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TIME TO ALLOCATE TO FIXED INCOME

OCTOBER 2025



Income-based returns are back, and investors no longer need to risk equity-type drawdowns or sacrifice liquidity to achieve their investment objectives. In our view, it is an opportune time to increase fixed income allocations.

EXECUTIVE SUMMARY

- **We believe a lopsided equity world makes a fixed income allocation compelling:** US equities dominate the MSCI World Index, driven by the outperformance of mega-cap tech stocks, resulting in heightened market concentration and increased investor exposure to US markets and the dollar. Fixed income markets offer the potential for improved risk-adjusted returns and reduced volatility.
- **Yield is back, and we believe it's here to stay:** Following the end of the ultra-low yield era post-2008, intermediate and long-dated bond yields have normalised to pre-crisis ranges, with the very long end of curves pushed upwards by high levels of government bond issuance. With yields now rivalling long-term equity returns, we believe fixed income offers a compelling opportunity to achieve investment objectives with greater certainty, lower volatility, and enhanced income potential.
- **Yields are just the starting point for returns:** Unlike equities, bond markets are less efficient and more opaque – creating exploitable opportunities for skilled active managers. Volatility enhances this potential, offering dislocations that favour flexible mandates. Innovative approaches, such as short-maturity high yield and ETF ecosystem trading, enable access to higher-return segments without compromising liquidity.
- **Reliable returns, lower drawdown risk and diversification benefits:** Unlike equities, bond returns are primarily income-driven, resulting in significantly lower volatility and shallower, shorter drawdowns. Even in especially challenging environments like 2022, fixed income demonstrated resilience versus equities. The contractual nature of bonds and the ‘pull to par’ effect provide natural downside protection, while high-quality fixed income assets tend to perform well during severe downturns.
- **Corporate credit fundamentals remain robust:** We’re seeing generally healthy credit metrics across both investment grade and high yield issuers, while a combination of rate cuts and AI investment should keep economies from falling into recession. Debt profiles are actively managed, with maturities well spread and refinancing risks minimised – particularly among lower-rated US issuers. This reinforces the strength and resilience of corporate credit as a core component of fixed income portfolios.

TIME TO DIVERSIFY AWAY FROM A LOPSIDED EQUITY WORLD?

US equities now account for over 70% of the MSCI World Index (see Figure 1), reflecting an increasingly lopsided global equity market dominated by a handful of large US companies. The outperformance of mega-cap tech stocks – led by the Magnificent Seven (Alphabet, Apple, Amazon, Meta, Microsoft, Nvidia and Tesla¹) – has driven a sharp divergence between the MSCI World US Index and the MSCI World ex US Index. While this ascent has been underpinned by a period of exceptional earnings growth, the resulting concentration means many equity investors may be more exposed to US markets, and the US dollar, than they realise. With the Magnificent Seven alone valued at close to 18% of global GDP, there is now little room for error built into valuations (see Figure 2).

We believe fixed income markets offer a compelling opportunity to reduce equity exposure, providing the potential for more attractive risk-adjusted returns with lower volatility and drawdown risk.

Figure 1: US equities dominate the MSCI World Index²

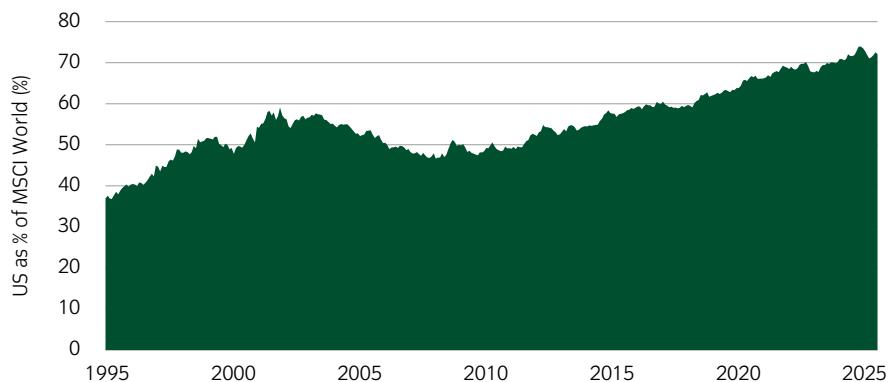


Figure 2: The market capitalisation of the Magnificent Seven leaves little room for error³



¹ The mention of a specific security is not a recommendation to buy or sell such security.

² Source: Insight and Bloomberg. Data as at 31 August 2025.

³ Source: Insight and Bloomberg. MSCI World Index. Data as at 31 August 2025.



YIELD IS BACK, AND WE BELIEVE IT'S HERE TO STAY

THE ERA OF LOW YIELDS IS OVER

The 2008 global financial crisis triggered a credit crunch that exposed vulnerabilities in the banking sector, prompting sweeping regulation and higher capital requirements. With traditional monetary channels impaired, central banks turned to experimental tools – slashing interest rates to zero, and in some cases even into negative territory, and deploying quantitative easing to stimulate growth. This ushered in a prolonged era of ultra-low yields.

That era is now over.

Banks have since rebuilt their balance sheets, and many are now in the process of distributing excess capital via share buybacks.

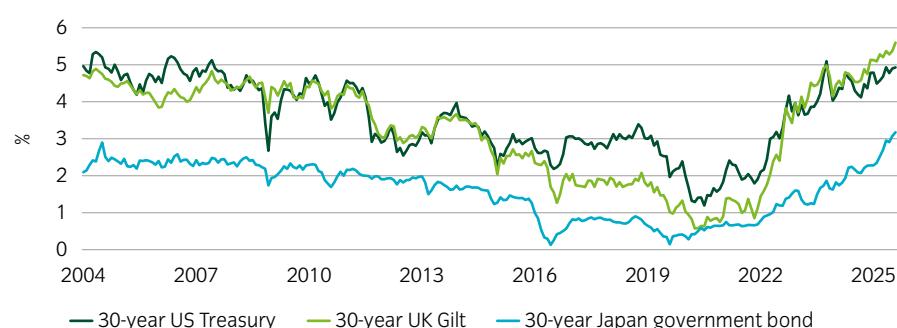
Today, following a post-pandemic surge in inflation, yields in the intermediate area of yield curves have normalised to pre-financial crisis ranges (see Figure 3). While major central banks are in the process of a gradual counter-cyclical easing, persistent inflationary forces, underpinned by deglobalisation and expansionary fiscal programmes, suggest yields are likely to remain in a higher range in the years ahead.

Figure 3: A new normal for intermediate bond yields⁴



At the long end of yield curves, heavy government bond issuance has driven yields sharply higher – surpassing multi-decade highs in markets like the UK and Japan (see Figure 4). While some governments are now scaling back issuance to calm markets, persistent concerns over fiscal deficits are likely to keep long-dated yields elevated for the foreseeable future. This allows investors to lock in high levels of income for the long-term, while steeper yield curves create opportunities for rolldown strategies – which aim to profit from bonds' natural appreciation in price as they shorten in maturity and move down the yield curve.

Figure 4: Long-maturity yields have broken upwards⁵



⁴ Source: Insight and Bloomberg. Data as at 31 August 2025.

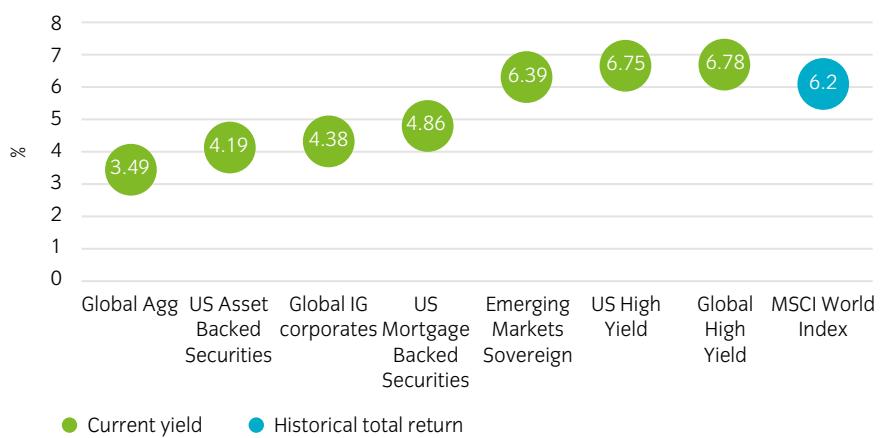
⁵ Source: Insight and Bloomberg. Data as at 31 August 2025.

LONG-TERM RETURN OBJECTIVES MAY BE ACHIEVABLE WITH FIXED INCOME ALONE

Yields in many areas of the fixed income market are now close to – or even above – the long-term returns of the MSCI World Index (see Figure 5). This presents the potential for equity-like returns through instruments that offer contractual income, and which have historically experienced lower volatility.

An unconstrained fixed income mandate enables managers to dynamically allocate across the full spectrum of assets, targeting areas that they believe offer the greatest value at any given time. Alternatively, investors can focus on specific segments to complement or replace equity exposure, locking in long-term income to provide greater certainty that investment goals will be achieved.

Figure 5: Bond yields now look compelling versus long-term equity returns⁶



YIELD IS JUST THE STARTING POINT FOR RETURNS

ACTIVE MANAGEMENT IN BONDS: A QUIET OUTPERFORMANCE STORY

Many investors believe that active managers struggle to outperform or even match their benchmarks and extrapolate this idea across all investment assets. Research, repeated over decades, suggests that this is certainly true of many active equity strategies.

But this isn't generally true in fixed income. Data from Morningstar⁷ shows that on an asset-weighted basis high-yield bond managers have outperformed by 60bp per annum over the 15-years to end 2024. Over 50% of funds successfully outperformed their index. On the other hand, the data suggest that global large blend equities funds underperformed by 1.4% per annum, with only 10% of funds outperforming.

Bond markets are far less efficient and transparent than equity markets, presenting inefficiencies that can be exploited by active managers. The rise of passive investment has, if anything, exacerbated these inefficiencies in bond markets.

⁶ Source: Insight and Bloomberg. Data as at 31 August 2025. MSCI World data between 31 December 1999 and 31 August 2025.

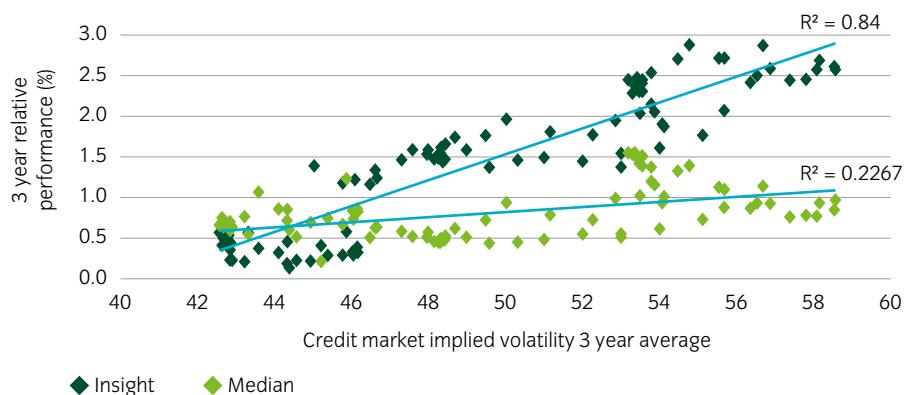
⁷ <https://www.morningstar.com/business/insights/research/active-passive-barometer>

VOLATILITY CAN BE A BOON FOR ACTIVE INVESTORS

Although often feared, volatility provides market dislocations for active managers to exploit. The greater the flexibility provided to the manager the broader the pool of potential opportunities that can be explored as volatility may impact certain regions or subsets of fixed income markets more than others.

This is supported by market data, which show that active managers are typically able to achieve greater levels of alpha over the medium term when implied volatility in credit markets increases (see Figure 6). Analysis of our own strategies would reinforce this – when considering alpha generated by an actively managed Insight global credit strategy over rolling three-year periods from its inception in 2011 to 30 June 2025.

Figure 6: Higher volatility environments have historically led to greater alpha generation⁸



DON'T LET LIQUIDITY CONCERNs RESTRICT YOUR OPPORTUNITY

Some subsets of the fixed income universe offer higher returns, historically similar to those exhibited by equity markets over longer periods of time. But accessing these subsets can come with a liquidity cost if investment is approached in a traditional way. Rather than letting this act as a deterrent to investment, we believe that there are different approaches that can allow investors to harvest the potentially higher returns available without compromising on liquidity.

In high yield markets, a focus on short-maturity issues can be one approach that ensures regular maturities to create natural liquidity. Combined with careful company analysis this can also minimise default risk, focusing on companies that have a clear plan for how to repay their maturing debt. For those seeking duration exposure, a systematic approach can provide a way to overcome liquidity challenges. Insight has developed an innovative approach that trades through brokers in the ETF ecosystem, which has enabled us to buy and sell custom baskets of up to 1,000 bonds worth as much as \$500m within hours, if not minutes⁹.

Natural liquidity can also be key in asset-backed markets. A carefully designed portfolio can be structured to have regular coupon and maturity payments, or to mature entirely within a given timeframe. The capital structures of these instruments means that higher rated issues have very low default risk – the last default in a US investment grade rated asset-backed security was in 2010¹⁰.

⁸ Source: Insight and Mercer. Insight global credit strategy outperformance in USD terms, of Bloomberg Global Aggregate Credit Index hedged into USD, gross of fees. Mercer Insight Universe median manager alpha versus global credit sector benchmark index. Inception: 30 September 2011.

⁹ Source: Insight, as at 30 September 2025.

¹⁰ Source: S&P Global Ratings, "2022 Annual Global Structured Finance Default Study and Rating Transitions", March 2023.

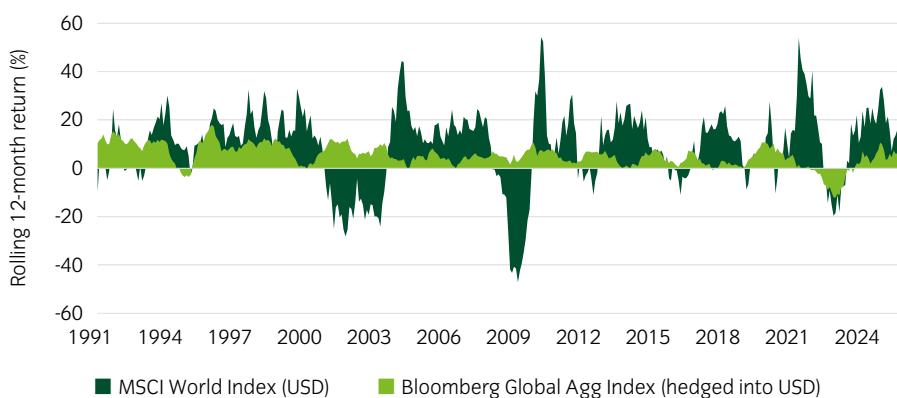
RELIABLE RETURNS, LOWER DRAWDOWN RISK AND DIVERSIFICATION BENEFITS

INCOME-BASED RETURNS ARE MORE PREDICTABLE

Bond markets have historically had far lower volatility than equity markets, without the large drawdowns that equity markets periodically experience (see Figure 7). This is because returns in fixed income are largely generated by income, in contrast to equity markets, where returns are reliant on capital appreciation.

One exception to this rule was 2022, when central banks aggressively tightened policy as they battled to bring inflation under control after the pandemic, driving yields upwards. However, even in the worst environment for fixed income in decades, the US dollar-hedged Bloomberg Global Aggregate Index still only experienced a drawdown roughly half that of the MSCI World Index.

Figure 7: 12-month rolling returns expose the relative drawdown risk across the two asset classes¹¹



WHY DRAWDOWN RISK HAS BEEN MUCH LOWER IN FIXED INCOME MARKETS

Fixed income markets do experience periodic drawdowns, but they tend to be shallow and short for two key reasons.

- A bond is a contractual asset – it pays a regular rate of interest and, unless the issuer defaults, it repays its full principal at a future date. As bonds generally mature at 100 (of whatever currency in which it is issued), there is a gravitation towards that price over time, so bond prices naturally recover. This is commonly known as the ‘pull to par’.
- The income generated in bond markets counterbalances price declines, and this creates natural downside protection as long as yields are sufficiently high and there is a sufficiently long-time horizon.

In Figure 8 we can see these effects in action in high yield markets. Although global high yield is perceived to be a cyclical asset and has generated similar long-term returns to global equity markets, the asset class has generally experienced shallower drawdowns and recovered more quickly than equities. Again, 2022 was the exception to this rule, with global high yield having a similar drawdown profile to global equities in that period.

¹¹ Source: Insight and Bloomberg. 12mth rolling returns for MSCI World Index and Bloomberg US Treasury Index. Data between 31 January 1990 and 31 August 2025.



Figure 8: Despite similar long-term returns, global high yield has generally had shallower drawdowns and faster recoveries¹²

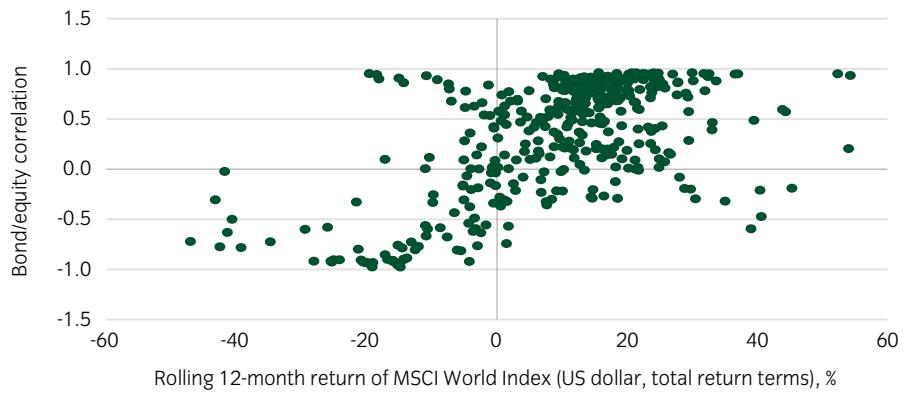


A RISK DIVERSIFIER IN SEVERE DOWNTURNS

Government bonds, and to some extent highly rated credit markets, have another useful attribute. Economic downturns, when equity markets are often falling and economies enter recession, are often some of the best periods for fixed income performance.

As central banks ease policy to boost growth it generally pulls longer maturity yields downwards – and lower yields mean capital appreciation in bond markets. The negative bond/equity correlation during the worst equity drawdowns can be clearly seen in Figure 9 which looks at the correlation between the Bloomberg Global Aggregate Index (which contains a mix of government bonds and highly rated credit) and the MSCI World Index over time. This means that high-quality fixed income investments can be a complementary addition to holdings in more risky assets such as equities.

Figure 9: The correlation between bond and equity returns has been negative when equities fall sharply¹³



¹² Source: Insight and Bloomberg. Bloomberg Global High Yield Index and MSCI World Index (total return), data between 31 January 1990 and 31 August 2025.

¹³ Source: Insight and Bloomberg. Correlation between MSCI World Index (total return, USD) and Bloomberg US Treasury Index. Data between 31 January 1973 and 31 August 2025.

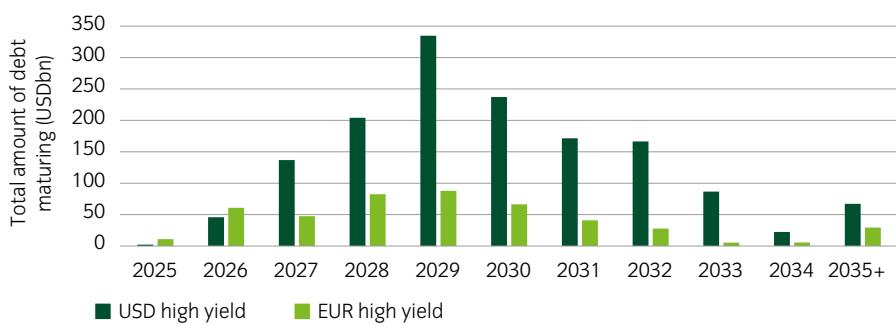
CORPORATES ARE WELL POSITIONED AND WE DON'T ANTICIPATE A RECESSION

CORPORATES ARE GENERALLY IN GOOD SHAPE

The role of corporate treasurers has changed significantly over the years, shifting away from simply managing day-to-day liquidity and becoming more strategic, ensuring the business is sustainable over the longer term. Many corporate balance sheets are in good shape as a result. The leverage ratios for both investment grade and high yield issuers have climbed from very low levels but remain in a healthy position, and a similar story can be seen across a range of credit metrics.

The debt profiles of many corporates are also in a strong position and actively managed with debts often refinanced well in advance of maturity to minimise refinancing risk. In Figure 10 we outline the maturity profile of the US dollar and euro high yield markets, with high yield potentially an asset class that could face challenging refinancing conditions should the economic environment deteriorate. The maturities of these US issuers are spread widely over time, with very little debt maturing through to the end of 2026.

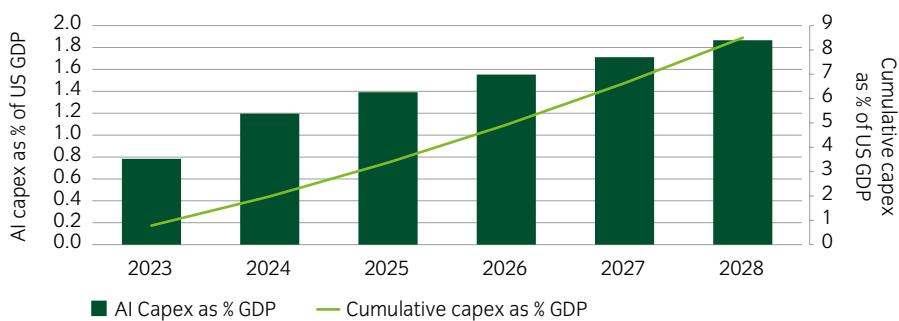
Figure 10: Lower-rated corporate maturities are well spread out over time, and proactively managed¹⁴



WE EXPECT GROWTH TO SLOW, BUT NOT CONTRACT

Although we believe policy uncertainty is likely to weigh on growth in the months ahead, a combination of rate cuts and AI capital expenditure should provide sufficient momentum to prevent recession. For example, in the US AI capital expenditure is expected to grow rapidly for years to come (see Figure 11), helping to underpin growth.

Figure 11: AI capital expenditure is emerging as a significant tailwind for growth¹⁵



¹⁴ Source: Bank of America. Data as at 31 August 2025.

¹⁵ Source: Insight, Morgan Stanley and Bloomberg as at 8 August 2025.



CONCLUSION

In our view, the current investment environment presents a strong case for increasing exposure to fixed income. Investors have the opportunity to lock in attractive long-term income streams without taking on equity-like drawdown risk or sacrificing liquidity. With global equity markets increasingly dominated by a handful of US mega-caps, the diversification benefits of fixed income appear particularly compelling.

Reallocating towards fixed income offers a pathway to achieving long-term objectives with greater certainty. The contractual nature of the asset class provides inherent downside protection, helping portfolios better withstand bouts of volatility at a time when policy uncertainty remains extremely elevated. We see pockets of value across the fixed income spectrum that investors can seek to exploit – a backdrop that is particularly attractive for mandates with the flexibility to hunt down the most interesting global opportunities across the full range of fixed income assets.

The resilience of corporate balance sheets and steepening yield curves further reinforce the strength of the asset class at this stage of the cycle. Elevated yields, solid fundamentals, and diversification advantages could make fixed income the cornerstone of investment portfolios in the year ahead.

CONTRIBUTORS



April LaRusse
Head of Investment Specialists
Insight Investment



Simon Down
Co-Head of Investment Content
Insight Investment

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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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Institutional Business Development
businessdevelopment@insightinvestment.com

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europe@insightinvestment.com

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consultantrelations@insightinvestment.com

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insightau@insightinvestment.com

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