BlackRock.

The case for active fixed income

Quick read

Volatility returns

Higher dispersion and volatility in bonds offers skilled managers opportunities to outperform – if they have the risk budget.

Efficient use of active risk

Active risk is more efficiently rewarded in bonds.

More dynamism

A more dynamic approach can improve outperformance, but skill and costs are important considerations.

Simon Blundell
Co-head of Global Fixed Income in EMEA

Ronald van Loon
Portfolio Manager, European Fixed Income, within Global Fixed Income

Vivek Paul
Global Head of Portfolio Research, BlackRock Investment Institute

Devan Nathwani
Portfolio Strategist, BlackRock Investment Institute

The case for active fixed income

Financial markets are adjusting to the new regime of greater volatility, uncertainty and divergence in market performance. The BlackRock Investment Institute (BII) argues this new regime calls for more use of active strategies in its paper *"A bigger role for active strategies"*. If investors have confidence in their ability to pick good managers, active strategies should play a bigger role in portfolios today, in our view.

Greater macro uncertainty

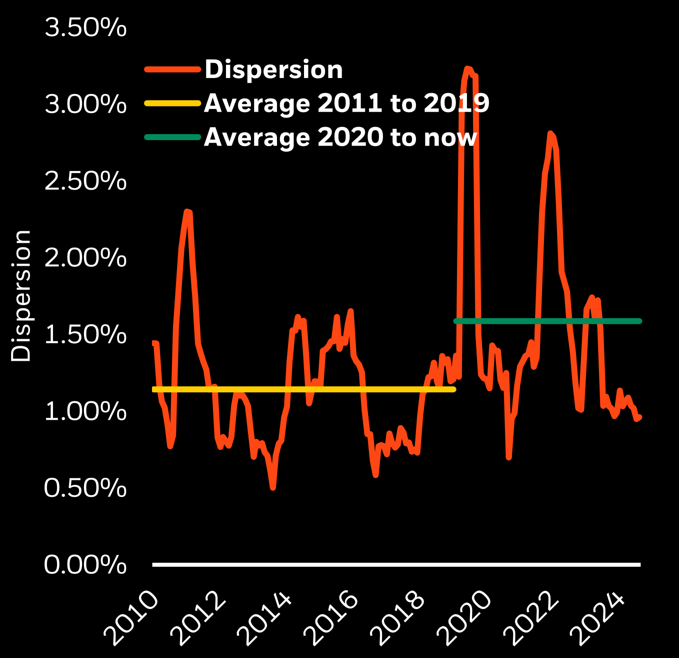
BII finds that macroeconomic uncertainty has spiked since 2020, as evidenced by the heightened higher dispersion of inflation forecasts. Market returns also reflect that uncertainty – there's greater dispersion in S&P 500 stock returns today too. The upshot? More opportunities for skilled managers to find and deliver active returns.

"*Investment expertise could prove more valuable as those with deeper market insights could exploit the resulting increase in market dispersion. The potential for greater rewards from combining a dynamic approach with investment skill is why we believe active strategies could play a bigger role in some portfolios now.*"

Heightened volatility in fixed income

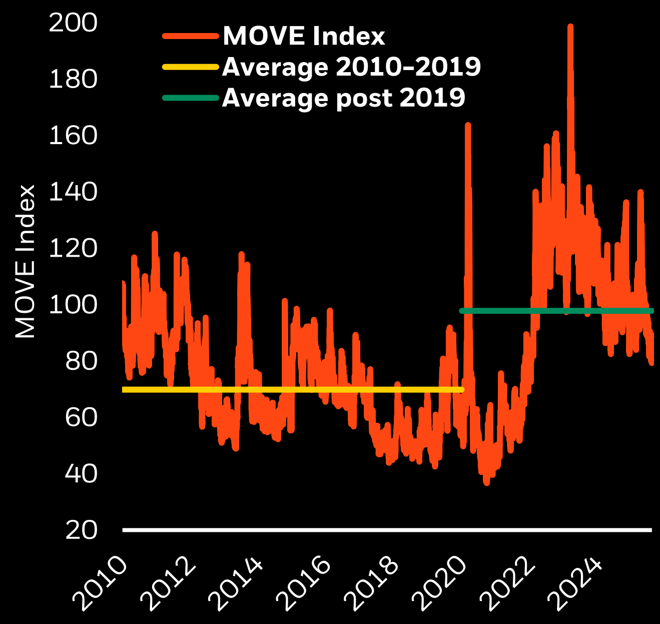
In this paper we delve into the case for active investing in the fixed income markets. We focus on two questions. First, is the market environment more fruitful for skilled managers to exploit in fixed income? And how efficiently is active risk rewarded? We find that information ratios – a risk-adjusted measure of outperformance – in fixed income for top-performing managers are higher than for other asset classes.

Dispersion across bond asset classes



Source: BlackRock, Bloomberg. Notes: Returns used are Monthly total returns for the government bond indices of US, Euro, UK and Japan, and excess returns (to govt) for the non-govt indices of global IG credit, global HY credit and US Mortgages. Chart shows the standard deviation between these sub-indices on a rolling 6 month basis.

Bond volatility



Source: BlackRock, Bloomberg. Chart shows the MOVE Index and the median MOVE Index level between 2010 and 2019 and the median MOVE Index level between 2019 and July 2025.

A compelling opportunity set

So, has the new regime since 2020 resulted in better market conditions for active fixed income managers?

Our research finds that dispersion across fixed income asset classes has increased – but only modestly. See the chart on the left above. However, we do find that bond market volatility is materially higher – see the chart on the right above.

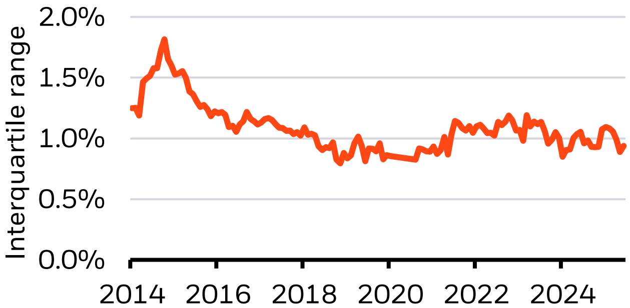
This could suggest a fruitful environment for skilled active fixed income managers – especially those that generate alpha by managing factor positions such as in duration.

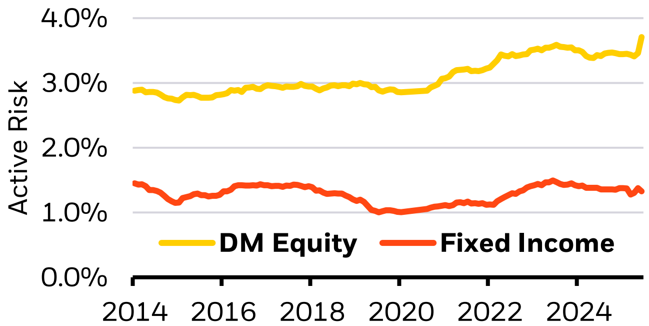
Yet the difference in alpha between the top and worst-quartile fixed income managers is little changed. See the bottom left chart below. That's contrary to what BII found for active equity managers. Why?

Fixed income managers aren't afforded the same leeway that equity managers tend to have. Case in point: We find that the tracking error afforded to fixed income managers is lower than for equity managers. That restricts how much active risk they can take. See the chart below.

In some cases, these restrictions may be reasonable – the fixed income mandate may be to fulfil a specific regulatory role in the portfolio, like delivering income in time to meet cashflows.

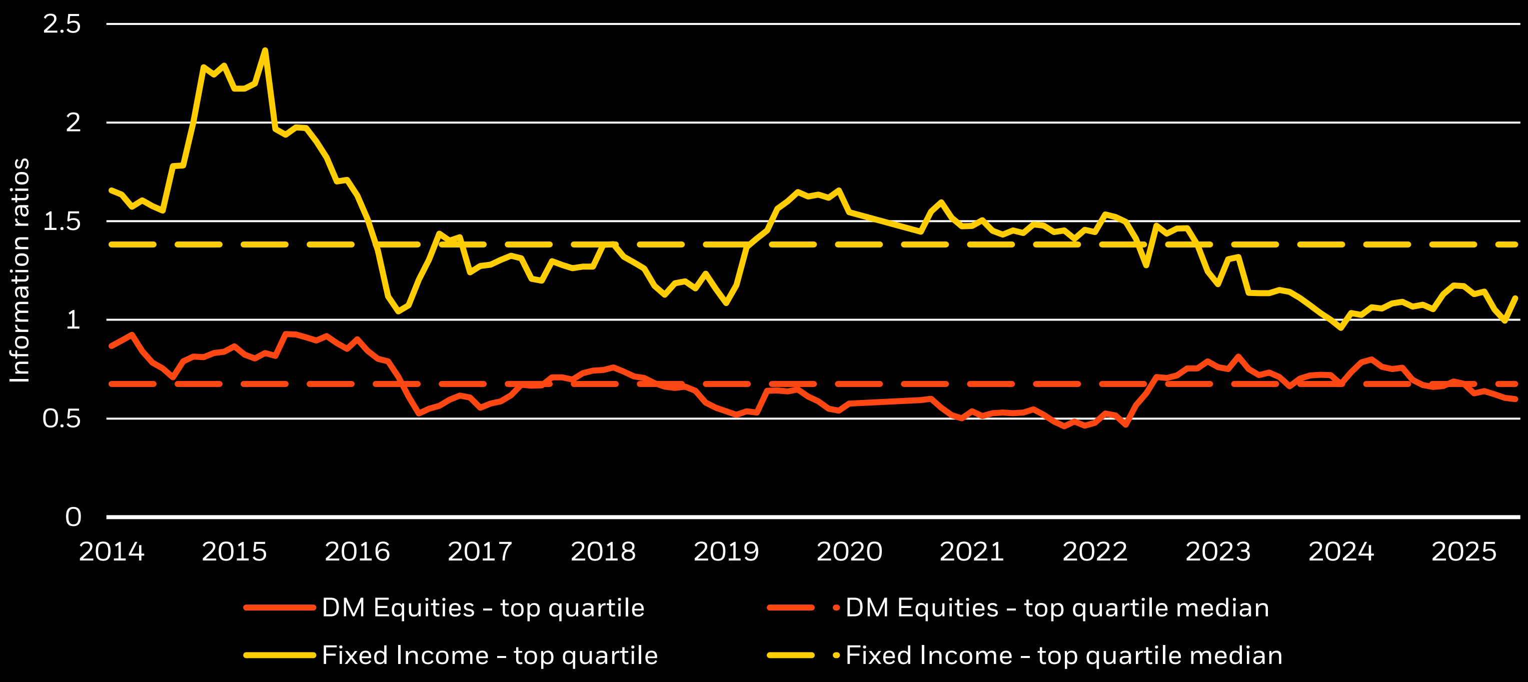
Yet for many investors a more unconstrained approach could give skilled managers the ability to identify the most compelling income opportunities.





Past performance is not a reliable indicator of future performance. This information should not be relied upon by the reader as research or investment advice regarding any funds, strategy or security in particular. Source: BlackRock Investment Institute, August 2025. Notes: The LHS chart shows the difference between the top quartile (top 25% rank) and bottom quartile (bottom 25% rank) of active returns generated by alpha-seeking managers across fixed income. The RHS chart shows the volatility of excess returns not explained by factor exposures.

Information ratios of active strategies



Source: BlackRock, eVestment. Note: Chart shows the 3 year rolling information ratios of active strategies in Developed Market Equity ("DM Equity"), Fixed Income and Hedge Funds based on data between 2004 and June 2025.

More efficiently rewarded

What about our second question: How efficiently is active risk rewarded?

We find skilled fixed income managers are amongst the most efficient in using active risk across all active strategies. See the chart above. The top-ranking fixed income managers have information ratios – a risk-adjusted measure of active returns – that are persistently higher than developed market equity strategies for some years.

One contributing reason why active risk is well rewarded in bonds? Market breadth. There are more than 30,000 securities in global bonds, as per the Bloomberg Global Aggregate index, and investors follow a wide range of investment objectives, not all of which are to out-perform market cap weighted benchmarks. Think insurance companies managing portfolios on a book yield basis, pension funds trying to match outgoing liabilities or central banks trading bonds to manage interest rates. Each objective falls under separate regulations, and this creates market segmentation.

A large and broad opportunity set, different objectives and a diverse pool of investors creates opportunities to exploit mispricing across bonds.

What is important to note is that this assessment needs to be done jointly with the transaction cost impact. Particularly environments of higher dispersion but where that higher dispersion does not equate to proportionally higher transaction costs, are good environments for more dynamism.

'*A bigger role for active strategies*' also highlighted the benefits of a more dynamic approach. This is not about simply churning the portfolio. Recent academic work* shows that the most optimal frequency of investment decision making and skill, volatility and transaction costs. It is important to make investment decisions with transaction costs in mind – especially when greater dispersion coincides with higher transaction costs. Greater dynamism can be most impactful during periods of high dispersion and low transactions costs – something a skilled active manager could help navigate.

* "Long Term Investing and the Frequency of Investment Decisions" by R.J.M. van Loon in The Journal of Portfolio Management. August 2021.

Our key takeaways

01 Volatility is higher across bonds

More license to take active risk could be rewarded.

02 Active risk-taking in bonds can be efficiently rewarded

We find that active strategies in bonds have some of the highest information ratios.

03 More dynamic strategies could outperform

But it’s important for investors to balance the frequency of investment decisions with transaction costs.

FEKM0925E/S-4857654-4/6
MKTGM0925E/S-4857859-4/6

Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Important Information

This material is for distribution to Professional Clients (as defined by the Financial Conduct Authority or MiFID Rules) only and should not be relied upon by any other persons.

In the UK and Non-European Economic Area (EEA) countries: this is Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

In the European Economic Area (EEA): this is Issued by BlackRock (Netherlands) B.V. is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded.

In Italy: For information on investor rights and how to raise complaints please go to https://www.blackrock.com/corporate/compliance/investor-right available in Italian.

For investors in Dubai (DIFC)

BlackRock Advisors (UK) Limited - Dubai Branch is a DIFC Foreign Recognised Company registered with the DIFC Registrar of Companies (DIFC Registered Number 546), with its office at Unit L15 - 01A, ICD Brookfield Place, Dubai International Financial Centre, PO Box 506661, Dubai, UAE, and is regulated by the DFSA to engage in the regulated activities of 'Advising on Financial Products' and 'Arranging Deals in Investments' in or from the DIFC, both of which are limited to units in a collective investment fund (DFSA Reference Number F000738).

For investors in Israel

For investors in Israel: BlackRock Investment Management (UK) Limited is not licenced under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995 (the "Advice Law"), nor does it carry insurance thereunder.

For investors in Switzerland

For Investors in Switzerland: For Qualified Investors only. This document is marketing material. This document shall be exclusively made available to, and directed at, qualified investors as defined in Article 10 (3) of the CISA of 23 June 2006, as amended, at the exclusion of qualified investors with an opting-out pursuant to Art. 5 (1) of the Swiss Federal Act on Financial Services ("FinSA"). For information on art. 8 / 9 Financial Services Act (FinSA) and on your client segmentation under art. 4 FinSA, please see the following website: www.blackrock.com/finsa.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

BlackRock.

Risk Warnings

In South Africa, please be advised that BlackRock Investment Management (UK) Limited is an authorized financial services provider with the South African Financial Services Board, FSP No. 43288. In the Kingdom of Saudi Arabia, issued by BlackRock Saudi Arabia, authorised and regulated by the Capital Market Authority (License Number 18- 192-30). Registered office: 7976 Salim Ibn Abi Bakr Shaikan St, 2223 West Umm Al Hamam District Riyadh, 12329 Riyadh, Kingdom of Saudi Arabia, Tel: +966 11 838 3600. CR No, 1010479419. For your protection telephone calls are usually recorded. Please refer to the Capital Market Authority website for a list of authorised activities conducted by BlackRock Saudi Arabia. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock. In the United Arab Emirates this material is only intended for Professional Investors. Neither the DFSA or any other authority or regulator located in the GCC or MENA region has approved this information. In the State of Kuwait, those who meet the description of a Professional Client as defined under the Kuwait Capital Markets Law and its Executive Bylaws. In the Sultanate of Oman, to sophisticated institutions who have experience in investing in local and international securities, are financially solvent and have knowledge of the risks associated with investing in securities. In Qatar, for distribution with pre-selected institutional investors or high net worth investors. In the Kingdom of Bahrain, to Central Bank of Bahrain (CBB) Category 1 or Category 2 licensed investment firms, CBB licensed banks or those who would meet the description of an Expert Investor or Accredited Investors as defined in the CBB Rulebook. In Turkey, this information contained in this document is intended strictly for Central Banks and Sovereign Investors only.

BlackRock.