

Portfolio Solutions Group

# IS THERE A NEED FOR MORE GLOBAL FIXED INCOME EXPOSURE?

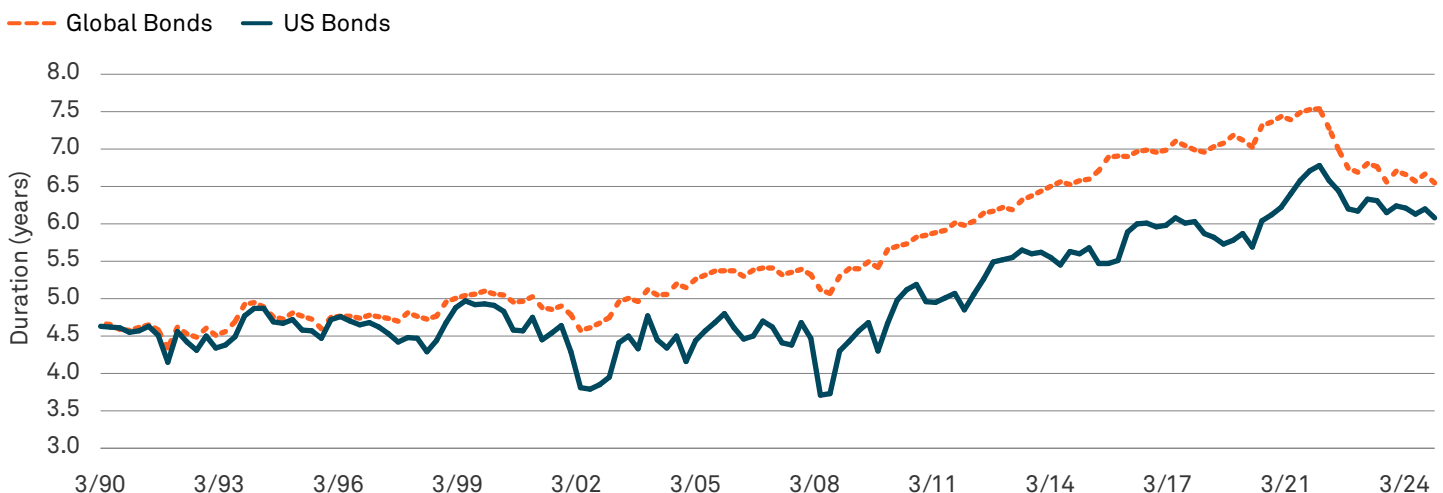
In a continually uncertain investment landscape, investors are likely to seek consistent performance and risk mitigation within portfolios. One area we believe worth exploring in greater detail is global fixed income.

Although the US possesses one of the deepest and most liquid credit markets in the world, there is a whole universe of global fixed income that investors often overlook. We believe this may be a missed opportunity, as trillions of US dollars of debt is issued abroad each year. In fact, approximately 60% of the total bond universe comes from outside the US.<sup>1</sup> Many investors believe in diversifying across the US curve and through different sectors. However, the size of the global bond market, which may offer diversification from the Federal Reserve's interest rate policy, alpha opportunities beyond US bonds, downside risk mitigation and lower volatility, is often ignored or overlooked.

## Duration on the Rise

With the historic low yields post the Global Financial Crisis, many developed country governments and corporate issuers took advantage of the low-yield environment by issuing long-dated bonds.<sup>2</sup> This has resulted in a significant increase in the duration of many fixed income indices. While yields have risen recently, we believe this increase alone has not sufficiently offset the heightened interest rate risk that investors are exposed to — specifically for concentrated positions within any one country, including the US.

### DURATION



Source: Bloomberg, BNY Investments Portfolio Solutions Group as of December 31, 2024. Charts are for illustrative purposes. **Past performance no guarantee of future outcomes.** Global Bonds represented by the Bloomberg Global Aggregate Index. US Bonds represented by the Bloomberg US Aggregate Bond Index.

<sup>1</sup> Source: FactSet as of March 31, 2024. <sup>2</sup> Source: Bloomberg as of December 31, 2024.

Global Fixed Income – Potential Portfolio Diversification

Diversification, a pillar of investing, has different meanings to different investors. In our view, diversification not only includes expanding your investable universe, but it also includes utilizing asset classes that potentially provide offsetting benefits in the form of lower correlations, market betas, or idiosyncratic risk.

Expanding your opportunity set to include global bonds could potentially give additional degrees of freedom to an investment manager to not only find investment opportunities, but to also select securities that are less correlated with one another.

Holding securities that are less correlated with one another may help to mitigate against excess drawdowns – a typical concern that many investors have.

10-YEAR CORRELATION VS US 10-YEAR CONSTANT MATURITY INDEX

US 10-Year Constant Maturity	1.00
US Aggregate Bond TR USD	0.94
US Treasury TR USD	0.97
Canada Aggregate TR CAD	0.82
Eur Aggregate Bond TR EUR	0.58
Sterling Aggregate TR GBP	0.60
Japanese Aggregate TR JPY	0.17

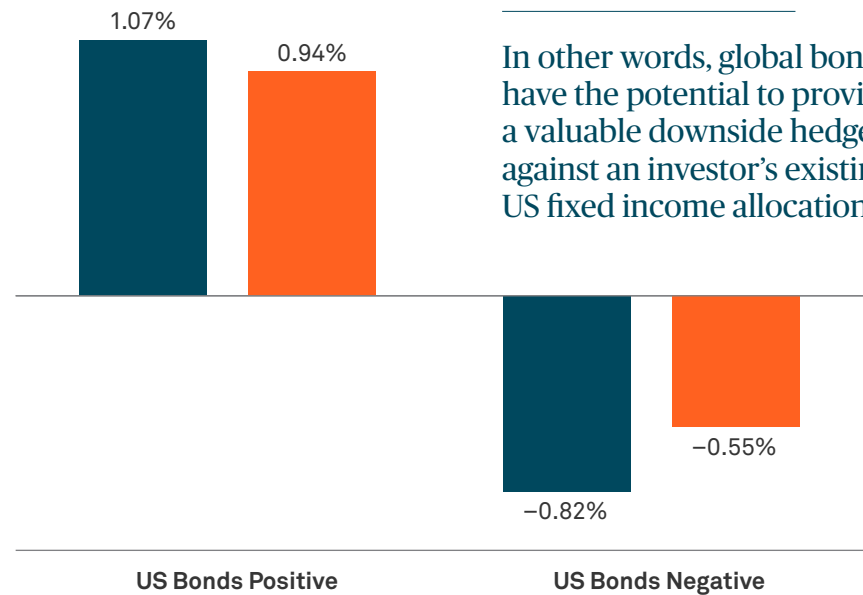
Source: Morningstar Direct, BNY Investments Portfolio Solutions Group using daily data as of December 31, 2024. See full definition of indices in disclosure glossary.

Global Bonds Historically Defend When US Bonds Decline

Following challenging bond markets in 2022, we believe that we can expect better performance from bonds given many central banks’ plans to continue their rate cutting cycle. Similar to other asset classes, bonds can generate negative monthly returns during different market cycles. While the magnitude of monthly bond losses is typically less than you would expect from equities, US bonds have had negative months about 34% of the time since the Bloomberg US Aggregate Bond Index inception. It is within these periods that global hedged bonds stand out, delivering around 88% of the upside of US bonds and just 67% of the downside.<sup>3</sup>

AVERAGE MONTHLY PERFORMANCE (February 1990 – December 2024)

US Bonds Global Bonds Hedged



Source: Morningstar Direct, BNY Investments Portfolio Solutions Group as of December 31, 2024. Charts are for illustrative purposes. **Past performance no guarantee of future outcomes.** Global Bonds represented by the Bloomberg Global Aggregate Index. US Bonds represented by the Bloomberg US Aggregate Bond Index.

<sup>3</sup> Source: Morningstar Direct.

## Global Hedged Bonds Historically Have Offered Lower Volatility

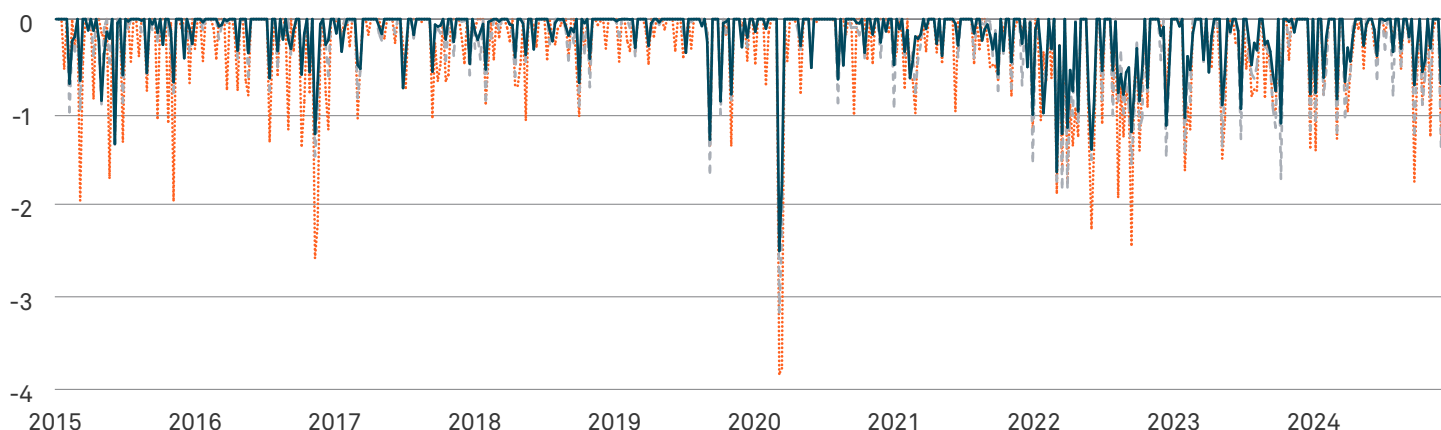
Not only can a global investment universe potentially help to mitigate your portfolios on the downside, but an allocation to global fixed income has historically offered lower volatility versus a domestic-only portfolio. Regional concentration can expose investors to larger fluctuations based on the home market. With volatility likely to be higher, we believe regional diversification may offer investors a “smoother ride” with respect to returns.

Globally, there are bonds denominated in both US dollars and other currencies. We believe the best way to consider investing in global and international bonds is to hedge out currency exposure, which can often be volatile and unstable. Since global markets are unpredictable, volatility is a common way to measure uncertainty.

Global hedged bonds are not just efficient ways to mitigate downside movements in US bonds but have historically been less volatile than US bonds.

### NEGATIVE WEEKLY FLUCTUATIONS (Weekly Return, Percent)

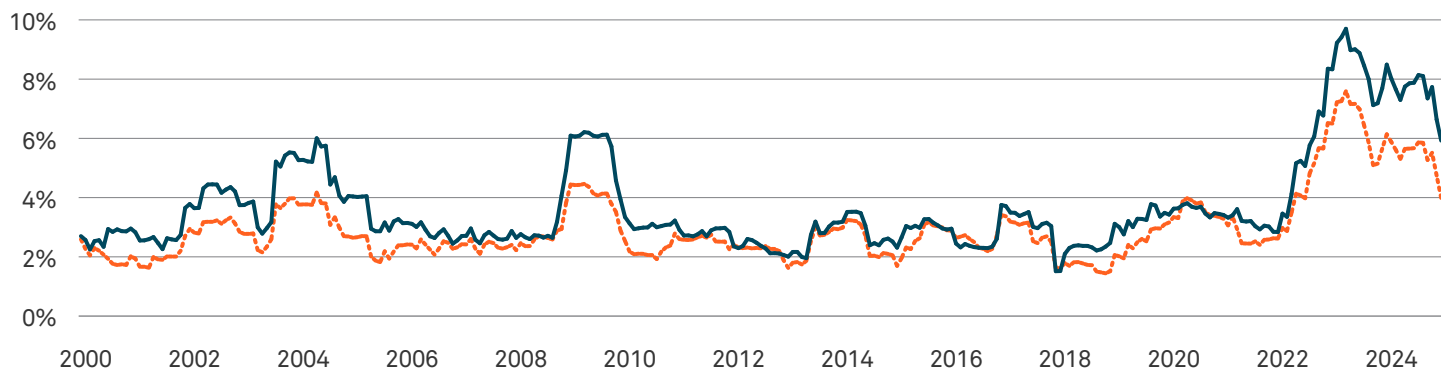
●●● Global Bonds Unhedged    — — US Bonds    — Global Bonds Hedged



Sources: Morningstar Direct, BNY Investments Portfolio Solutions Group as of December 31, 2024. Charts are for illustrative purposes. **Past performance no guarantee of future outcomes.** Global Bonds represented by the Bloomberg Global Aggregate Index. US Bonds represented by the Bloomberg US Aggregate Bond Index.

### ROLLING 12-MONTH VOLATILITY

— US Bonds    - - - Global Bonds Hedged



Sources: Morningstar Direct, BNY Investments Portfolio Solutions Group as of December 31, 2024. Charts are for illustrative purposes. **Past performance no guarantee of future outcomes.**

## Should You Be Wary of Unhedged Global Bonds?

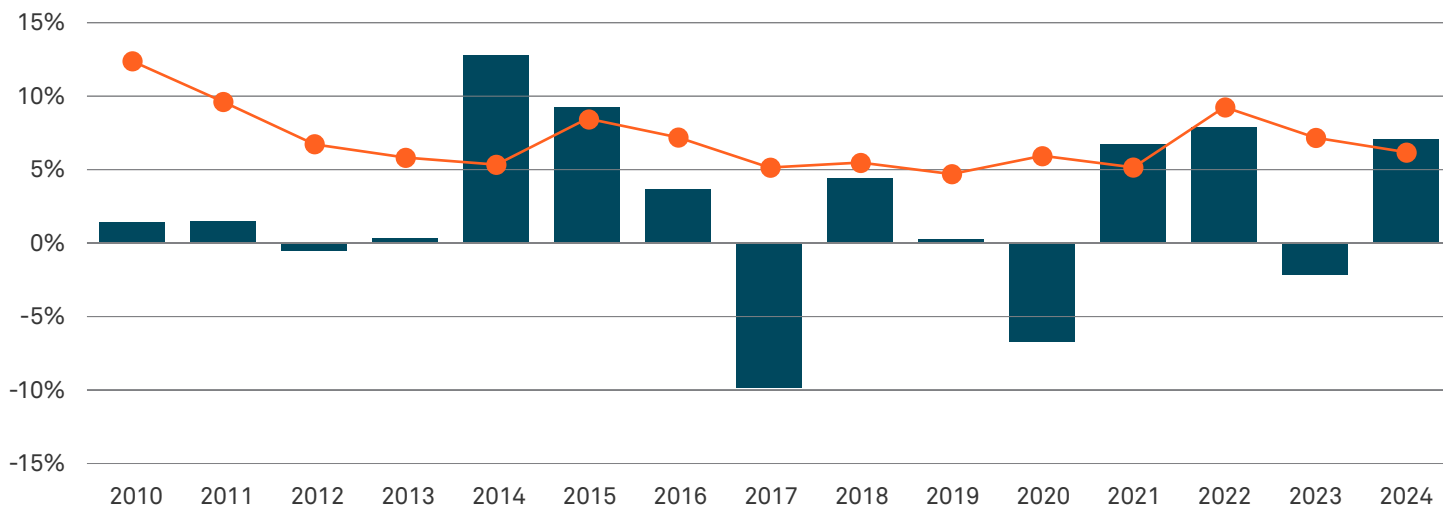
The decision to invest in international and global stocks and bonds may potentially introduce additional alpha opportunities but with this, can also add complexity and risks due to currency fluctuations. These currency fluctuations can either help or hurt you, depending on which direction they move. A currency pair is also dependent on both sides — the US dollar and the currency you are investing in. Global bonds can potentially be used to generate returns and yield. Additionally, it may diversify a portfolio's exposure to US fixed income

and participate in global markets with less volatility. Nonetheless, global bonds can also add uncertainty (and risk) with their currency exposures. Hedging out currency exposure may reduce this unknown and allow investment managers to focus on the actual alpha that global bonds could offer. In recent years, there has been much debate around the much-anticipated depreciation of the US dollar, which would likely be a boost to international investments.

Based on the historical data below, the US dollar wins the majority of the time so it is critical for investors to mitigate risks and hedge global bonds.

### CURRENCY FLUCTUATION: US DOLLAR

■ Return    ● Yearly Volatility



Sources: Morningstar Direct, BNY Investments Portfolio Solutions Group as of December 31, 2024. Charts are for illustrative purposes. **Past performance no guarantee of future outcomes.**

## Not All Duration Is Created Equal

Duration continues to be a key component of mitigating equity volatility and a foundational building block for multi-asset portfolios. However, investors often think only of duration in US terms, while

ignoring similar duration investment opportunities across the globe. Expanding this universe overseas to access some of the highest quality global sovereigns can help in aligning a portfolio with an investor's objectives.

In fact, there are nine countries that have AAA-rated sovereign bonds by all three of the big rating agencies — surprisingly, the US is not one of the nine countries!

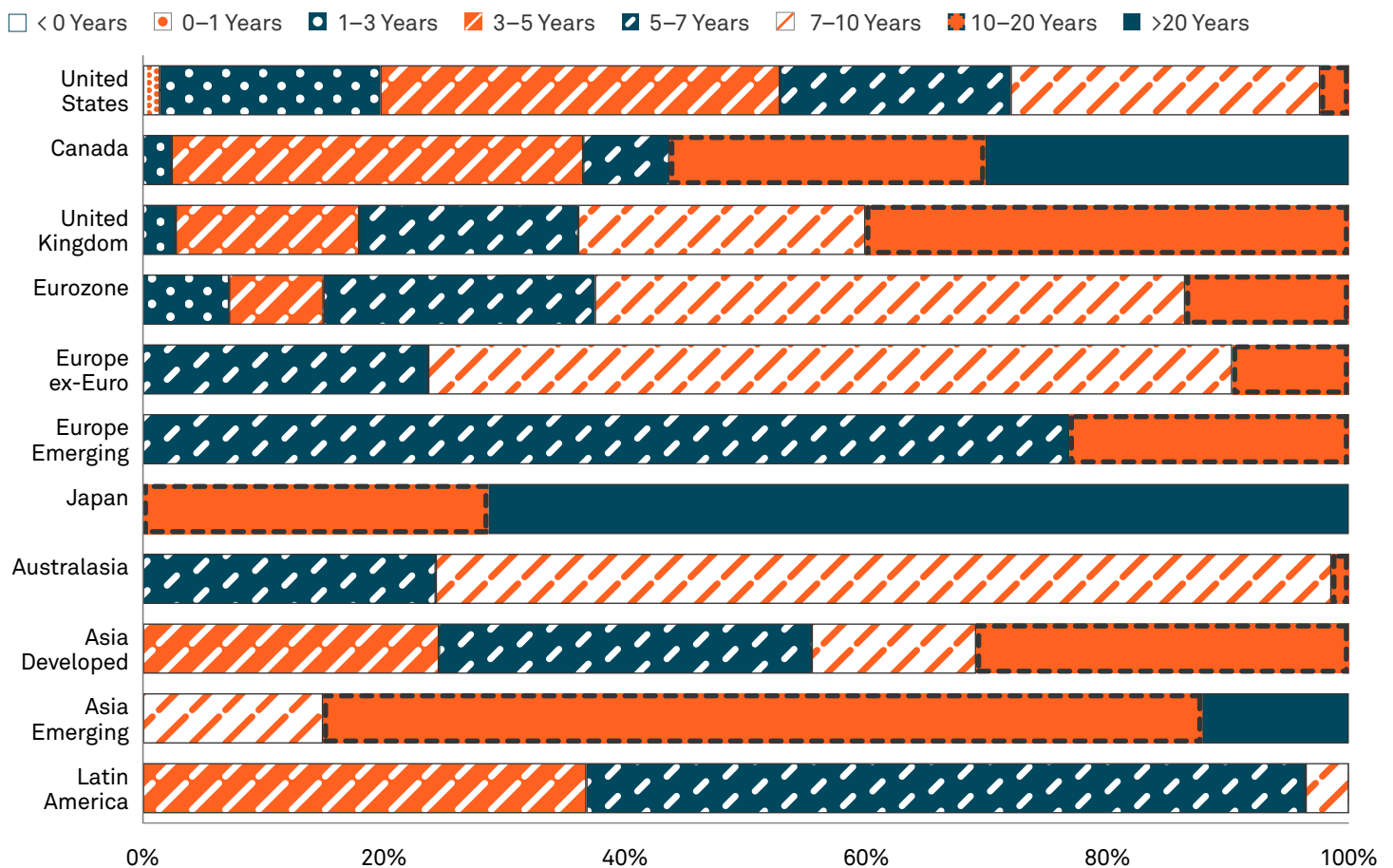
## IS THERE A NEED FOR MORE GLOBAL FIXED INCOME EXPOSURE?

One way to gain exposure to high-quality global fixed income and diversified duration exposure is through BNY Mellon Global Fixed Income Fund (SDGIX).

The Fund invests in a diverse range of regional geographies and across different segments of the yield curve with a focus on high-quality, outcome-oriented solutions.

More importantly, the Fund takes duration exposure across a variety of countries while also seeking to take advantage of potential relative value opportunities.

### REGIONAL DURATION EXPOSURE BNY Mellon Global Fixed Income (SDGIX)



Source: Morningstar Direct as of December 31, 2024. Charts are for illustrative purposes. **Past performance no guarantee of future outcomes.** Portfolio construction can change at any time.

## Summary

Relative to equities, bonds are considered more difficult to understand. The “flavor” of bonds is also wide, varied, and often esoteric. In terms of upside return potential, bonds often lag equities and are viewed as a more stable way to

generate income and hedge against equities when stocks fall or underperform. We believe that the best way to invest in fixed income is by keeping those investments simple and diversified with an emphasis on quality.

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Investors should consider the investment objectives, risks, charges, and expenses of a mutual fund carefully before investing. Contact a financial professional or visit [bny.com/investments](http://bny.com/investments) to obtain a prospectus, or summary prospectus, if available, that contains this and other information about the fund, and read it carefully before investing.

### RISKS

**Bonds** are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries. **High yield bonds** involve increased credit and liquidity risk than higher-rated bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. **Derivatives** can be highly volatile, illiquid, and difficult to value and there is the risk that changes in the value of a derivative held by the portfolio will not correlate with the underlying instruments or the portfolio's other investments. **Equities** are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees.

**No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.**

**Asset allocation and diversification cannot assure a profit or protect against loss.**

Asset class comparisons such as comparing equities to bonds have limitations because different asset classes may have characteristics that materially differ from each other. Because of these differences, comparisons should not be relied upon solely as a measure when evaluating an investment for any particular portfolio. Comparisons are provided for illustrative purposes only. Although stocks have greater potential for growth than bonds, they also have much higher levels of risk. With stocks, the prices can rise and fall for a variety of reasons, including factors outside of the company's control. Bonds may be considered relatively safer. Because they're a debt security, they function as an IOU. The company pays interest to the bondholder, and once the bond matures, the bondholder receives the principal back. Bonds aren't completely risk-free; there is the possibility of the issuer defaulting on its bonds, and if sold prior to maturity the market value may be higher or lower than the purchase value. But compared to stocks, historically there's been less volatility.

### DEFINITIONS

**ABS** is Asset-Backed Securities. **ARM** is Adjustable rate mortgage. **CMBS** is Commercial Mortgage-Backed Securities. **FDIC** is Federal Deposit Insurance Corp. **IOU** is I owe you.

**Credit spread** is the difference in yield between two debt instruments with the same maturity but different credit ratings. It's a measure of the additional risk that investors take on when buying corporate bonds instead of government bonds. **Alpha** is a measure of how well an investment performs relative to a market index or benchmark. **Global Financial Crisis** refers to the period of extreme stress in global financial markets and banking systems between mid-2007 and early 2009. **Duration** is a measure of volatility expressed in years; the higher the number, the greater the potential for volatility as interest rates change. **Correlation** is a statistical measurement that indicates how the prices of two or more assets move in relation to each other. **Beta** is a metric that measures the volatility of a security or portfolio relative to the market as a whole. **Idiosyncratic risk** is a type of financial risk that is specific to a particular asset or group of assets, rather than affecting the entire market. **Drawdown** is the percentage decline in an investment's value from its peak to its trough over a given period of time. **Drawing down** too much means a retiree may struggle financially while drawing down too little means they may leave money behind after they die.

Global Bonds Hedged is defined as the **Bloomberg Global Aggregate Hedged USD Index** and measures the performance of global investment grade fixed-rate debt markets. Global Bonds Unhedged is defined as the **Bloomberg Global Aggregate Unhedged USD Index** and measures the performance of global investment grade fixed-rate debt markets. US Bonds is defined as the **Bloomberg US Aggregate Bond Index** and is a broad-based flagship benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency). The **US 10-year Constant Maturity Index** is published by the Federal Reserve Board based on the average yield of a range of Treasury securities, all adjusted to the equivalent of a 10-year maturity. The **Bloomberg US Treasury Index** is a measure of the US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. The **Bloomberg Canada Aggregate Index** is a measure of the Canadian dollar-denominated, investment-grade, fixed-rate, taxable bond market. The **Bloomberg Euro Aggregate Bond Index** is a benchmark index that tracks the euro-denominated, investment-grade, fixed-rate bond market. The **Bloomberg Sterling Aggregate Bond Index** is a measure of the fixed-rate bond market for investment grade, sterling-denominated bonds. The **Bloomberg Japanese Aggregate Index** contains fixed-rate investment-grade securities denominated in Japanese yen and registered as domestic bond.

Bond ratings reflect the rating entity's evaluation of the issuer's ability to pay interest and repay principal on the bond on a timely basis. Bonds rated BBB/Baa or higher are considered investment grade, while bonds rated BB/Ba or lower are considered speculative as to the timely payment of interest and principal. Credit ratings reflect only those assigned by Nationally Recognized Statistical Rating Organizations (NRSRO) that have rated fund holdings. Split-rated bonds, if any, are reported in the higher rating category.

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