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BONDS BEYOND BORDERS

WHY A GLOBAL FIXED INCOME ALLOCATION MAKES SENSE

FEBRUARY 2026



EXECUTIVE SUMMARY

In our view, allocating globally can help reduce portfolio volatility, expand the range of prospects across rates, credit, and currencies, and enhance risk-adjusted returns, especially as policy cycles and macroeconomic trends become increasingly out of sync across different regions.

- We believe that a global fixed income allocation can improve portfolio resilience by reducing concentration risk inherent in domestic only strategies and offering exposure to diverse macro, policy, and credit environments.
- Over the last 20 years, the US bond market has rarely been the top performer, and the Global Aggregate index has delivered stronger risk adjusted returns than the US only Aggregate.
- We believe central bank policy divergence since 2025 has created compelling cross market opportunities across rates, curves, and currencies, as markets increasingly move out of sync. Yield-curve rolldown is re emerging as a meaningful return driver, particularly as curves steepen with expected rate cutting cycles.
- In credit markets, regional credit spreads can diverge and re converge, enabling global investors to overweight regions or issuers where spreads appear most attractively priced.
- Major structural shifts, such as surging US corporate issuance to fund AI related capex and record levels of “Reverse Yankee” issuance, are opening new avenues for relative value and sector rotation opportunities.
- The global investment grade universe is vast, with meaningful depth in the US, Europe, UK, Canada, and Asia, providing a wide opportunity set across sectors and regions.
- Sector exposures vary significantly by region, allowing investors to tilt portfolios toward preferred themes – e.g., US technology, UK utilities/financials, eurozone financials, or Canadian energy.
- During periods of market stress, global credit allocations have historically exhibited less spread widening than regional allocations, supporting the diversification case through crises.

THE BENEFITS OF GOING GLOBAL

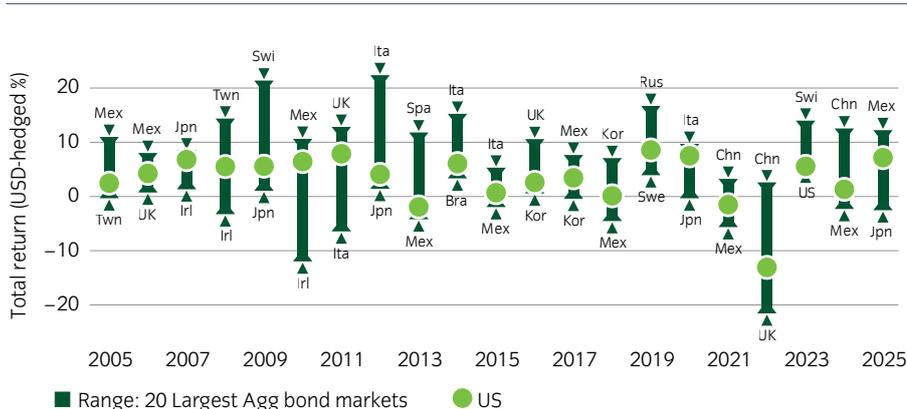
In our view, the case for a global rather than domestic only fixed income strategy is clearer than ever. Today’s market environment is defined by policy divergence, shifting macro trends, and evolving geopolitical risks, all of which drive differentiated yield curves and credit spreads across regions. By looking beyond home markets, we think investors can access a wider opportunity set, enhance portfolio resilience, and unlock sources of return that are unavailable domestically.

We believe that concentrating an investor’s portfolio primarily within their home market can leave it vulnerable, undermining its overall resilience and potentially exposing it to unnecessary risks. Home bias concentrates exposures in a single rate cycle, fiscal regime and currency, increasing sensitivity to domestic inflation surprises, debt issuance patterns and policy mistakes. Being too concentrated in a single market, with no way to diversify out of it, magnifies vulnerability to localised shocks such as inflation surprises, fiscal slippage, or policy missteps.

ALTHOUGH THE LARGEST BOND MARKET, THE US HAS RARELY BEEN THE BEST PERFORMER

Although the US bond market is the largest and deepest bond market in the world, within the Bloomberg Global Aggregate Bond Index (global agg), the US segment¹ has never been the top performer over the last 20 calendar years (Figure 1). It has failed to crack the top 10 on 12 occasions – or more than half the time.

Figure 1: The US has never been the top performer in the global agg over the last 20 calendar years²

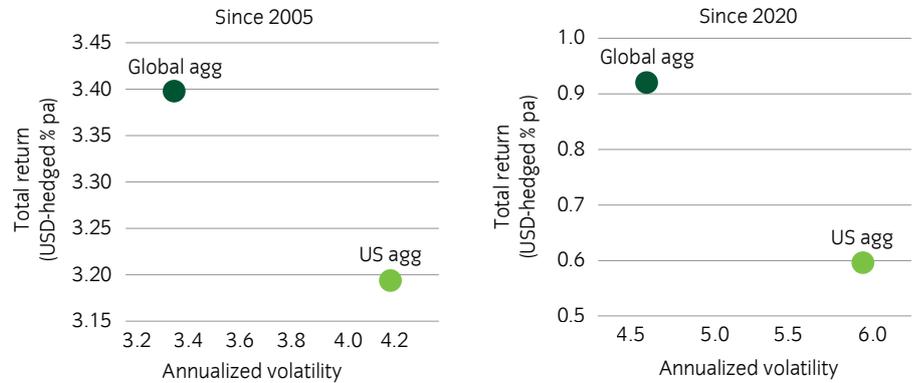


¹ Measured by the “Bloomberg Global Aggregate – United States – Bond Index” (a sub-index of the Bloomberg Global Aggregate Bond Index).

² Bloomberg, Insight calculations, January 2026 (Bloomberg Global Aggregate Bond Index USD Hedged, Bloomberg Global Aggregate – United States – Bond Index).

The global agg has also delivered stronger risk-adjusted FX-hedged returns than the Bloomberg US Aggregate Bond Market (US agg) over the last 20 years (Figure 2 – left). Further, global markets have delivered positive returns since the pandemic, unlike the US agg (Figure 2 – right). This is partly attributable to exposure to central banks that were able to cut rates earlier and more forcefully than the Fed over the last two years.

Figure 2: The Global agg has delivered stronger risk-adjusted returns than the US agg over 20 years and since the pandemic³

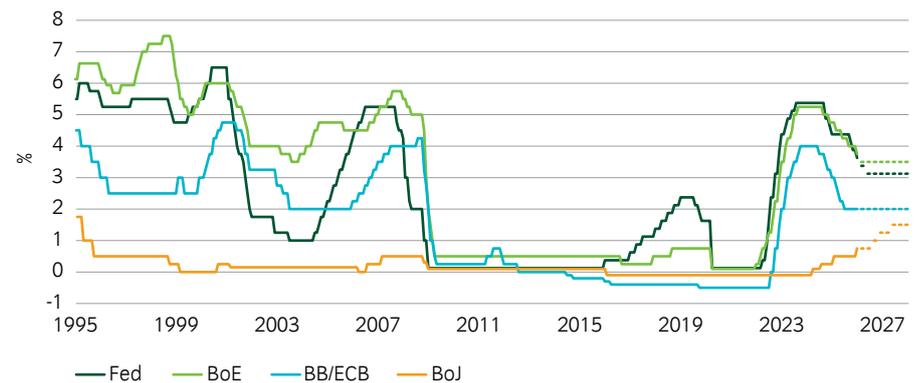


EXPLOITING MARKET DIVERGENCE

TAPPING INTO GLOBAL POLICY DIVERGENCE

After moving in lockstep through the pandemic, central bank policy has diverged since 2025 (see Figure 3), increasing opportunities for global investors as market sentiment ebbs and flows on the extent and timing of interest rate moves.

Figure 3: Policy is diverging across major central banks⁴



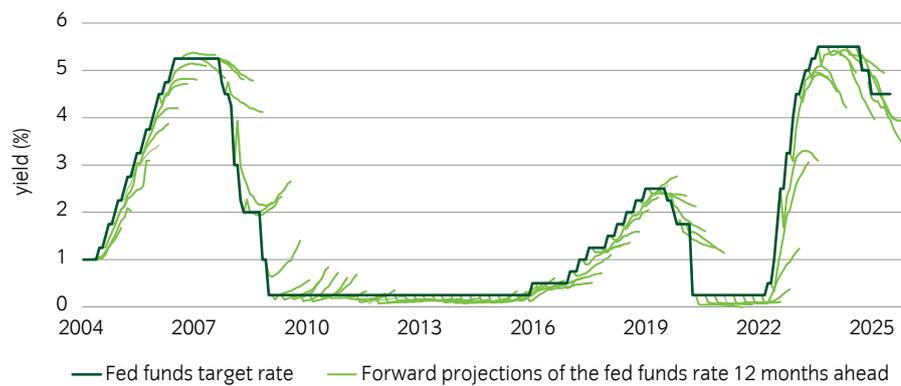
Through history, fixed income markets rarely predict central bank cycles with accuracy, typically pricing in significantly more rate volatility than actually occurs. We illustrate this in Figure 4, which shows market pricing of the fed funds rate over the last twenty years versus the actual policy rate. For investors, we think these unsynchronised cycles are likely to

³ Bloomberg, Insight, data from 1 January 2005 to 31 December 2025. Indices: Bloomberg Global Aggregate Bond Index (USD-Hedged) and Bloomberg US Aggregate Bond Index. Annualised volatility is calculated as the standard deviation of monthly total returns. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

⁴ Source: Bloomberg and Insight forecasts for 2027.

exacerbate this behaviour as markets can no longer look at the Fed for guidance as to where other policy makers will follow. We expect this to translate into cross market opportunities for those with the flexibility to hunt down anomalies in market pricing.

Figure 4: Markets rarely price central bank policy accurately⁵



EXPLOITING CROSS-MARKET OPPORTUNITIES

Although diverging central bank policy is likely to be key for markets at the shorter end of yield curves, the story at the longer-end of curves is likely to be dominated by fiscal dynamics. A number of countries are running expansionary fiscal policies, and although policies such as shortening issuance profiles will help, this is likely to weigh on yields in longer-maturities.

Examples of global trades we consider interesting:

- Although the path of least resistance may point toward further yield curve steepening, not all curves are likely to move in lockstep. In Japan, the curve is already very steep, enhancing roll-down potential. We believe that a combination of rate hikes and repatriation flows should help flatten the Japanese yield curve – or at least slow the upward drift of long maturity yields relative to the US. Japanese 30 year bonds also offer a meaningful yield pickup versus comparable Treasuries or gilts when hedged back into sterling or dollars.
- In the US, 30 year real yields remain near their highest levels in decades. In an environment defined by elevated macroeconomic and geopolitical uncertainty, inflation running modestly above target, loose fiscal policy, persistent global trade frictions and surging commodity prices, investors should arguably demand a premium for long term real return certainty – not the discount currently implied.
- Market pricing for where major central banks will conclude their next tightening cycles reveals that Australia is expected to settle at a terminal rate roughly 100bp above other major central banks – an outcome we view as unlikely.
- Within Europe, we see a clear structural divergence emerging. France's fiscal trajectory and debt dynamics point toward further rating pressure, and political risks are likely to rise as the 2027 presidential election approaches. We remain negative on French sovereign debt and stand ready to increase underweights as opportunities emerge.

⁵ Source: Insight and Bloomberg as at 30 June 2025. For illustrative purposes only.

ROLLING DOWN THE CURVE: HIDDEN SOURCES OF RETURN IN BOND MARKETS

Investors often think of bond investments as a function of the prevailing level of yields. But income is just the starting point for returns when investing in fixed income. When yield curves are positively shaped, bonds naturally appreciate in price as they move closer to maturity and 'roll down the curve'.

Here's how it works:

- When a yield curve has an upward slope, longer-dated bonds offer higher yields than shorter-dated ones.
- As time passes, and assuming the yield curve remains unchanged, a bond's maturity shortens, and it moves into a lower-yield segment of the curve.
- This means that as it shortens in maturity, the bond's price rises because its yield declines.
- This price appreciation adds to the bond's total return, on top of the coupon income.

For example, consider an investor who purchases Japanese government bond #368, which pays a 0.2% coupon and matures in 2032. The investor buys the bond at a current market yield of 1.85% and in that segment of the yield curve, the slope is approximately -15 basis points per year. After holding the bond for one year, the yield declines by 0.15% to 1.7%, implying a price appreciation of around 2.3%. The investor therefore earns 1.85% from the bond's yield and an additional 2.3% from the price gain as the bond rolls down the curve – resulting in a total return of 4.15%⁶. After a year, the investor can sell the bond and reinvest in a new issue with a similar maturity to repeat the process. This illustrates how rolldown can be a meaningful contributor to returns in fixed income markets.

With yield curves expected to steepen as central banks begin cutting rates, rolldown is poised to re-emerge as a meaningful source of return in fixed income portfolios. This dynamic should be especially advantageous for managers with flexible mandates, who can actively target the most compelling areas of each yield curve.

⁶ Insight calculations as at 31 January 2026

HARNESSING DIVERGENT CREDIT CYCLES, ISSUANCE TRENDS AND SECTOR EXPOSURES

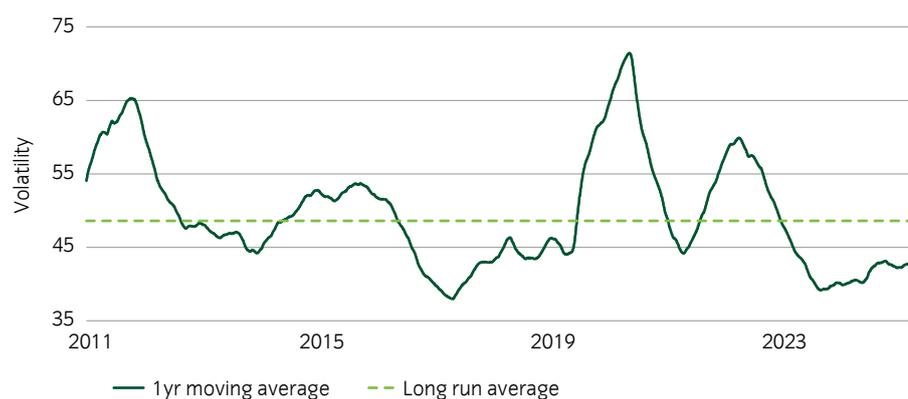
RELATIVELY HIGH YIELDS AND MUTED VOLATILITY

Despite credit spreads being tight by historical standards, current yield levels sit comfortably within the upper half of their historical range (see Figure 5), indicating that investors are still being compensated meaningfully for high quality credit exposure. At the same time, credit market volatility has trended lower and remains near the long run average (see Figure 6), suggesting a relatively stable backdrop. Together, these dynamics point to a favourable environment where solid yields and benign volatility conditions help support the case for maintaining investment grade allocations.

Figure 5: Global investment grade credit yield to worst and historical percentiles⁷



Figure 6: Credit market volatility⁸



⁷ Bloomberg as at 31 December 2025. Global IG is represented by the ICE BAML Global Credit index (GOBC).

⁸ Source: Bloomberg as at 31 December 2025. Global IG is represented by the ICE BAML Global Credit index (GOBC). Credit market volatility is comprised of 2/3 of the 3-month volatility of the US CDX NA IG and 1/3 of 3-month volatility of the iTraxx Europe Main CDS.

SPREADS CAN DIVERGE AND CONVERGE – CREATING OPPORTUNITIES

As illustrated in Figure 7, credit spreads can meaningfully diverge across regions over long periods of time before re-converging. For those with active global mandates, there can be an opportunity to be overweight credit where it's cheapest and underweight it where it's most expensive, sometimes even for the same underlying issuer. This can then be reversed again once spreads normalise.

Figure 7: Regional credit spreads can meaningfully diverge⁹



ISSUANCE TRENDS PRESENT OPPORTUNITY

Although US and European credit spreads have converged, issuance trends are now creating further cross-market opportunities. In the US, major tech companies are rushing to issue in bond markets to fund AI infrastructure spending.

With around \$1 trillion in AI-related capex expected over the next five years, we anticipate this issuance trend has many years to run, with companies drawing on public markets, private credit and asset-backed structures to diversify their funding. **If even 10% of this financing comes through public bond markets, that would equate to roughly \$500bn of new issuance and effectively double the tech sector's weight in global bond indices – likely with a bias towards US dollar issuance.**

Unlike the tech bubble era, today's issuers are typically established, highly profitable businesses with strong underlying cash flows. Even so, the sheer volume of issuance ahead – combined with the disruptive force of AI – will inevitably create clear winners and losers, offering a rich environment for active managers who can separate genuine structural beneficiaries from firms overstretching or facing model risk.

Another trend we are seeing is US companies seeking to issue in euro-denominated debt markets to take advantage of lower coupon rates and to fund their European operations. 2025 was a record year for 'Reverse Yankee' issuance, with US companies issuing over €80bn of debt¹⁰.

⁹ Source: Bloomberg, as at January 2026.

¹⁰ Source: Insight and Bloomberg. Data as at 31 December 2025.

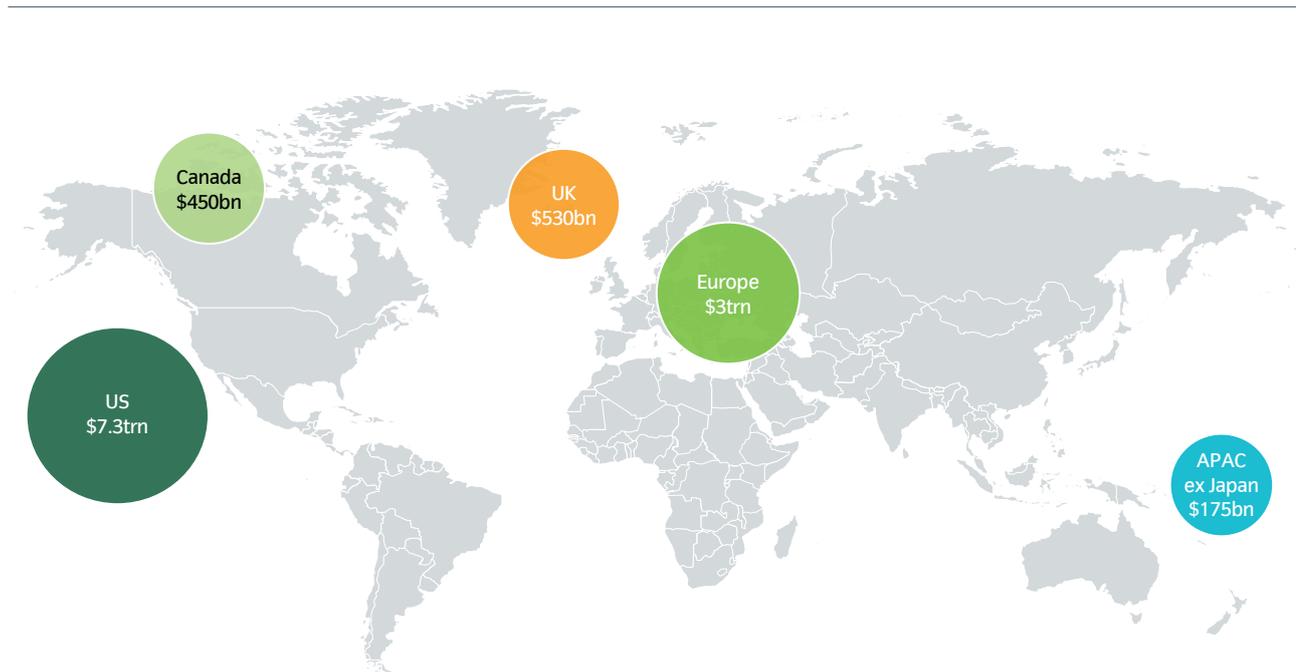
A VAST OPPORTUNITY SET¹¹

In our view, one of the primary advantages of going global in fixed income is the greater potential to access more diverse and numerous investment opportunities. For example, the global corporate bond markets alone total roughly \$14 trillion outstanding, with the **US the largest market, representing about \$7.3 trillion.**

The sheer size of US market, both in terms of outstanding issuance, and number of issuers and issues, makes it particularly attractive to non-US investors. That said, while the US credit market is the world's largest, other global credit markets are still vast in absolute terms, offering meaningful depth, liquidity and diversification potential.

For example, the **euro denominated credit market amounts to €3trn.** These figures highlight that although non US credit markets are smaller individually, they remain major global funding centres with enough size and issuer diversity to materially influence global spreads, issuance trends and cross market relative value. Meanwhile, estimates indicate that the **UK corporate bond market's outstanding issuance is around \$530bn.**

Figure 8: Vast global opportunity set in investment grade credit



Against this backdrop, US investors may increasingly benefit from looking beyond their domestic market. While the US remains the largest and most liquid source of high quality corporate issuance, this dominance can also lead to concentrated portfolios – typically overweight US centric sectors and underexposed to areas where Europe or Asia offer distinct credit characteristics.

Global credit markets also move through different economic and policy cycles, creating opportunities to access regions where monetary policy may ease sooner, refinancing pressures vary, or sector fundamentals diverge. Such dispersion enhances the strategic value of global credit, especially as cross market spread behaviour reflects growing regional macro differentiation.

Additionally, non US credit markets offer structural advantages shaped by domestic investor bases, regulatory environments, and local funding conditions, as well as distinctive sectoral exposures.

¹¹ Source: Bloomberg, as at 30 January 2026. Indices: Bloomberg US Aggregate Corporate Index, Bloomberg Euro Aggregate Corporate Index, Bloomberg Sterling Aggregate Corporate Index, Bloomberg Canada Aggregate Corporate Index, Bloomberg Asian Pacific Aggregate Corporate Index, Bloomberg Australia Aggregate Corporate Index.

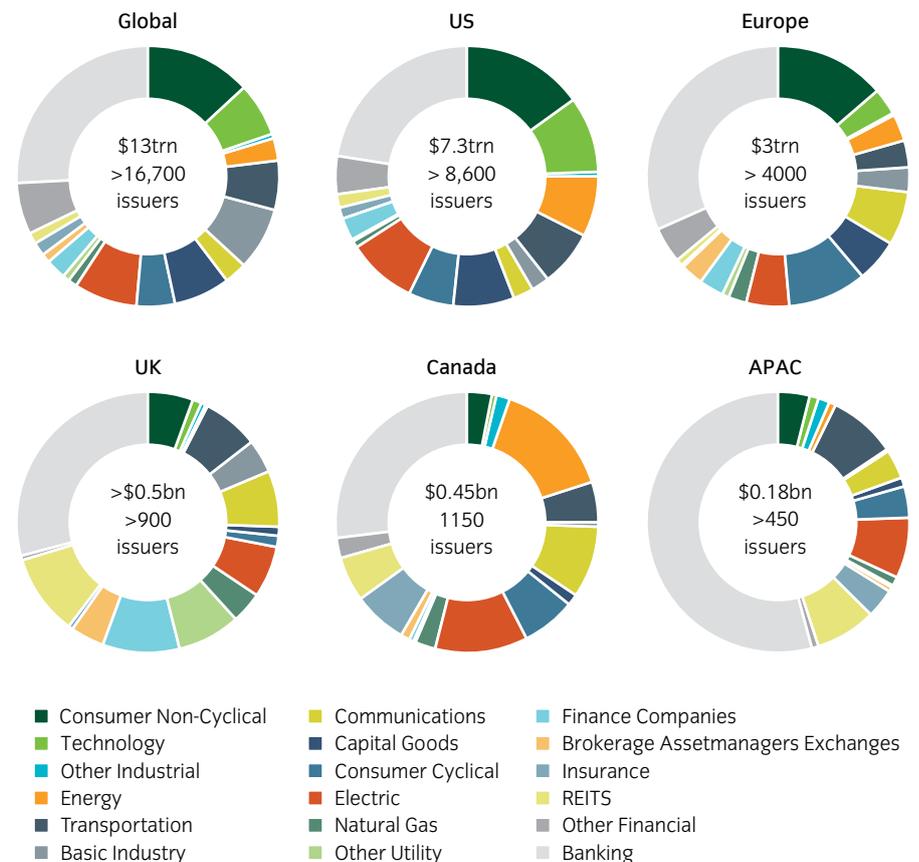
SECTOR BREAKDOWN VARIES CONSIDERABLY BY REGION

Allocating across different investment-grade corporate bond markets allows investors to tilt portfolios toward distinct sector themes:

- As seen in Figure 9, US IG credit offers the deepest exposure to Technology and Consumer Non-cyclical making it attractive for those seeking both a balance between technology and more defensive sectors.
- In contrast, the UK corporate bond market much more heavily weighted toward Utilities and Financials than the US, providing a way to capture regulated infrastructure and banking exposure.
- the outstanding issuance by technology companies in the US corporate bond market is significantly larger than the European market, standing at over \$700bn versus less than \$100bn in euro issuance.
- US markets are more heavily biased towards industrials whereas European markets are more heavily biased towards financial institutions.
- Euro IG combines significant Financials with meaningful allocations to Consumer Non-cyclical, Consumer Cyclical, and Utilities, offering a balanced mix of defensive and cyclical European corporates.
- The Canadian market offers the greatest relative exposure to the Energy and Electrical sectors.

By rotating allocations among these markets, investors can fine-tune sector exposure to align with macro views, thematic strategies, or diversification goals.

Figure 9: Different corporate bond markets can offer exposures to a greater range of sectors and issuance¹²



¹² Source: Bloomberg, as at 30 January 2026. Indices: Bloomberg US Aggregate Corporate Index, Bloomberg Euro Aggregate Corporate Index, Bloomberg Sterling Aggregate Corporate Index, Bloomberg Canada Aggregate Corporate Index, Bloomberg Asian Pacific Aggregate Corporate Index, Bloomberg Australia Aggregate Corporate Index.

GOING GLOBAL HAS OFFERED LOWER VOLATILITY DURING CRISIS

During periods of localised stress, diversifying away from the epicentre of a crisis in a corporate bond portfolio can be easier within a global allocation.

For example, Figure 10 displays the spread widening of global and regional credit during several crises that have affected bond markets during the last 20 years. Typically, a diversified global allocation exhibited less spread widening compared to a narrow local allocation. In fact, on average, the market at the centre of the crisis experienced spread widening of 50bp in excess of the global corporate bond index.

Figure 10: Diversifying from the centre of crisis is beneficial¹³



CONCLUSION

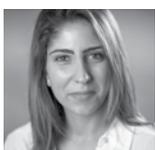
We believe taking a global view of fixed income is increasingly important. With monetary policy, fiscal spending and credit cycles diverging across regions, the opportunities and risks in fixed income have become too varied to fully capture through a purely domestic perspective. This is even true for US investors, despite the depth of the US dollar market.

By expanding beyond borders, investors can access a broader set of yield, curve, and credit dynamics, capitalising on policy divergence, structural issuance trends, and regional sector strengths. The global fixed income universe offers both scale and opportunity, enabling investors to seek better risk adjusted returns, manage volatility more effectively, and navigate crises with greater resilience.

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¹³ Source: Bloomberg as at 30 November 2024. Data is for illustrative purposes only. Indices: Bloomberg US Aggregate Corporate Index, Bloomberg Euro Aggregate Corporate Index, Bloomberg Sterling Aggregate Corporate Index.

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Portfolio holdings are subject to change, for information only and are not investment recommendations.

ASSOCIATED INVESTMENT RISKS

Fixed income

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

The issuer of a debt security may not pay income or repay capital to the bondholder when due. The return risk to a portfolio is higher where a portfolio is highly concentrated in such an issuer.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Leveraged funds: as a result of market conditions, the value of the assets held by a Fund may fall and result in a higher degree of leverage than is deemed appropriate by the Investment Manager. In order to reduce the degree of leverage, the Investment Manager may seek to reduce a Funds' total asset exposure. Investors would need to subscribe for additional Shares in order to maintain the level of sensitivity to market movements. Where such an event is unanticipated, this may result in the investors having less sensitivity to market movements than they might consider appropriate to their individual requirements until they have subscribed for additional Shares

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