of 2024, as highlighted in Morningstar’s fixed income commentary, demonstrated how geopolitical tensions and protectionist policies can re-ignite price pressures in an otherwise disinflationary environment. Although tariffs on selected imports raised input costs and created localized bottlenecks, broader inflationary impulses have faded, thanks to supply chain normalization and a moderation in energy prices. Nevertheless, fixed income investors must remain attuned to upside risks: wage growth in the U.S. services sector remains firm, while commodity shocks or renewed trade disputes could drive volatility in inflation expectations. The inflation-linked bond market, as reflected in breakeven rates, currently prices in stable long-term inflation near 2.4%, but this remains a fragile equilibrium.

Fiscal dynamics have re-emerged as a dominant driver of bond markets. The U.S. Treasury continues to run annual deficits in excess of \$1.5 trillion, necessitating sustained issuance across the curve. This supply factor exerts upward pressure on yields, independent of monetary policy. Investor demand remains broad, with domestic pension funds, insurance companies, and foreign central banks absorbing a large share of auctions, but the sheer scale of issuance introduces questions about crowding out and term premia. In Europe, fiscal fragmentation persists: while Germany remains disciplined, southern European sovereigns continue to rely on ECB credibility to anchor spreads. The Bank of Japan, meanwhile, has begun a cautious normalization process after decades of yield curve control, sending ripples across global bond markets by altering the behavior of one of the largest foreign holders of U.S. Treasuries.

Figure 4: Unemployment and Inflation Have Risen in Recent Months



Source: Federal Reserve Bank of St. Louis.

Beyond the policy sphere, global growth trajectories influence credit risk premia. The U.S. economy has demonstrated surprising resilience, with GDP growth running at an annualized 2% pace despite restrictive monetary policy, a dynamic that supports investment-grade credit quality. In contrast, parts of Europe face stagflationary headwinds, leading to wider corporate spreads. Emerging markets present a more differentiated picture: while countries such as India benefit from strong domestic demand and investment inflows, others remain vulnerable to capital outflows and exchange-rate volatility as global yields remain elevated. For fixed income investors, this divergence creates both opportunities and risks, underscoring the importance of cross-regional allocation and active credit selection.

The policy backdrop also shapes liquidity and market structure. Central banks, having dominated secondary markets during the quantitative easing era, are now in the process of balance sheet reduction. The Federal Reserve's ongoing quantitative tightening program, which allows Treasury and MBS holdings to roll off, reduces a key source of structural demand and shifts the burden of absorption to the private sector. This transition has increased term premia and volatility in auction outcomes, reinforcing the role of active duration management. Meanwhile, regulatory reforms since 2008—most notably higher capital requirements for dealer banks—have constrained market-making capacity, leaving the bond market more vulnerable to liquidity air pockets during stress. The rise of ETFs has partially mitigated these frictions by providing alternative trading venues, but questions remain about their resilience in true stress scenarios.

In summary, the macro backdrop for fixed income in 2025 is one of cautious normalization. Inflation has moderated, but not disappeared; policy rates have peaked, but cuts are gradual and conditional; fiscal issuance is heavy, but demand remains robust. For investors, the implication is that fixed income is once again investable as an income-generating asset class, yet not without structural risks. Navigating this environment requires balancing duration exposure against fiscal supply risks, evaluating credit spreads in the context of resilient but uneven growth, and monitoring central bank signaling for cues on the next phase of the monetary cycle. The fixed income market, shaped so profoundly by macro drivers, remains a dynamic arena where policy, inflation, and fiscal choices will dictate both opportunities and risks over the coming cycle.

From Treasuries to EM Debt: Where the Opportunities Lie

3

The fixed income universe is best understood not as a single market but as an interlinked set of segments, each with its own supply–demand dynamics, investor base, and macro sensitivities. In 2025, the dispersion across sovereign debt, corporate credit, high yield, securitized assets, and municipals is creating differentiated opportunities for investors. While sovereigns remain the global benchmark and funding anchor, credit markets are regaining appeal as balance sheets strengthen, and alternative fixed income segments offer diversification and relative value.

Sovereigns – The Anchor of Global Pricing

U.S. Treasuries retain their role as the global risk-free reference point, with yields shaping the discount rates applied across asset classes. The Treasury market, now at \$27 trillion outstanding, is both a safe haven and a source of systemic vulnerability given the scale of issuance. In 2025, Treasury yields have settled into a range that reflects both elevated deficits and moderating inflation: the 10-year yield hovers near 4.25%, down from 5% peaks in 2023 but well above the sub-2% regime of the 2010s. Demand remains broad-based, with foreign central banks such as the Bank of Japan and China's SAFE managing reserves through Treasuries, while U.S. pension funds and insurance companies anchor domestic demand. However, the sheer size of issuance requires a broader investor base, and auction dynamics have become a focal point for gauging market resilience.

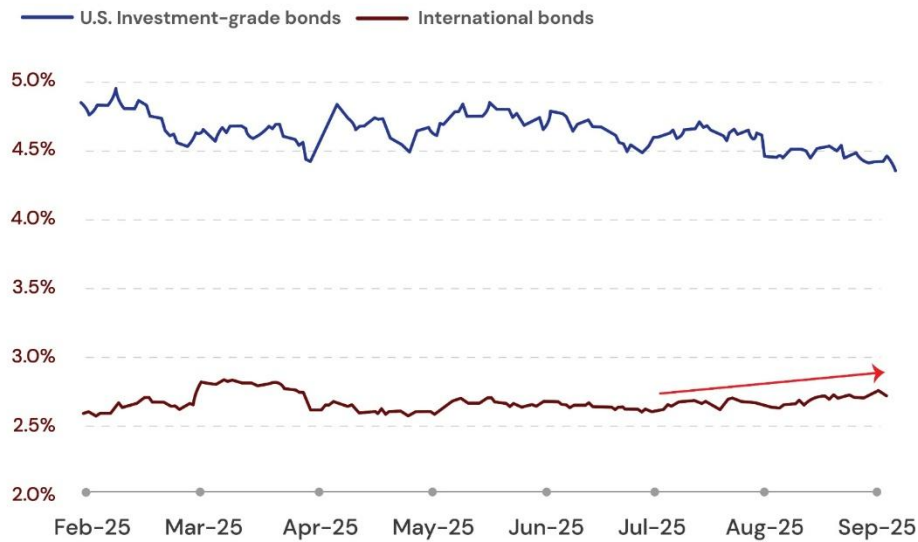
In Europe, sovereign fragmentation remains a structural challenge. German Bunds yield near 2.5%, reflecting credibility and fiscal discipline, while Italian BTPs trade at a spread of ~160 basis points, underscoring investor caution about debt sustainability. The European Central Bank's backstop mechanisms, such as the Transmission Protection Instrument, provide stability but cannot fully substitute for fiscal convergence. Japan, meanwhile, is at a policy crossroads: the Bank of Japan's slow retreat from yield curve control has allowed the 10-year JGB to trade near 1.2%, a level unthinkable only two years ago. For global fixed income markets, Japanese normalization is not just a domestic story but one that reshapes capital flows into Treasuries and other global sovereign bonds.

Investment-Grade Credit – Balance Sheet Resilience and Accrual Appeal

The U.S. investment-grade (IG) corporate bond market, valued at roughly \$9 trillion, is benefiting from an unusual alignment of strong fundamentals and attractive yields. Corporates used the ultra-low rate period of 2020–2021 to refinance aggressively, extending maturities and reducing leverage. As highlighted in recent commentary on accrual strategies, many issuers are entering 2025 with historically

healthy balance sheets and low near-term refinancing needs. For investors, this means that IG credit offers a combination of yield—spreads of ~110 basis points over Treasuries—and relatively low credit risk. The average all-in yield of 5–6% has made IG credit a core allocation in institutional portfolios once again.

Figure 5: U.S. Bonds Continue to Offer Higher Rates Despite Rising International Government Bond yields



Source: Federal Reserve Bank of St. Louis.

Sector dynamics within IG credit are also evolving. Technology and healthcare issuers, with robust cash flows, command tighter spreads, while sectors such as real estate and consumer discretionary face ongoing scrutiny. The regulatory environment, including ESG-related disclosures, is shaping issuance trends, with green and sustainability-linked bonds gaining traction. For investors, the return of accrual strategies—where locking in high coupons alone drives performance—marks a sharp contrast to the prior decade, when ultra-low yields forced investors into riskier corners of the market for incremental return.

High Yield and Leveraged Loans – Selective Opportunity Amid Recovery

The high yield market, at \$1.3 trillion in size, and the leveraged loan market, at \$1.5 trillion, represent the more cyclical end of the credit spectrum. Following a challenging period in 2022–2023, when default rates rose amid tighter financial conditions, the cycle is showing signs of stabilization. Defaults have moderated to around 2.5%, below long-term averages, reflecting both a resilient U.S. economy and proactive corporate balance sheet management. Still, the recovery is uneven: sectors with pricing power and stable demand, such as energy and infrastructure, are outperforming, while consumer-exposed credits remain vulnerable to margin compression.

Investor appetite for high yield is returning cautiously. Spreads have compressed to ~375 basis points, down from over 500 at the peak of 2023 stress, yet remain wide enough to compensate for expected

losses. The leveraged loan market, which had faced concerns about covenant quality and refinancing risks, has seen renewed demand from CLOs, whose issuance is rebounding. For allocators, high yield and loans provide equity-like returns with contractual income, but the emphasis in 2025 is on security selection rather than broad beta exposure.

Municipals, Securitized Assets, and Emerging Markets – The Diversification Complex

Municipal bonds, with roughly \$4 trillion outstanding, continue to play a niche but important role, especially for U.S. high-net-worth investors seeking tax-advantaged income. Credit quality remains robust, supported by strong state-level revenues and federal transfers. Yields near 3% tax-exempt—equivalent to ~5% taxable—have kept demand resilient. For institutional investors, municipals are less central, but they provide valuable diversification in balanced portfolios.

Securitized products, including MBS and ABS, have undergone a structural rehabilitation since the GFC. Agency MBS, at ~\$8 trillion, remain central to mortgage financing and a key holding for banks and the Fed. With the Fed's balance sheet runoff underway, private investors are absorbing greater issuance, creating relative value opportunities. Non-agency securitized assets, including ABS tied to autos, credit cards, and student loans, are smaller but benefit from granular collateral pools and diversification potential.

Emerging market (EM) debt represents both opportunity and volatility. Local-currency EM bonds have delivered strong performance in countries such as Mexico and Brazil, where proactive monetary tightening has brought inflation under control. Hard-currency sovereigns remain attractive in select high-yielding frontier markets but face vulnerability to global rate shifts and dollar strength. For global allocators, EM fixed income offers yield pickup and diversification but requires active management to navigate idiosyncratic risks.

The Investor Mosaic: Who Holds the Bonds, Who Sets the Price

4

Fixed income markets are defined not only by issuers and macroeconomic conditions but also by the structure and behavior of their investor base. Unlike equities, where flows are heavily influenced by retail trading, fixed income remains dominated by institutional players—pension funds, insurers, sovereign wealth funds, central banks, and asset managers. These investors operate within regulatory frameworks, liability structures, and capital requirements that shape how demand for bonds evolves. Understanding their priorities and strategies is essential for gauging both market resilience and pricing dynamics in 2025.

Central Banks and Sovereign Wealth Funds – Anchors of Demand

Central banks remain the single largest participants in fixed income markets, both as issuers and as investors. The Federal Reserve, European Central Bank, and Bank of Japan collectively hold more than \$20 trillion in securities, shaping yield curves through monetary policy. While the era of aggressive quantitative easing has passed, balance sheet policies remain critical to supply–demand dynamics. The Fed’s ongoing runoff of Treasuries and MBS reduces official sector demand, forcing private investors to absorb incremental issuance. The ECB, by contrast, has slowed its pace of balance sheet reduction, mindful of fragmentation risks in euro area sovereigns.

Sovereign wealth funds, particularly from oil–exporting nations, also play a stabilizing role. With assets exceeding \$11 trillion globally, these funds allocate meaningfully to sovereign bonds as part of their core liquidity management strategies. The investment posture of large players such as Norway’s Government Pension Fund Global or the Abu Dhabi Investment Authority often influences market sentiment, particularly in periods of volatility. Together with central banks, these official sector investors provide a baseline of demand that underpins global bond market functioning.

Pension Funds and Insurers – Liability–Driven Allocators

Pension funds and insurance companies are structurally long fixed income, guided by liability–matching imperatives. U.S. private pensions alone hold over \$3 trillion in fixed income assets, while insurers collectively exceed \$6 trillion. The sharp rise in yields since 2022 has been transformative for these institutions: where a decade ago they struggled with duration shortfalls and low returns, they can now lock in yields of 5–6% that exceed many of their actuarial assumptions. This has led to a significant shift toward liability–driven investment (LDI) strategies, particularly in Europe, where pension solvency ratios are at multi–decade highs.

Insurance companies, facing regulatory capital requirements under frameworks like Solvency II, have also increased allocations to higher-quality credit. With spreads offering incremental income, investment-grade corporates and structured credit have become attractive for yield enhancement without materially raising capital charges. As a result, these institutional allocators have emerged as natural buyers in segments such as long-duration corporates and securitized assets, where their liability structures align with longer-dated cash flows.

Figure 6: Fixed Income Investors — Who Really Sets the Bond Price?



Source: RCK Analytics

Asset Managers and Retail Flows – The Marginal Price Setters

While official and liability-driven investors dominate core demand, global asset managers have become the marginal price setters, especially in credit markets. Firms like BlackRock, Vanguard, and PIMCO oversee trillions of dollars across active and passive strategies. Exchange-traded funds (ETFs), in particular, have democratized access to fixed income, with global bond ETF assets surpassing \$2 trillion in 2025. These vehicles provide daily liquidity and transparency, but their rise also amplifies procyclical flows: in risk-off periods, ETF redemptions can accelerate spread widening, while inflows during rallies compress risk premiums.

Retail investors, historically less engaged in bonds, have returned to fixed income through ETFs and mutual funds as yields have risen. After a decade where equities dominated flows, the ability to earn 5% in IG credit or 4% in Treasuries has reignited household interest. This has implications for market

structure: a more diverse investor base improves resilience but also introduces behavioral dynamics tied to sentiment rather than liability management.

Hedge Funds, Private Credit, and Alternatives – The Opportunistic Edge

The post-2020 market has seen the rise of opportunistic players in fixed income. Hedge funds have deployed macro strategies focused on rates volatility, currency-bond interactions, and sovereign basis trades. With realized volatility in Treasury yields elevated relative to the 2010s, global macro funds have found fertile ground for positioning. Relative value arbitrage, a strategy once impaired by post-crisis regulation, has also seen renewed traction with improved funding conditions.

Private credit, once viewed as a complement to traditional lending, has become a major competitor to public high-yield and leveraged loan markets. With assets exceeding \$1.7 trillion, the private credit industry channels institutional capital directly to middle-market and large borrowers, bypassing traditional bond issuance. While private credit is not marked to market daily, its growth reshapes demand for public fixed income by altering the borrower landscape. For investors, private credit competes for allocations but also offers relative value comparisons that inform public market pricing.

Market Structure and Liquidity Dynamics

Fixed income markets have historically been less liquid than equities, and post-2008 regulatory reforms reduced dealer balance sheet intermediation. As a result, secondary liquidity remains fragmented, particularly in corporate bonds. Electronic trading has improved transparency, with platforms such as MarketAxess and Tradeweb accounting for a growing share of IG and HY volume. Still, during periods of stress, liquidity premia widen, underscoring the reliance on dealer capital.

In sovereign debt, liquidity is deeper, but even Treasuries have shown vulnerability. Episodes such as the March 2020 “dash for cash” and the 2023 banking turmoil demonstrated that structural demand from central banks and LDI investors is not always sufficient to stabilize markets. Policy responses, including the Fed’s standing repo facility, aim to address these gaps, but market participants remain vigilant about liquidity conditions.

In 2025, the fixed income investor base is more diverse, more global, and more segmented than at any point in history. Central banks and sovereign funds anchor demand, pensions and insurers provide structural stability, asset managers and ETFs introduce procyclical dynamics, and hedge funds and private credit inject opportunism. This mosaic defines not only who holds bonds but how bonds are priced, how spreads behave under stress, and how strategies evolve. For allocators, understanding this structure is as important as analyzing fundamentals, for it is ultimately the investor ecosystem that governs market resilience.

Strategic Implications: Why the Fixed Income Renaissance Will Last

5

The fixed income market enters 2025 at a unique inflection point. After a decade of suppressed yields and central bank dominance, the post-pandemic years have reset the risk-return framework. Inflation, once feared to be entrenched, is moderating across advanced economies, but the scars of higher deficits, tighter monetary regimes, and altered liquidity dynamics remain. For investors, this environment offers both opportunity and complexity: yield levels are attractive relative to history, but the path forward is shaped by policy, geopolitics, and structural shifts in global finance.

Macroeconomic and Policy Outlook

The baseline macro outlook for 2025 is one of slower but positive global growth, with the U.S. economy expected to expand around 1.5–2%, Europe closer to 1%, and emerging markets averaging 3–4% depending on commodity exposure and reform momentum. Inflation has declined from peaks of 8–9% in 2022 to closer to 2.5–3% in developed markets, allowing central banks to ease off restrictive stances. The Federal Reserve, having held its policy rate near 5.25% through much of 2024, has begun cautiously signaling eventual cuts, though a reversion to pre-pandemic ultra-low rates is unlikely.

Fiscal dynamics remain a key variable. The U.S. deficit continues to exceed 6% of GDP, keeping Treasury issuance elevated and duration supply abundant. Europe faces a patchwork of fiscal strategies, with Germany adhering to discipline while southern economies rely on EU-level support. Japan's fiscal position remains stretched, but normalization in monetary policy could gradually attract domestic investors back into JGBs. Collectively, these dynamics suggest that sovereign curves will remain steeper than in the pre-2020 era, with higher term premia reflecting structural supply risks.

Strategic Opportunities in Credit

In credit, 2025 presents an environment where accrual—simply earning the coupon—will be a powerful driver of returns. Investment-grade corporates, yielding 5–6%, offer attractive income with limited refinancing risk. High yield, though riskier, compensates investors with spreads around 375 basis points and a benign default outlook near 2.5%. For allocators, this suggests that credit can once again serve as a reliable return anchor, a shift from the pre-2022 era when yields were too compressed to justify large allocations.

Private credit will continue to expand, but public markets remain highly relevant. Large-cap issuers will rely on bond markets for refinancing, and institutional demand ensures depth. The interplay between

public and private markets will define relative value, with investors toggling between syndicated issuance and bilateral lending opportunities. Selectivity will remain critical: balance sheet resilience, sectoral cash flow stability, and exposure to secular growth themes (e.g., energy transition, digital infrastructure) will drive performance dispersion.

Global Allocation and Diversification

Emerging markets represent both diversification and tactical opportunity. Countries like Mexico, Brazil, and India are benefiting from nearshoring, commodity cycles, and proactive monetary management. EM local currency bonds, with yields in the 6–9% range, provide significant carry, though FX volatility tempers unhedged allocations. Hard-currency EM debt remains bifurcated: higher-quality sovereigns trade at tight spreads, while frontier markets still grapple with debt sustainability. For investors, EM allocations must be actively managed, balancing high carry with geopolitical and liquidity risks.

Diversification across securitized products and municipals also holds appeal. Agency MBS, while facing Fed runoff pressures, provide liquidity and relative value, while municipals continue to deliver attractive taxable-equivalent yields for U.S. investors. These segments highlight fixed income's role not only as a return source but as a portfolio stabilizer against equity drawdowns.

Strategic Implications for Investors

For global allocators, the strategic implications of this initiation note are clear:

- *Bonds are back as a core allocation.* With yields materially higher than the 2010s and risk-adjusted returns competitive with equities, fixed income is once again central to portfolio construction.
- *Duration can be selectively reintroduced.* The steepening of curves and the eventual pivot of central banks support adding back duration risk, particularly in Treasuries and Bunds.
- *Credit offers carry with resilience.* Investment-grade credit is well-positioned as a core holding, with high yield and EM debt serving as tactical enhancements rather than structural overweights.
- *Liquidity and market structure matter.* With official sector demand receding, investors must be mindful of liquidity conditions, especially in stressed environments where ETFs and electronic trading platforms amplify volatility.

The broader message is that the “TINA” era—where there was no alternative to equities—is firmly over. Fixed income offers alternatives across the risk spectrum, from sovereign stability to high-yield dynamism. For institutional investors, this means rebalancing portfolios toward bonds not as defensive ballast but as active return generators. For issuers, it means recognizing that markets are once again discerning, rewarding strong fundamentals and penalizing weakness.

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