

The BlackRock logo is displayed in white text on a black background. The background of the entire slide is a photograph of a complex, geometric structure made of many overlapping, curved, reddish-orange metal beams, creating a dense, lattice-like pattern. The lighting is warm, highlighting the metallic texture and the interlocking nature of the structure.

BlackRock

A durable foundation

How bond ETFs are powering a portfolio evolution and fixed income revolution

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Key takeaways

Today's yield environment offers investors a generational opportunity just as the portfolio demands on fixed income broaden. With yields meaningfully higher across global fixed income markets, bonds are positioned to potentially deliver attractive income and total return. At the same time, portfolios increasingly rely on fixed income to help manage volatility and liquidity and support disciplined rebalancing, making this moment uniquely important for strategic allocation decisions.

Bond ETFs are no longer just beta building blocks.

They have become the essential infrastructure of modern portfolio construction, providing structural benefits that extend beyond what single securities can provide. As the bond market has become more digitised and indexable, ETFs have evolved into scalable, transparent and liquid tools that unify indexed and active strategies within a single ecosystem.

As portfolios expand into private markets, digital assets, and thematic exposures, fixed income allocations become even more important for today's portfolios.

This portfolio evolution introduces different liquidity and volatility characteristics, placing greater structural demands on the core of the portfolio. Fixed income is no longer just a diversifier; it is a liquidity engine, an income anchor and a stabilising force that helps innovation elsewhere in the portfolio to function without compromising resilience.

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Fixed income has been undergoing a quiet but profound revolution.

What began in the early 2000s with the introduction of bond ETFs has steadily transformed into something far more consequential. Over the past two decades, the fixed income market itself has modernised — becoming more digitised, more transparent, more indexable and more scalable. Electronic trading has expanded, data quality has improved, and portfolio construction tools have advanced. This structural progress has not always made headlines, but it has fundamentally reshaped how investors access and use bonds.

Today, that progress may be reaching an inflection point.

The yield environment has meaningfully reshaped the opportunity set. Across many segments of global markets, income levels are at multi-year highs, restoring fixed income's capacity to serve not only as a source of resilience, but also as a driver of both income and total return.

Bond ETFs may be the clearest expression of this revolution. Once viewed primarily as tactical liquidity tools, they have matured into core portfolio building blocks. They connect the depth and diversity of global bond markets with the efficiency, transparency and tradability that modern portfolio management demands. While adoption has accelerated significantly, indexed strategies still represent less than 5% of global bonds outstanding¹ — highlighting the potential for further structural growth.

Importantly, bond ETFs are no longer simply vehicles for accessing fixed income; they can serve as central tools that help enable the rest of the portfolio to function. As investors expand into private markets, digital assets and less liquid exposures, the need for reliable income, daily liquidity, disciplined rebalancing and scalable risk management becomes more acute. Bond ETFs sit at the center of that framework.

Innovation across asset classes will continue. Portfolios will likely grow more complex. But the quiet revolution of fixed income — and the continued advancement of bond ETFs — can be what provides the structural foundation that allows portfolios to endure.

While headlines often focus on what is new, portfolios ultimately depend on a durable foundation.

Portfolio transformation demands fixed income discipline

The expanding portfolio landscape

Portfolios are undergoing a structural transformation. Never before have investors had such broad, efficient access to new asset classes — from private markets to digital assets — reshaping the opportunity set and expanding portfolio complexity.

The modern allocation framework is no longer a simple balance between equities and bonds; it is a multi-dimensional architecture spanning public and private exposures, liquid and illiquid strategies, traditional and alternative potential return streams.

Yet amid this expansion, a critical question emerges: what helps hold the portfolio together? Fixed income can no longer be sized merely as a counterweight to equity risk. Its role has evolved. Today, fixed income can simultaneously support liquidity needs, anchor potential income generation, help enable disciplined

rebalancing, and offer a means to manage portfolio volatility across shifting market regimes.

Importantly, an expanded role coincides with a materially improved starting point. As of February 2026, approximately **60% of global fixed income assets yield above 4%**, compared to less than 20% in 2019², meaning income has re-emerged as a significant contributor to potential total return and portfolio stability.

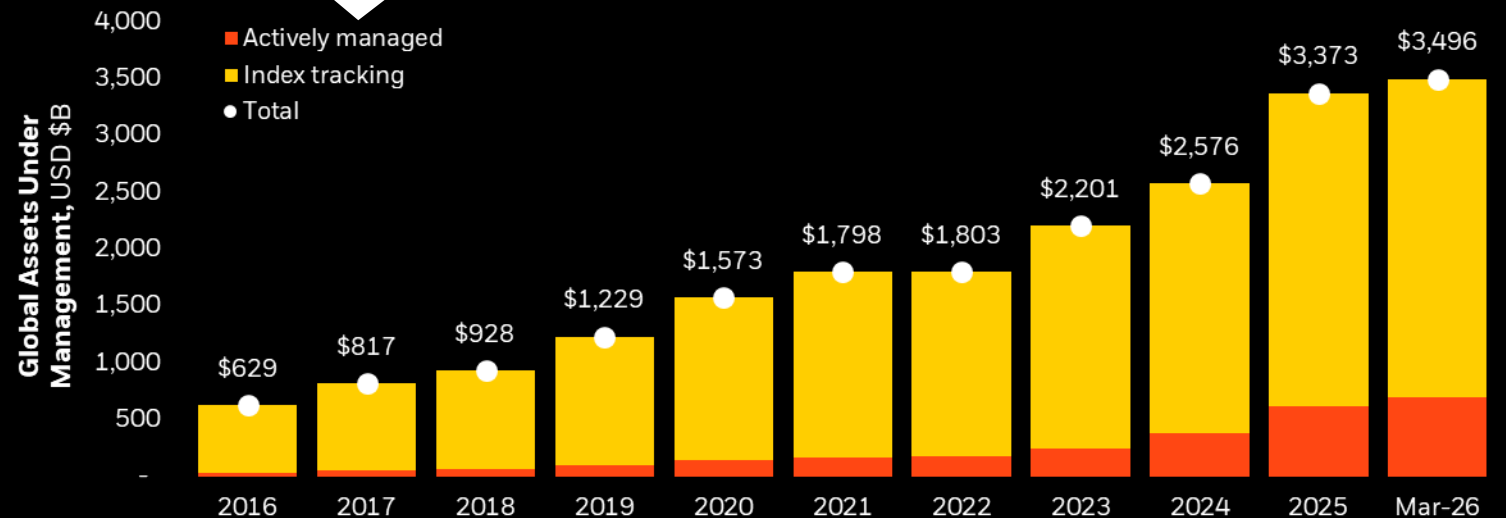
Modern Fixed Income, Delivered Through ETFs

This transformation in portfolio construction comes alongside a transformation in fixed income markets themselves. Once considered opaque, dealer-driven and operationally cumbersome, the bond market is now increasingly digitised, transparent

and indexable. Electronic trading has expanded significantly, data quality has improved, and indexing has transformed millions of individual CUSIPs into coherent, investable building blocks.

At the center of this modernisation stands bond ETFs. Now representing more than **\$3 trillion in assets globally**, with \$669 billion in flows in 2025 alone, exceeding the combined total of 2022 and 2023, and as of March end in 2026, flows are nearly 30% higher than they were in the first quarter of 2025³. Bond ETFs have translated the scale and breadth of the bond market into tradable, transparent and operationally efficient exposures. What began as a tactical liquidity tool has matured into a strategic allocation vehicle used by institutions, advisers and wealth investors worldwide.

Global bond ETF assets have more than doubled since 2020, to over \$3 trillion today



Source: BlackRock Global Business Intelligence as of March 31, 2026.

Bond ETFs sit at the intersection of two defining transformations: the expansion of portfolio complexity and the modernisation of fixed income market structure. On one side, portfolios are incorporating more illiquid, volatile and differentiated return streams. On the other, fixed income markets have become more transparent, indexable and technologically enabled. Bond ETFs connect these shifts — providing the scalable liquidity, income precision and implementation efficiency that can support increasingly sophisticated portfolios.

As a result, bond ETFs may be uniquely positioned to serve the expanded role that fixed income can play within modern portfolios.

The ongoing journey in fixed income indexing

Fixed income indexing has evolved steadily alongside the modernisation of bond markets. Early bond indices emerged in the 1970s, tracking narrow sets of government and corporate securities. The launch of the Global Aggregate Index in 1990 marked a major inflection point, broadening benchmark exposure to encompass the core investment grade market, including securitised assets.

Subsequent expansions, such as the U.S. Total Bond Market Index in 2025, have continued to widen the opportunity set, reflecting a more complete and investable view of global bond markets that now spans nearly \$40 trillion across government, corporate, securitised, inflation linked, and floating rate segments.⁴

Bond ETFs have been instrumental in translating this growing index breadth into practical portfolio building blocks, offering investors efficient, transparent, and scalable access to diversified fixed income exposures that would be difficult to assemble and maintain through individual securities alone.

The rest of this paper examines several defining trends shaping investor behaviour today. Across each theme, a consistent conclusion emerges: as portfolios evolve, fixed income can be foundational, and bond ETFs have become more integral to how it is accessed, implemented and managed.

1. Elevated cash balances

2. The demand for income helping drive the rise of active and systematic fixed income ETF strategies

3. Expanding private market allocations

4. Accelerating digital asset exposure



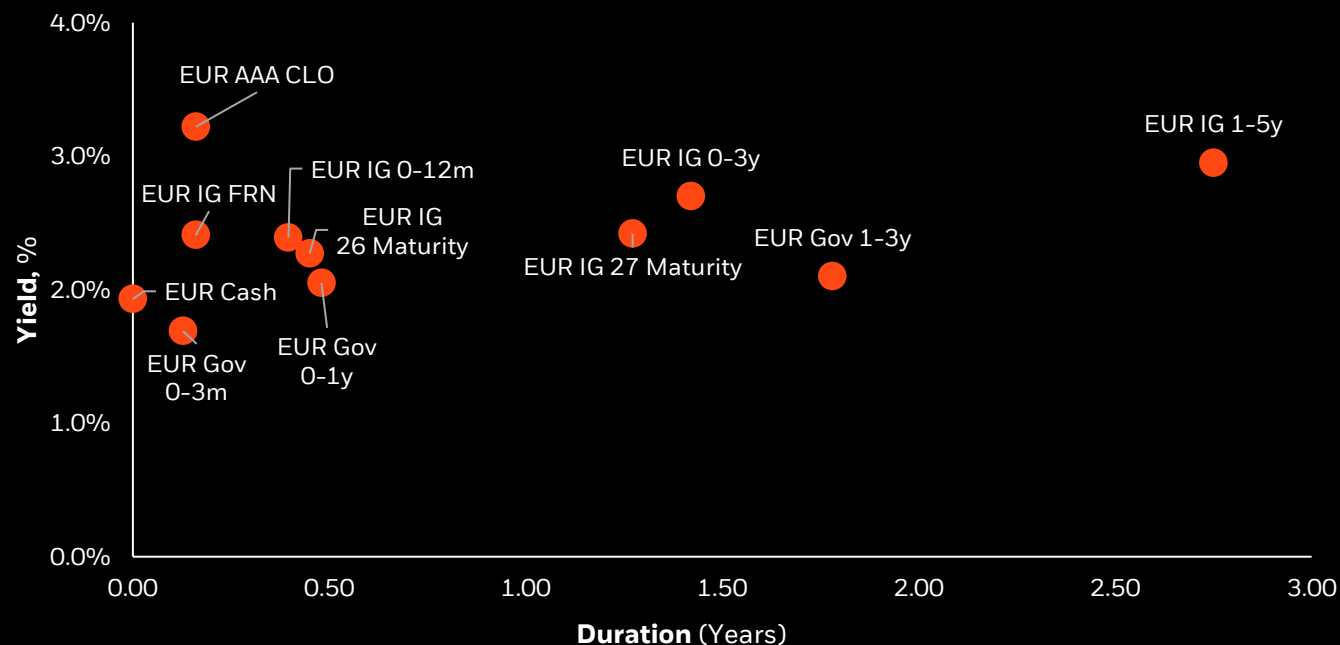
Cash has been rising – but so has opportunity cost

Global cash allocations have reached historic highs. By year-end 2025, global money market balances climbed to nearly **\$12 trillion**, adding more net new assets than any other asset class in the past 3 years, and growing more than 2X in the last decade.⁵ While elevated policy rates and macro volatility have incentivised defensive positioning, the rise in cash appears to be more than cyclical. As capital markets deepen and expand, structural liquidity pools will likely grow alongside them, suggesting that elevated cash balances may persist even as conditions normalise.

For investors seeking to redeploy excess liquidity while managing risk, bond ETFs, particularly short duration and fixed maturity bond ETFs such as iBonds® ETFs, may offer a scalable bridge. These vehicles can provide incremental yield pickup and the ability to access today's still-elevated rates, while maintaining daily liquidity and flexibility.

Bond ETFs to help manage excess cash allocations

Duration vs Yield to Maturity of select fixed income market segments



Source: Source: BlackRock, as of 27/02/2026.

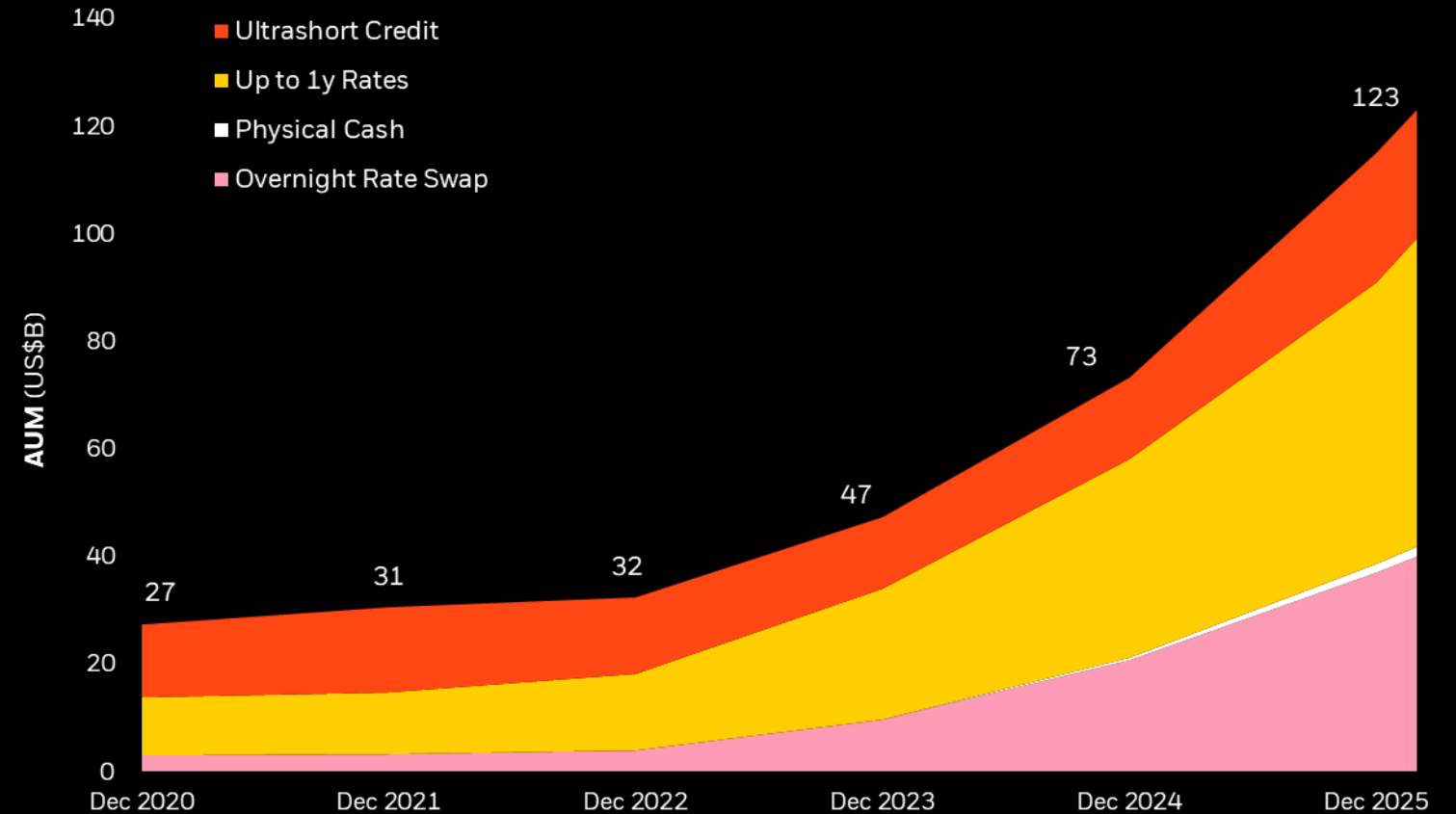
The above data is for fixed income indices representing each area of the market. Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. EUR Cash is represented by € STR as of 27/02/2026. Fixed income indices used – EUR IG 0-12m : Markit iBoxx EUR Liquid Investment Grade Ultrashort Index, EUR Gov 0-3m: ICE 0-3 Month Euro Government Bill Index, EUR Gov 01-y: BBG Euro Short Treasury Index, EUR IG FRN: Bloomberg MSCI EUR FRN Corporate 3% Issuer Cap Bond Sustainable SRI Index, EUR IG 0-3y: Bloomberg MSCI Euro Corporate 0-3 ESG SRI Index, EUR Gov 1-3yr: BBG EU Term 1-3 Year Index, EUR IG 26 Maturity: Bloomberg MSCI December 2026 Maturity EUR Corporate ESG Screened Index, EUR IG 1-5y: BBG Euro Corp 1-5 Yrs, EUR IG 27 Maturity: Bloomberg MSCI December 2027 Maturity EUR Corporate ESG Screened Index, EUR AAA CLO: JPM European CLOIE AAA Index.

As front-end rate volatility remains elevated, cash can also be viewed as a source of return and sometimes a deliberate strategy to side-step short-term rate duration risk. Money market, overnight rate swap and ultra short credit ETFs are increasingly used to capture available yield while preserving flexibility to deploy capital when opportunities arise. Optimising “dry powder” through appropriate cash management tools and ETFs can help reduce the performance drag of idle cash, which can be meaningful relative to previous periods pre-2022, when yields were close to or below zero.

In an environment where cash has grown both tactically and structurally, the opportunity cost of remaining sidelined has been rising. For some investors, bond ETFs may offer an efficient path from idle liquidity toward more durable total return potential.

ETFs used as cash management tools have become a major category

AUM growth in UCITS ETFs used as cash management tools



Source: BlackRock Global Business Intelligence as of February 27, 2026

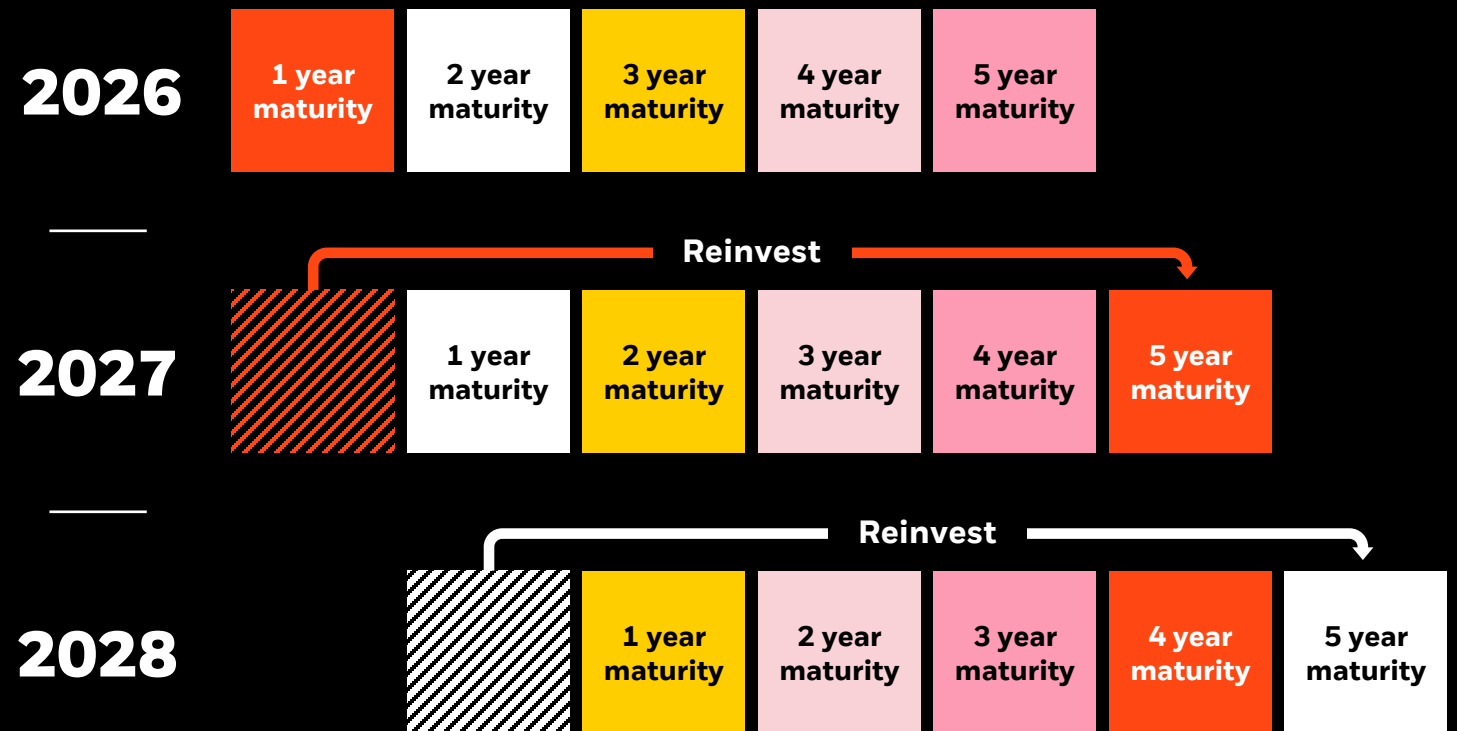
Term maturity bond ETFs

Term Maturity bond ETFs such as iShares iBonds® ETFs allow investors to seek today's yields with a stated, defined maturity, similar economically to term deposits but with the ability to trade out of the exposure before maturity.

By holding a diversified portfolio of bonds that mature in a specific calendar year, iBonds ETFs seek to provide regular income distributions along the way and return proceeds at maturity — similar to individual bonds, but with the efficiency and liquidity of an ETF. iBonds ETFs can be particularly attractive for investors sitting in cash instruments who want to increase yield potential and move beyond rollover/ reinvestment risk in T-Bills or money market funds, while still having certainty around the timing of maturing proceeds. iBonds ETFs can help investors put cash to work, seek yields for a known time horizon, and plan for future liquidity needs.

5-year corporate bond ladder

Made easy with term maturity bond ETFs



Source: BlackRock. For illustrative purposes only.



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Beyond traditional beta – seeking income through an expanded fixed income ETF toolkit

In a market where inflation uncertainty, episodic volatility, and shifting rate paths can quickly reprice both duration and credit risk, investor demand has coalesced around a simple goal: **income that is reliable, resilient, and repeatable**. The challenge is that “more income” is often pursued in the least resilient ways, by extending duration into rate-shock risk or by drifting down the credit spectrum into spread-widening risk.

Bond ETFs can help solve this problem not just through low-cost market exposures, but through a broader toolkit of implementation. Active fixed income ETFs remain a minority of ETF fixed-income assets (**20% globally**), yet momentum has accelerated rapidly. Active fixed income ETFs grew \$215B in 2025, capturing **32% of global fixed income ETF flows**⁷, signaling that investors likely want portfolio-manager discretion delivered in an ETF wrapper.

Flexible active bond managers can help to rebalance the income/risk equation. In the Morningstar **EUR Diversified Bond** category, the average effective duration was **~5.5 years** with a **~3.6% yield**⁸, versus the Bloomberg EUR Aggregate Bond Index with **6.2 years** of effective duration and **~2.9% yield**⁹, illustrating how dynamic tilts can potentially support investors to enhance portfolio yield while reducing rate sensitivity.

Active fixed income ETF asset growth

Assets under management, 2016-2026

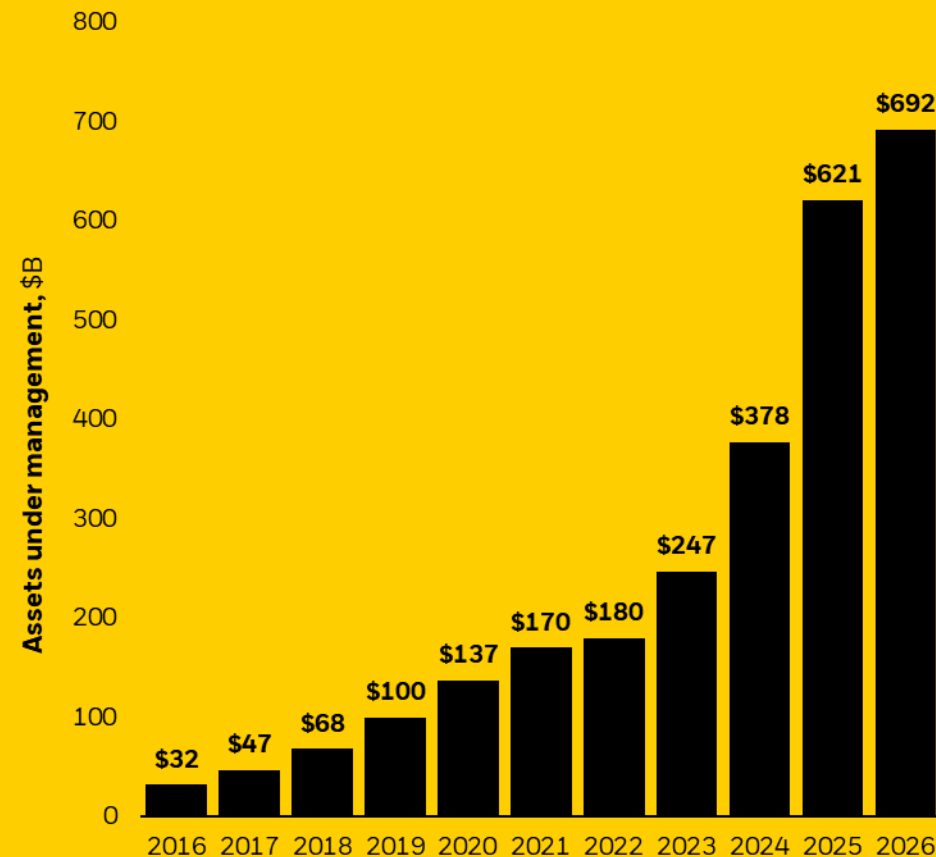


Chart 1 source: BlackRock Global Business Intelligence, as of March 31, 2026.

Rebalancing the income-risk trade-off in fixed income

Duration and yield comparison, Morningstar EUR Diversified Bond category vs Bloomberg EUR Aggregate Bond Index

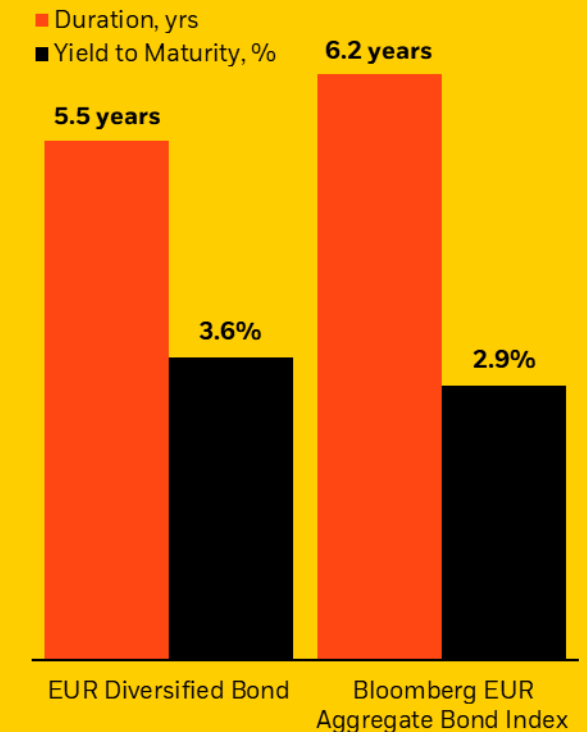


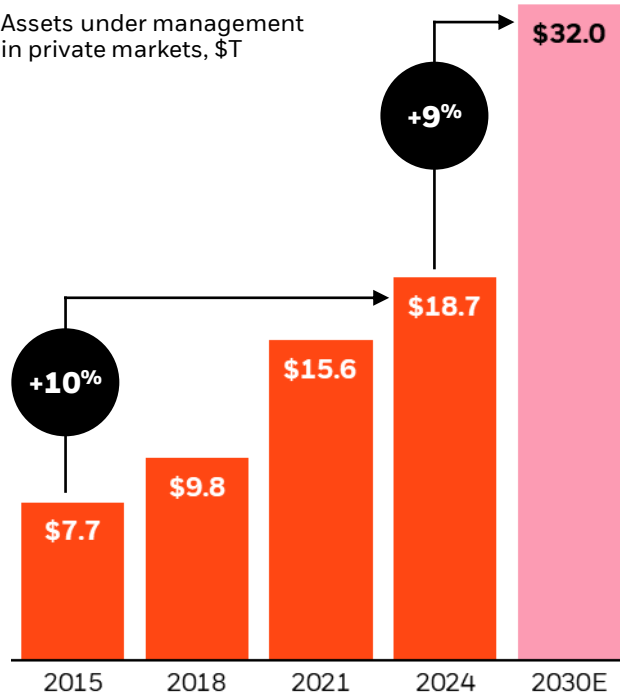
Chart 2 source: BlackRock, Morningstar, as of February 27, 2026. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

Interest in private markets is surging – liquidity must expand to meet investor needs

The adoption of private markets within portfolios has grown in recent years. Once the domain of large institutions, private equity, private credit, infrastructure and private real estate exposures have become increasingly accessible to wealth clients. We estimate investible opportunities across private equity, private credit and privately held infrastructure and real estate will expand to **\$32 trillion by 2030**, up from \$19 trillion today¹⁰.

The pace of private markets adoption has accelerated

Assets under management in private markets, \$T



Source: Prequin, as of October 2025. AUM excludes funds denominated in yuan renminbi. Private capital excludes hedge funds. To avoid double counting, excludes secondaries and fund of funds. % based on annualised growth rate.

This growth reflects a structural shift. Companies are staying private longer, capital formation has increasingly occurred outside public markets, and investors are seeking differentiated sources of return and income. For institutional investors, private markets can offer potential return premia and diversification benefits. For wealth portfolios, they present access to new opportunity sets and potential income streams that were previously difficult to reach.

However, expanding private allocations requires thoughtful liquidity management and investor education. Many private assets are designed with longer investment horizons, with capital typically committed for extended periods. Capital calls can create variability in cash flows, and during stress periods when public assets may reprice more quickly than private valuations, portfolio weights can shift mechanically making liquidity management especially important. As portfolios incorporate greater private exposure, maintaining sufficient liquidity becomes an increasingly critical component of overall portfolio construction.

Bond ETFs can play a key role in that liquidity toolkit. Fixed income ETFs have demonstrated steadily expanding trading volumes over time, averaging **\$67 billion a day year-to-date**, up from \$20 billion in 2020, with activity often peaking during periods of market stress, precisely when liquidity is needed most¹¹. Trading volumes rose to \$58 billion during the April 2025 tariff-driven volatility and surged to \$84 billion in March 2026 amid the Iran conflict, versus a \$49 billion daily average for full-year 2025¹². Their exchange-based structure enables intraday trading and price transparency, even when underlying bond markets are strained.

In this way, bond ETFs can serve as a liquid ballast alongside growing private allocations, helping investors maintain flexibility, meet cash flow needs and rebalance portfolios efficiently while participating in the long-term growth potential of private markets.

Global bond ETF industry trading volumes

Rolling 20D average daily volumes, USD \$B



Source: BlackRock, Bloomberg, big xyt as at March 31, 2026. Rolling 20-day average daily volume is the average number of shares traded per day over the 20 trading days ending on the date referenced. Past performance does not guarantee future results. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained.

iShares at the center of Bond ETF liquidity

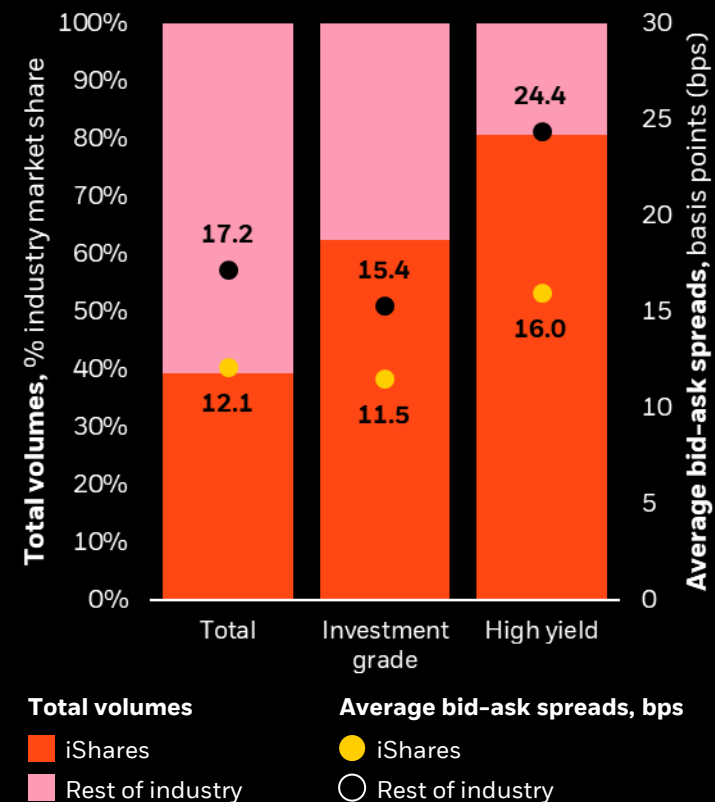
As shown in the chart, in 2025, iShares represented approximately 40% of total global bond ETF trading volume. In key segments such as investment grade, that figure reached as high as 60%, and in high yield, up to 80% of trading activity¹³. Importantly, this scale was achieved while maintaining average bid-ask spreads roughly 25% or more below the broader industry average¹⁴.

The concentration of trading activity in iShares bond ETFs suggests that investors may be increasingly using these vehicles as core liquidity tools — for portfolio rebalancing, tactical positioning, and risk transfer.

Scale, liquidity, and cost efficiency have tended to reinforce one another. The 2025 trading data underscores how investors have turned to iShares fixed income ETFs not simply for exposure, but as part of their broader liquidity management toolkit.

Trading volumes and average bid-ask spreads

Global iShares fixed income ETFs vs industry, 2025 average



Source: BlackRock, Bloomberg, big xyt as of March 31, 2026. Left-hand side represents full year 2025 market share of bond ETF trading volumes for iShares and the rest of the industry. Right-hand side represents full year 2025 average bond ETF bid-ask spreads for iShares and the rest of the industry. An ETF's bid-ask spread is the gap between its trading buy price and sell price, and it represents a basic cost of trading the ETF. **Past performance does not guarantee future results.**



Portfolios with larger allocations to digital assets need broader stabilisers

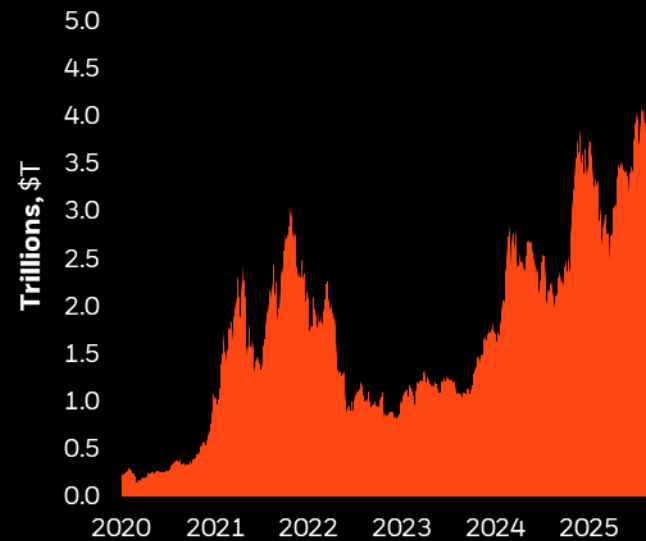
Digital assets have grown as more investors allocate to the asset class. Cryptocurrency assets as one example, have grown rapidly. The total crypto market cap is now **\$2.4 trillion**¹⁵, while ETPs providing access to cryptocurrency have grown from \$4 billion to **\$120 billion** in just 3 years, with now **300+** listed ETPs¹⁶. **>75%** of institutional investors are expected to increase allocations to digital assets and **59%** planned to allocate **>5% of AUM** to cryptocurrencies¹⁷.

Over the last five years ending March 2026, Bitcoin has behaved differently from bonds, with a 0.21 monthly correlation between Bitcoin and the Global Aggregate Bond Index, compared with 0.43 for global equities and bitcoin.¹⁸ Balancing Bitcoin allocations with bonds can therefore help to balance overall performance across different market conditions.

Bond ETFs can help mitigate the impact of market downturns by ensuring diversified duration/credit exposure across a range of bonds, while consolidating exposure into a single vehicle to simplify investment, and the ability to efficiently rebalance. When allocations drift, bond ETFs can allow for rapid and cost-efficient resizing without the need to buy/sell individual bonds.

Growth of digital assets

Market capitalization, USD \$T



Correlations of Bitcoin and traditional assets

Rolling correlations of Bitcoin and Fixed Income, Equity

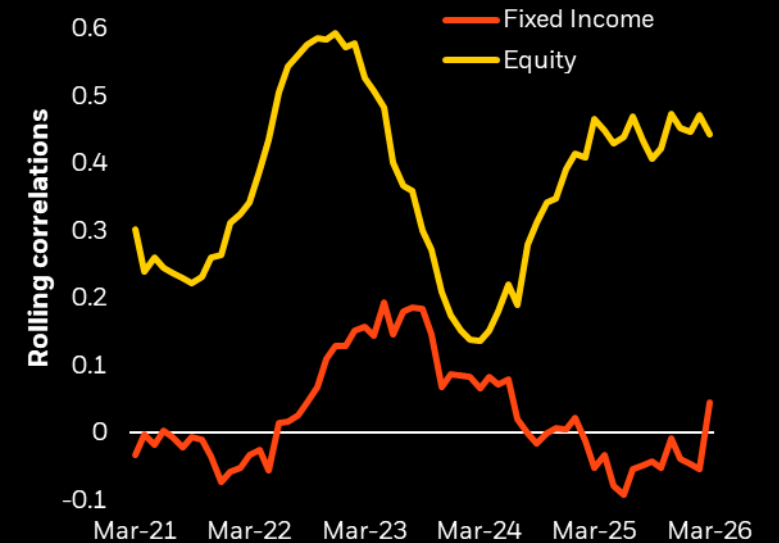


Chart 1 Source: CoinGecko, World Federation of Exchanges, Coinmetrics. Approximate total market cap, including stablecoins, cryptocurrency, and other tokenized assets as of October 2025. Investing in digital assets involves significant risks due to their extreme price volatility and the potential for loss, theft, or compromise of private keys. The value of the shares is closely tied to acceptance, industry developments, and governance changes, making them susceptible to market sentiment. Digital assets represent a new and rapidly evolving industry, and the value of the Shares depends on their acceptance. Changes in the governance of a digital asset network may not receive sufficient support from users and miners, which may negatively affect that digital asset network's ability to grow and respond to challenges. Investing in the Trust comes with risks that could impact the Trust's share value, including large-scale sales by major investors, security threats like breaches and hacking, negative sentiment among speculators, and competition from central bank digital currencies and financial initiatives using blockchain technology. A disruption of the internet or a digital asset network would affect the ability to transfer digital assets and, consequently, would impact their value. There can be no assurance that security procedures designed to protect the Trust's assets will actually work as designed or prove to be successful in safeguarding the Trust's assets against all possible sources of theft, loss or damage.

Chart 2 Source: BlackRock, Bloomberg as of March 31, 2026. Based on Bloomberg Bitcoin Index; Fixed income represented by the Bloomberg US Aggregate Bond Index and Equity represented by the MSCI ACWI Index. Correlation measures how two investments move relative to each other: a positive correlation means they tend to rise and fall together, a negative correlation means one often rises when the other falls, and a zero correlation means their movements are largely unrelated.

Conclusion

Many modern portfolios are broader, more complex, and have different liquidity characteristics than in the past. Innovation will continue to expand the frontier of asset allocation, yet as portfolios evolve, the integrity of the core becomes more important.

Fixed income has moved from serving as a balancing allocation to forming the infrastructure that can support the entire portfolio. Bond allocations must serve to anchor portfolio income, support liquidity management and provide portfolio resiliency across macro regimes.

Fixed Income ETFs have emerged as the central implementation mechanism for powering this

evolution — translating the modernisation of fixed income markets into scalable, transparent and efficient portfolio tools. Indexed bond ETFs form the structural core, while alpha seeking, exposure and outcome-oriented active ETFs extend access and enhance flexibility for potentially higher returns.

Innovation will likely continue. Asset classes will likely evolve. But portfolios will likely endure when they are built on durable foundations. In the modern allocation framework, fixed income ETFs are not simply a component of the portfolio — they serve as the foundation to support the evolution in portfolios and the assets within them.



References

1 Source: SIFMA, 2024 Annual Capital Markets Outlook (published July 30, 2025); BlackRock Global Business Intelligence; Simfund; Broadridge data, as of December 31, 2025.

2 Source: BlackRock Investment Institute, with data from LSEG Datastream, February 2026.

3 Source: BlackRock Global Business Intelligence, as of March 31, 2026. Q1 2026 global bond ETF industry flows were \$172 billion vs \$134 billion in Q1 2025.

4. Source: Bloomberg. The Bloomberg U.S. Total Fixed Income Market Index captured \$41tn of the investable bond universe as of March 31, 2026.

5 Source: BlackRock Global Market Intelligence, as of December 31, 2025. Money market balances reached \$11.8T in 2025 compared with \$4.9T in 2015. Flows into money market funds between 2022-2025 totalled \$3.0T vs \$2.9T for Fixed Income managed assets.

6 Source: BlackRock, Bloomberg, ECB. Cash represented by Bloomberg Euro Treasury Bills Index; EUR Gov bonds represented by Bloomberg Euro-Aggregate: Treasury Index; EUR Agg bonds represented by Bloomberg Euro-Aggregate Index; EUR IG Short duration corporate bonds represented by ICE BofA 1-5 Year Euro Corporate Index. Average 1yr total returns for the post-rate hike periods 30/11/2000-30/11/2001, 30/09/2008-30/09/2009, 30/06/2011-30/06/2012, 30/06/2024-30/06/2025. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

7 Source: BlackRock Global Business Intelligence, as of March 31, 2026.

8 Source: BlackRock, Morningstar, as of February 27, 2026. **Past performance is not indicative of future results.**

9 Source: BlackRock, Bloomberg as of February 27, 2026. Effective duration measures the average price sensitivity of the fund to a parallel change in interest rates. Index performance is for illustrative purposes only. **Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

10 Source: Source: Preqin data, as published in "Private Markets in 2030" in October 2025. Private equity is inclusive of venture capital. The model has leveraged Preqin's closed-end fund dataset. Given that Preqin coverage of the open-ended fund universe is not yet suitable for modelling, BlackRock provided a top-down estimate of the private credit Business Development Company (BDC) universe. Business Development Companies (BDCs) are publicly traded investment companies that provide loans to small and mid sized U.S. businesses. Preqin added that estimate to the overall forecast to provide better context for the growth of the overall asset class. Although Preqin acknowledges that other fund structures, such as European long-term investment funds (ELTIFs) and long-term asset funds (LTAFs), are an important part of the growth story, Preqin is not yet incorporating these vehicles into forecasts – which may represent additional upside risk to our view. Note that, as a result, Preqin does not have corresponding forecasts for BDC fundraising and performance. There is no guarantee that any forecasts made will come to pass.

11, 12 Source: BlackRock, Bloomberg, big xyt as of March 31, 2026.

13, 14 Source: BlackRock, Bloomberg, big xyt as of March 31, 2026. 2025 Total Fixed Income ETF Trading Volume was \$12.8T, of which iShares made up \$5.0T. iShares average spreads were 12bps, vs competitors at 17bps. Investment Grade volumes totalled \$1.9T of which iShares was \$1.2T. iShares average spreads were 12bps, vs competitors at 15bps. High Yield volumes totalled \$1.3T of which iShares made up \$1.0T. iShares average spreads were 16bps, vs competitors at 25bps. Past performance does not guarantee future results.

15 Source: TradingView, as at March 31, 2026.

16 Source: BlackRock Global Business Intelligence, as of March 31, 2026.

17 Source: Coinbase & EY Parthenon Institutional Investor Digital Assets Survey, Jan 2025. Survey findings are based on responses from 352 institutional investors. <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-us/insights/financial-services/documents/ey-growing-enthusiasm-propels-digital-assets-into-the-mainstream.pdf>

18 Source: BlackRock, Bloomberg as of March 31, 2026. Based on Bloomberg Bitcoin Index; Bloomberg US Aggregate Bond Index and MSCI ACWI Index.

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