

Views from the LDI Desk



Capturing Credit Opportunities Through Trigger-Based Strategies

Recent discussions with clients have highlighted growing interest in **trigger-based credit investment strategies**. While current credit valuations remain relatively rich by historical standards, investors face a trade-off between waiting for potentially more attractive entry points and capturing the income available from credit markets today.

For investors seeking to establish or increase their Buy and Maintain (B&M) allocation, this raises an important implementation question: **how should capital be deployed if spreads widen?**

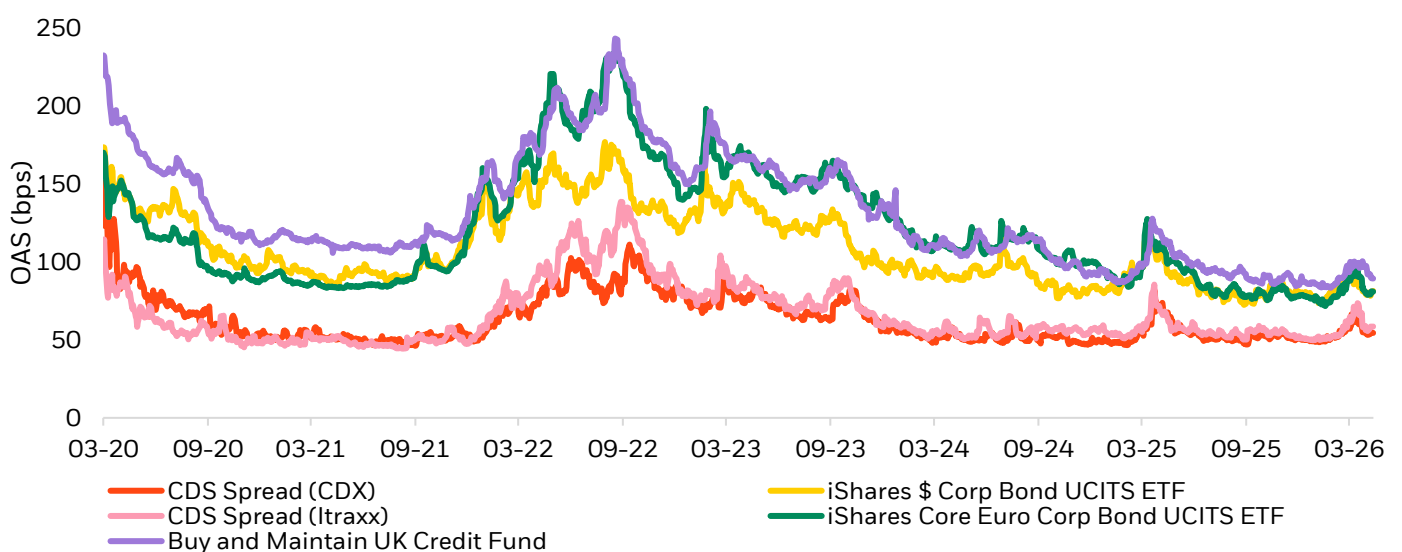
As shown below, periods of spread widening have occurred periodically across both cash and synthetic credit markets, but these episodes have often been sharp and relatively short-lived. For investors intending to allocate to a long-term Buy and Maintain strategy, attractive entry points may emerge and disappear more quickly than capital can be deployed into a fully invested portfolio.

This creates a need for a **more systematic approach**. By defining in advance the **spread levels at which they would be willing to add exposure**, and identifying the instruments that can be deployed efficiently when those levels are reached, investors can balance the opportunity cost of remaining uninvested against the desire to allocate capital at more attractive valuations.

This paper explores how investors can implement trigger-based credit allocation strategies using CDS indices, ETFs and option-based structures to capture opportunities arising from credit spread widening.

Long-Term Evolution of Credit Spreads and Credit ETFs

Credit spread widening episodes have historically been sharp and short-lived, highlighting the importance of having a pre-defined implementation framework.



Source: Bloomberg, BlackRock as of 27th April 2026

[blackrock.com](https://www.blackrock.com)

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Choosing the Right Implementation Route

As the previous chart highlights, the Buy and Maintain UK Credit Fund demonstrates that attractive entry points for long-term credit investors have often coincided with brief periods of market dislocation, reinforcing the need for a pre-defined implementation framework.

This paper considers two broad approaches to implementing such a framework. The first is a **monitoring-based approach**, where investors track both synthetic credit markets, such as iTraxx and CDX indices, and physical credit proxies, such as large, liquid corporate bond ETFs. If spreads reach a pre-agreed level, the investor can **either sell protection on a CDS index or buy corporate bond ETF exposure**, depending on which market offers the more attractive entry point.

The second is a more **systematic option-based approach**, where the investor sells an out-of-the-money payer option on a CDS index. Allowing the investor to earn an option premium while spreads remain tight, while accepting the obligation to become long credit if spreads widen beyond a pre-defined level.

The central point is that no single implementation route is universally optimal. CDS indices and credit ETFs can move differently, particularly during periods of market stress, because of liquidity conditions, investor flows, dealer balance-sheet constraints and the CDS-cash basis.

Understanding these differences can help inform the evaluation of potential implementation approaches, including CDS indices, ETFs and option-based structures, ahead of a transition into a B&M portfolio.

How to Add Credit Exposure if Spreads Widen

CDS Indices and ETFs as Trigger-Based Implementation Tools

A monitoring-based approach uses **liquid** market instruments as implementation tools once pre-agreed spread triggers are reached. In this paper, we compare synthetic exposure through **CDS** indices with physical exposure through large, liquid corporate bond **ETFs**.

For European and US investment-grade credit, the relevant CDS indices are iTraxx and CDX. For physical exposure, representative ETF proxies include the iShares Core € Corp Bond UCITS ETF and the iShares \$ Corp Bond UCITS ETF. These instruments can generally be traded quickly and in size, making them potentially suitable for **tactical allocation** when investors want to add broad credit exposure before building the final B&M bond portfolio.

Route	How it works	Why use it	Key considerations
CDS index exposure	<ul style="list-style-type: none"> • Sell protection on a CDS index such as iTraxx or CDX • Gain synthetic long credit exposure 	<ul style="list-style-type: none"> • Fast and scalable access to broad credit beta • Direct exposure to credit spread risk • Useful for tactical positioning 	<ul style="list-style-type: none"> • Requires derivative documentation and collateral management • Exposure is to the index, not the final cash bond portfolio • CDS indices are not available for every market (e.g. GBP IG)
Credit ETF exposure	<ul style="list-style-type: none"> • Buy a liquid corporate bond ETF • Gain diversified physical credit exposure 	<ul style="list-style-type: none"> • Exposure to a diversified portfolio of cash bonds • Operationally simpler for some investors • Useful where no CDS index exists 	<ul style="list-style-type: none"> • Pricing reflects liquidity, flows and rates as well as credit spreads • ETF spreads can diverge from CDS levels
Option-based strategy	<ul style="list-style-type: none"> • Sell an out-of-the-money payer option on a CDS index such as iTraxx or CDX • Receive an upfront premium while spreads remain below the strike • Become long credit exposure if spreads widen beyond the pre-defined trigger level 	<ul style="list-style-type: none"> • Monetises the waiting period through option premium income • Provides disciplined access to credit exposure at a targeted spread level • Reduces the need for continuous market monitoring 	<ul style="list-style-type: none"> • Requires derivatives documentation and collateral management • Option liquidity and pricing can vary across markets and maturities

Although CDS indices and ETFs both provide access to broad credit beta, they are **structurally different**. CDS indices are derivative contracts that provide direct exposure to changes in credit spreads. ETFs hold portfolios of physical bonds, so their pricing is influenced not only by credit risk, but also by underlying bond liquidity, duration, ETF flows and any premium or discount to net asset value. In addition, **CDS indices are unfunded instruments** requiring only margin and collateral posting, whereas **ETF exposure is funded** and therefore depends on cash availability or financing conditions such as repo.

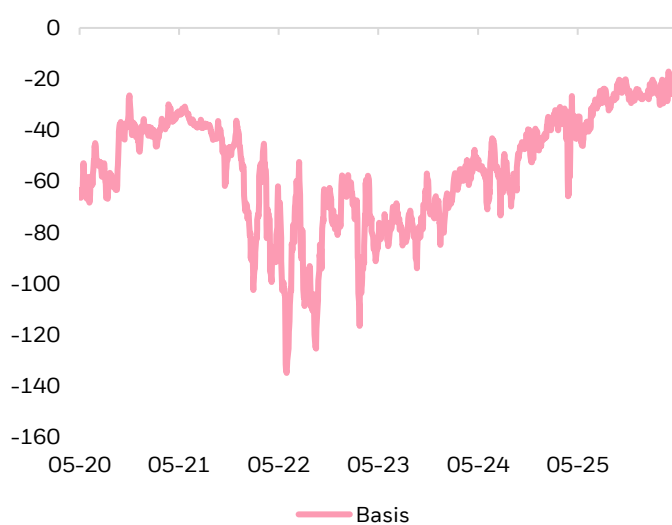
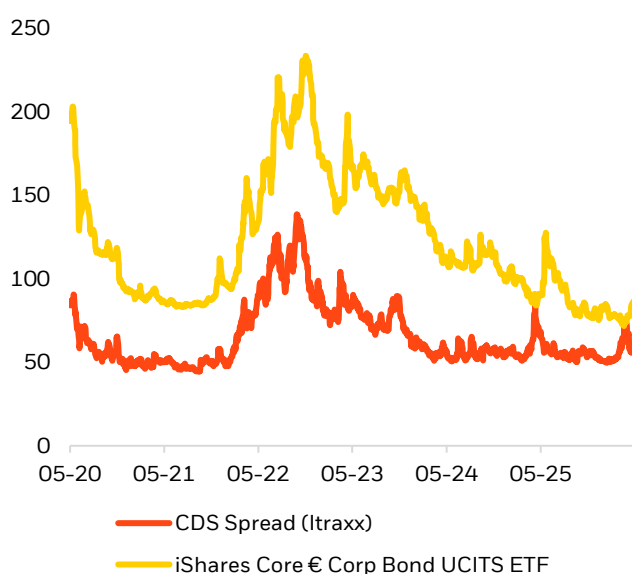
This difference gives rise to the CDS-cash basis, meaning the spread differential between **synthetic credit exposure and physical credit exposure**. As shown in Figure 1, CDS and ETF spreads generally move in the same direction, but the level and speed of adjustment can differ materially.

At some points, CDS may offer the more attractive entry level; at others, physical credit spreads may be wider and therefore more attractive.

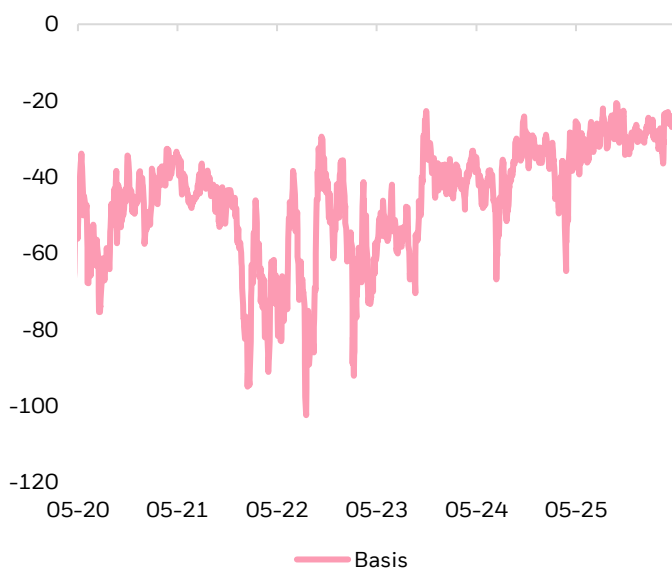
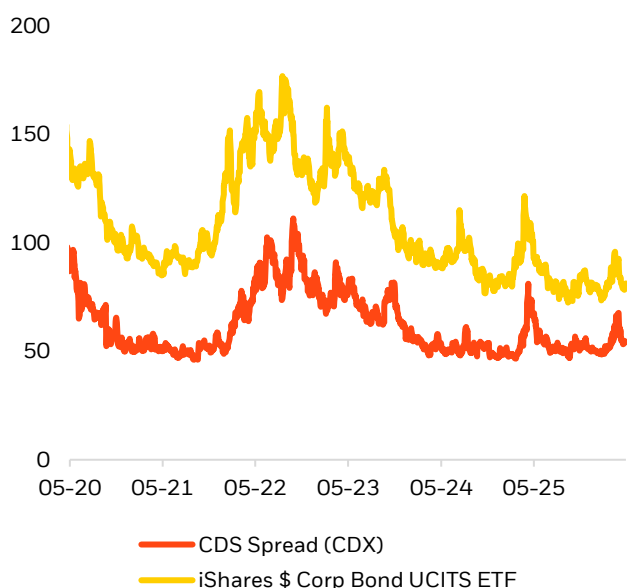
Figures below illustrate this relationship across European and US credit markets.

For investors using a trigger-based allocation framework, this distinction matters. A trigger based only on CDS spreads may miss periods when cash credit or ETFs offer more **attractive valuations**. Conversely, a trigger based only on ETF spreads may miss opportunities in the synthetic market. One consideration for investors is that CDS and ETF markets can provide different entry levels at different points in time. As a result, assessing both markets may help inform implementation decisions when trigger levels are reached.

Spread moves comparison: iShares Core € Corp Bond UCITS ETF spread vs CDS spread (bps)



Spread moves comparison: iShares \$ Corp Bond UCITS ETF spread vs CDS spread (bps)



Source: Bloomberg as of 27th April 2026.

blackrock.com

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Systematic option-based approach: selling CDS index payer options

A second way to implement a widening-spread trigger is through an **option-based structure**. Rather than simply waiting for spreads to reach a target level, the investor can sell an out-of-the-money payer option on a CDS index.

In this structure, the strike is set above current CDS spread levels. The investor receives an option premium upfront. If spreads remain below the strike at expiry, the option expires unexercised and the investor retains the premium. If spreads widen beyond the strike, the option is exercised or physically settled, and the investor becomes **economically long credit exposure at the pre-defined wider spread level**.

In practical terms, this converts a discretionary trigger into a **contractual implementation strategy**. Rather than waiting to add credit exposure if spreads widen to a pre-defined level, the investor receives an option premium upfront in exchange for committing to add credit exposure should that level be reached.

A payer option on a CDS index benefits the option buyer if CDS spreads widen. Therefore, the seller of the option is effectively agreeing to provide credit exposure if spreads rise above the strike.

For investors considering adding credit exposure only at wider spreads, such structures may provide one way of expressing that conditional investment preference, although the suitability will depend on individual objectives and constraints.

Total costs of transition into eventual B&M strategy

The tables below show indicative round-trip transaction costs for the illustrative CDS indices and ETFs, reflecting the expected cost of implementing and unwinding each exposure to ultimately transition into a Buy and Maintain strategy.

On initial view, the ETFs typically carry higher transaction costs than CDS indices. While the round-trip transaction costs are an important input, they are only one part of the decision and should be assessed on a case-by-case basis. In particular, in-specie transitions from an ETF into a Buy and Maintain portfolio may help reduce overall costs.

Investors may also be able to exit ETF positions in-kind and work with **authorised participants to transition efficiently into the target portfolio**, whereas CDS exposures would typically incur an additional layer of trading costs when unwound and reinvested.

What also matters is the spread level an investor locks in when adding exposure. To put the entry and exit costs in context, we also report the average and maximum basis. The basis can move substantially over time and, at its widest, can be far larger than the transaction costs shown in the tables.

When the basis is wide, adding exposure via CDS versus an ETF can therefore result in materially different entry spreads.

EUR Exposure	iTraxx IG EUR 5y	iShares Core € Corp Bond UCITS ETF ¹
Approximate Entry & Exit Costs (bid-ask costs, round trip)	0.75 bps	3 bps
Average Basis		- 56 bps*
Maximum Basis		-136 bps*

¹Fund generates c. 2bps of securities lending return p.a.

*During reference period of 10 March 2020 to 10 March 2026

US Exposure	CDX IG NA 5y	iShares \$ Corp Bond UCITS ETF ²
Approximate Entry & Exit Costs (bid-ask costs, round trip)	0.5 bps	8.7bps
Average Basis		- 47 bps*
Maximum Basis		- 103 bps*

²Fund generates c. 1bp of securities lending return p.a.

*During reference period of 10 March 2020 to 10 March 2026

Differences between CDS indices and the key physical indices

Index CDS are standardised, equally weighted baskets of single-name CDS, whereas bond indices underlying ETFs are issuance-weighted and reflect the market value and sector concentration of outstanding bonds. This difference in weighting methodology creates structural divergences in risk exposure even when maturity is matched.

Because bond indices are issuance-weighted, they are influenced by large, frequent borrowers, most notably financial institutions. As illustrated by the sector breakdown, **ETF indices exhibit a meaningfully higher exposure to financials** than their CDS counterparts. In contrast, **CDS indices distribute exposure more evenly** across constituents, limiting the dominance of any single sector.

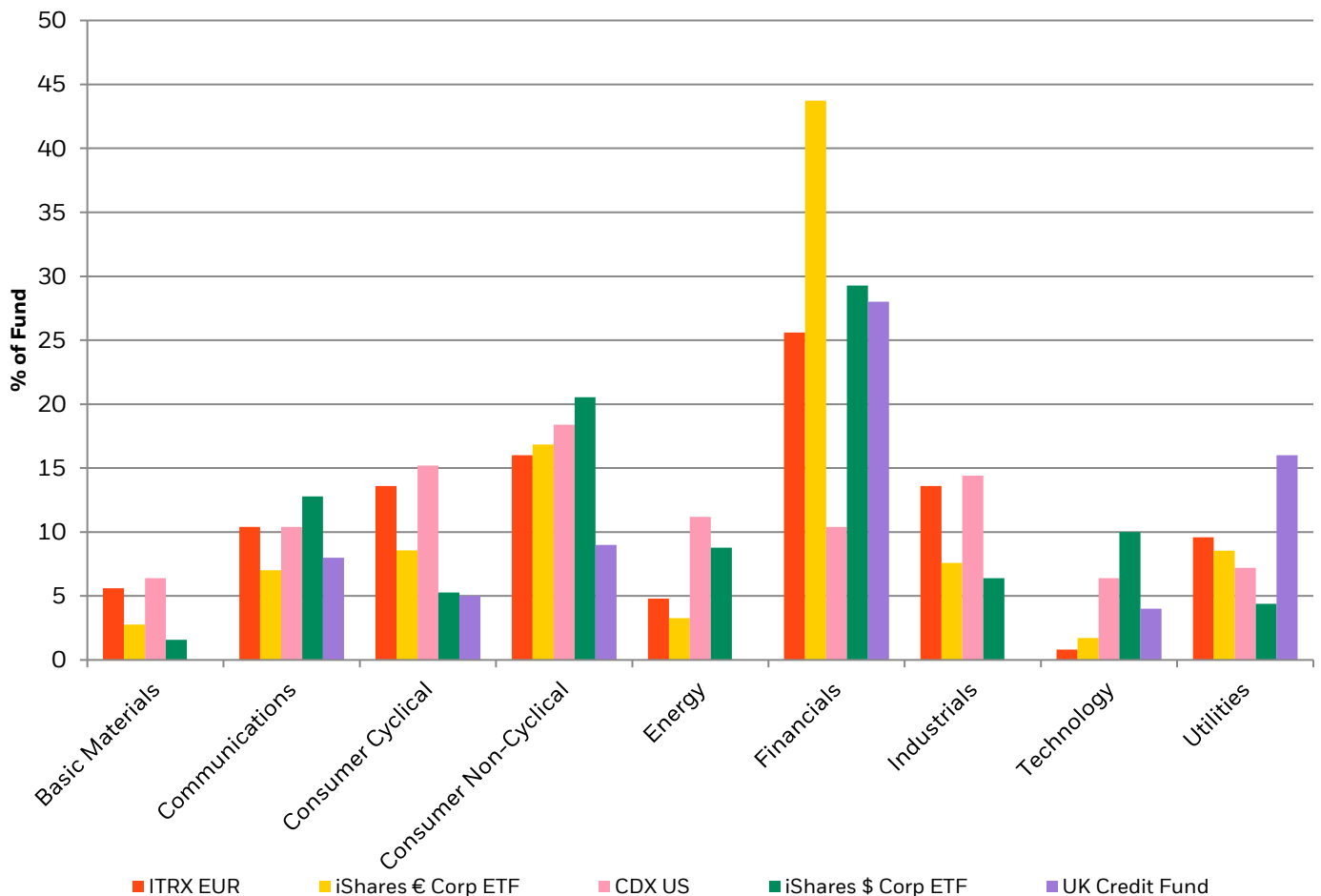
This structural tilt suggests that bond indices may be somewhat **more sensitive** than CDS indices to spread movements in large financial issuers, which may contribute to differences in spread behaviour across instruments.

An important consideration is how this compares with a typical Buy and Maintain portfolio, and whether CDS or ETF exposure is more closely aligned. Segregated Buy and Maintain strategies can generally be constructed with diversification constraints and issuer limits that reflect a client’s objectives. As a point of comparison, we use the **BlackRock Buy and Maintain UK Credit Fund** as a representative example.

The picture is mixed. The sector comparison highlights that the BlackRock Buy and Maintain UK Credit Fund does not map cleanly onto either CDS indices or bond ETFs. While there are areas of overlap, the portfolio retains a distinct sector composition, with differences evident across financials, utilities, technology and consumer sectors. That said, for the largest sector component, financials, ETF exposures may provide a closer match than CDS indices. While financials can exhibit higher spread volatility, they are subject to extensive regulatory constraints, meaning this does not necessarily translate into higher leverage. This suggests that neither CDS indices nor ETF-based exposures should be viewed as a precise match for a typical Buy and Maintain portfolio from a sector-allocation perspective.

Underlying Sector Composition of; iTraxx EUR, iShares Core € Corp Bond UCITS ETF, CDX and iShares \$ Corp Bond UCITS ETF and BlackRock Buy and Maintain UK Credit Fund (%)

Sector Comparison

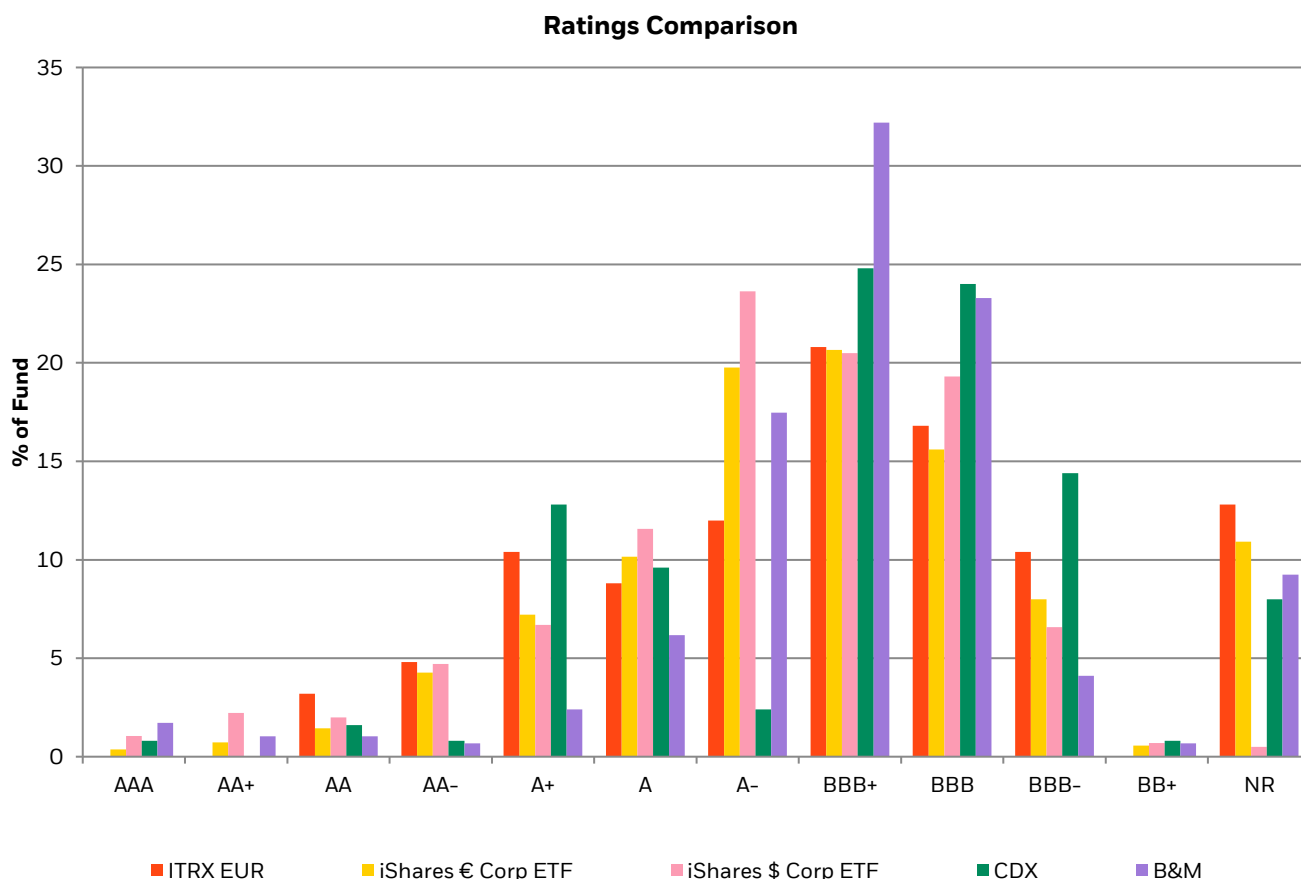


Rating composition further reinforces this divergence. Using S&P credit ratings as a common framework for comparison, the US CDS index and the US iShares index show different rating profiles, with the CDS index having greater representation in the A- and below segment and the iShares index having relatively greater representation in the A- and above segment. These differences may affect how each instrument responds to changes in downgrade expectations.

In comparison, the BlackRock Buy and Maintain UK Credit Fund has a core allocation to BBB+ rated issuers, resulting in a rating profile that slightly differs from both CDS indices and ETF-based exposures.

From this perspective, both CDS indices and ETF-based exposures may differ from a typical Buy and Maintain portfolio in terms of rating composition, albeit in different ways.

Credit Rating Distribution of; iTraxx EUR, iShares Core € Corp Bond UCITS ETF, CDX and iShares \$ Corp Bond UCITS ETF and BlackRock Buy and Maintain UK Credit Fund (%)



Source: Bloomberg (February 2026); Blackrock (31 December 2025).

Liquidity works differently in the two markets. CDS indices such as iTraxx IG EUR and CDX IG are highly standardised and actively traded, so they are often used to express or hedge broad credit risk quickly. Cash bonds tend to be more balance-sheet intensive as dealers must intermediate secondary trading and hold inventory, which can constrain liquidity, especially in stressed conditions.

ETF flows introduce a different liquidity dynamic. Because ETF shares themselves are the tradable instrument, investors can adjust credit exposure by trading the ETF without necessarily buying or selling the underlying bonds. This creates an additional layer of liquidity, which can support price discovery and facilitate the transfer of risk more efficiently than trading in the cash bond market alone.

While primary market creation and redemption activity can still lead to transactions in the underlying bond basket, the ETF structure allows a significant portion of market activity to take place at the fund level rather than being transmitted directly into individual bonds. CDS trading does not require buying or selling the bonds, so **spreads are less directly tied to cash-market trading capacity and flows.**

Funding is another key difference. Holding ETFs requires deploying cash, which in practice may need to be sourced by raising financing (via repo) or by selling other liquid assets such as government bonds. This can introduce an additional layer of balance sheet and funding considerations, particularly when maintaining a broader hedge. By contrast, CDS positions do not require the same upfront cash outlay and instead involve posting variation margin as they are marked to market.

The opinions expressed are as of June 2026 and are subject to change at any time due to changes in market or economic conditions. The above descriptions are meant to be illustrative. There is no guarantee that any forecasts made will come to pass.

Key takeaways for LDI Investors

- 1. CDS indices, ETFs and systematic CDS option triggers can all be effective tools** for gaining credit exposure ahead of a transition into a Buy & Maintain (B&M) strategy. The most appropriate route will depend on market conditions, relative value and operational considerations.
- 2. The choice between CDS and ETFs is not binary.** Movements in the CDS–cash basis can create periods where either synthetic or physical credit offers a more attractive entry point.
- 3. CDS indices may provide a fast and capital-efficient means of accessing broad credit exposure,** particularly during periods of heightened market volatility.
- 4. ETFs offer exposure closer to the cash bond market** and may better reflect the levels at which bonds can ultimately be sourced for a B&M portfolio. They may also facilitate in-specie transitions into physical bonds where feasible.
- 5. Systematic CDS option strategies can complement direct implementation approaches.** Selling out-of-the-money payer options may generate premium income while spreads remain tight and establish exposure if spreads widen beyond a predefined level.
- 6. Each implementation route involves trade-offs.** CDS, ETFs and options can introduce basis risk, liquidity considerations, funding or collateral requirements, and portfolio composition differences relative to the final B&M portfolio.
- 7. When evaluating trigger-based approaches, investors may benefit from assessing CDS levels, ETF spreads and the CDS–cash basis together,** recognising that relative value between implementation routes can change over time.
- 8. A range of implementation approaches may be appropriate depending on client objectives and operational constraints,** including CDS indices, ETFs and option-based structures prior to transitioning into a Buy & Maintain portfolio.

If you would like to learn more about these themes or how they could be applied within your LDI portfolio, please reach out to your usual Client PM contact.

Risks

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.

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.

Buy and Maintain Strategy risk: A buy and maintain investment strategy will normally seek to hold bonds to maturity as part of a flexible low turnover strategy, that is not constrained by a benchmark index allocation. In addition, the strategy seeks to enhance the yield and credit quality of the portfolio on a periodic basis. The successful management of this strategy relies to some extent on the reinvestment of income received by the Fund. In the event therefore that Unitholders choose not to reinvest their income entitlement in the Fund the maturity profile of the Fund may reduce which in turn may impact the overall income generated by the Fund.

iShares Funds

This is Marketing Material. iShares plc, iShares II plc, iShares III plc, iShares IV plc, iShares V plc, iShares VI plc,

And iShares VII plc and iShares Physical Metals plc (together 'the Companies') are open-ended investment companies with variable capital having segregated liability between their funds organised under the laws of Ireland and authorised by the Central Bank of Ireland. The Prospectus (Available in French, German, Polish and English Languages) Key Investor Information document (UK only), PRIIPs KID and further information about the Fund and the Share Class, such as details of the key underlying investments of the Share Class and share prices, is available on the iShares website at www.ishares.com or by calling +44 (0)845 357 7000 or from your broker or financial adviser. The indicative intra-day net asset value of the Share Class is available at <http://deutsche-boerse.com> and/or <http://www.reuters.com>. A UCITS ETF's units / shares that have been acquired on the secondary market cannot usually be sold directly back to the UCITS ETF itself. Investors who are not Authorised Participants must buy and sell shares on a secondary market with the assistance of an intermediary (e.g. a stockbroker) and may incur fees and additional taxes in doing so. In addition, as the market price at which the Shares are traded on the secondary market may differ from the Net Asset Value per Share, investors may pay more than the then current Net Asset Value per Share when buying shares and may receive less than the current Net Asset Value per Share when selling them. Investors should understand all characteristics of the funds objective before investing, if applicable this includes sustainable disclosures and sustainable related characteristics of the fund as found in the prospectus, which can be found www.blackrock.com on the relevant product pages for where the fund is registered for sale. BlackRock and/or the Management Company may terminate marketing at any time. For information on investor rights and how to raise complaints please go to <https://www.blackrock.com/corporate/compliance/investor-right> available in in local language in registered jurisdictions

UCITS HAVE NO GUARANTEED RETURN AND PAST PERFORMANCE DOES NOT GUARANTEE THE FUTURE ONES

iShares \$ Corp Bond UCITS ETF USD

Counterparty Risk, Credit Bail in Risk, Liquidity Risk

iShares Core € Corp Bond UCITS ETF EUR (Dist)

Counterparty Risk, Credit Bail in Risk, Liquidity Risk

Description of Product Risks

Counterparty Risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Share Class to financial loss.

Credit Bail in Risk

The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due. If a financial institution is unable to meet its financial obligations, its financial assets may be subject to a write down in value or converted (i.e. "bail-in") by relevant authorities to rescue the institution.

Liquidity Risk

The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

Counterparty and Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Issuer. The insolvency of any institutions such as the custodian or sub-custodian providing services such as safekeeping of assets may expose the Issuer to financial loss.

Combined Credit and Non-investment Grade Risk

Changes to interest rates, credit risk and/or issuer defaults will have a significant impact on the performance of fixed income securities. Non-investment grade fixed income securities can be more sensitive to changes in these risks than higher rated fixed income securities. Potential or actual credit rating downgrades may increase the level of perceived risk.

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Currency Risk

The Fund invests in other currencies. Changes in exchange rates will therefore affect the value of the investment.

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