

GOING GLOBAL IN FIXED INCOME



We sat down for a Q&A with Ella Hoxha, Head of Fixed Income at Newton, and Brendan Murphy, Head of Fixed Income North America at Insight, to discuss the evolving fixed income landscape, their approach to risk and areas where they see compelling investment opportunities.

How are you assessing credit opportunities in this environment, especially amid signs of a slowdown in the U.S. economy?

ELLA: We remain confident in the credit market. There are opportunities across sectors, though valuations aren't cheap everywhere and the investable universe has narrowed. There's a substantial amount of capital being raised in private debt markets that has created supportive supply dynamics, which keeps us constructive on the asset class.

BRENDAN: Building on Ella's view, the growth path is key. A scenario where U.S. growth slows but avoids contraction could be beneficial for corporate bonds. Slowing growth is challenging for equities because sustaining earnings becomes harder when the economy is cooling, but in credit, repayment of bonds is what matters. As long as growth remains positive, most companies should be able to repay debt. If the economy contracts, credit risk would increase, though Treasuries should still hold up.

Given this backdrop, pricing risk is an important consideration. Right now, we don't see sufficient compensation for recession risks across the ratings and liquidity spectrum. We currently favor higher-quality, liquid issues so that we can take advantage of potential repricing across longer-dated, investment grade and BB corporate bonds.

With yields higher, it seems some investors are focusing more on absolute yields rather than historically tight spreads. How do you think investors are balancing yields versus spreads right now?

BRENDAN: All-in yields are probably the most important factor for most investors. They typically invest in bonds for consistent, reliable income, and total yield is what investors get paid over the long term. Credit spreads and government bond yields often move in opposite directions. This tends to help stabilize total yield over time so waiting to invest at a wider spread does not guarantee a higher overall yield.

That said, some investors, like pension plans, may have more of a reason to think about spreads because they tend to own bonds as a hedge against liabilities. What constitutes "good value" changes for different investors. If you're looking to earn an attractive overall yield, corporate bonds offer a historically attractive yield of approximately 5%. However, if you are sensitive to spreads, corporate bonds look historically rich.

An active approach can help investors find the "sweet spot," while ensuring sufficient dry powder to take advantage of market sell-off opportunities.

We've heard from our clients that they are looking for income but with less duration risk. What approaches are you using in your portfolios?

ELLA: Most clients may be using a simple benchmark strategy or a short duration strategy, but this may not be the most effective approach. We are in a higher rate environment that requires more active duration management, so we prefer a total return framework that focuses on absolute returns. This allows us to navigate across various fixed income assets and across the curve so that we can actively manage duration.

With inflation elevated above the Fed's target and tariffs possibly slowing its decline, bonds haven't been great for hedging equity risk recently. How do you think the stock-bond correlation will evolve and what can investors do about it now?

ELLA: Trying to predict correlations is a fool's errand, but understanding the dynamics between bonds and equities is valuable. In the last 20 years, bonds have typically acted as a hedge against equities. You could build your traditional portfolio and sleep well at night because declines in equities were offset by gains in bonds.

Today, shorter-term market cycles look different. The first step is to understand where we are in the business cycle so we can assess the exposure and beta for each asset class. The second is to diversify with other components.

One of our largest allocations is in emerging markets, where we're seeing positive real rates and currency appreciation.

Over the past three years, the U.S. dollar has played that role, but commodities could take on that function in the next two to five years. Active management, both in interest rates and across the yield curve, is an important tool.

How do you see investing in bonds outside the U.S., given the growing differences in central bank policies worldwide? How has the global fixed income landscape changed as we head into 2026?

ELLA: Countries, particularly in Asia and Europe, may experience policy-related deflationary pressures as a result of macroeconomic trends. Broadly speaking, these countries could see less inflation in the future, partly due to currency appreciation and partly due to global competition and tariffs, which could, in turn, increase the attractiveness of their bond markets to investors.

There are also markets like New Zealand and Australia where the debt levels are not as high and bond yields are more favorable. The same could also be said for the UK gilt market, which we also find appealing. One of our largest allocations is in emerging markets, where we're seeing positive real rates and currency appreciation. As we head into 2026, fiscal risk might become more dominant, which is also why we think a global approach is most appropriate.

BRENDAN: Monetary policy cycles have been increasingly asynchronous since the pandemic, so the best and worst performing bond markets tend to be different year by year. This can protect investors from being exposed to just one central bank and one interest rate cycle.

Performance speaks for itself. Global bonds have consistently delivered superior returns for significantly lower volatility than U.S. bonds on a currency-hedged basis. On top of that, global bonds are a much larger universe and offer a wider range of alpha opportunities.

When clients ask about investing outside the U.S., the weakening dollar often comes up. What are your short-term and long-term views on the dollar, and how does that impact investing in non-U.S. bonds?

ELLA: Currently, some support for the dollar comes from the U.S. equity market, which has had a positive correlation with the currency. In the short term, the most likely scenario is a stable, sideways trend for the dollar. However, the longer-term trajectory points toward a weakening dollar, which should benefit emerging market currencies. We also see some developed market currencies, such as the yen, doing well in this environment.

BRENDAN: Global fixed income strategies can be hedged to a base currency or not, which is often referred to as unhedged. In a hedged strategy, movements in the U.S. dollar have no impact on performance and the cost of hedging is generally negligible. In an unhedged strategy, currency risk is likely to drive most of the portfolio's volatility, possibly undermining its diversification benefits relative to equities. However, over the long term, a depreciating U.S. dollar is beneficial for U.S. investors.

What risks do you see in fixed income right now, and what should investors keep in mind when managing their bond allocations?

ELLA: Ongoing fiscal deterioration, such as that seen in the U.S. and France, is one of our top risks. There are already indicators that fiscal challenges globally are affecting credit markets. Germany, for example, loosened its fiscal policy this year, which led to a significant repricing in European rates. There was also a major breakout in Japanese bonds. I mention these two countries because they have anchored markets that have kept rates lower globally. Both these countries have experienced extended periods of negative interest rates and are now moving upward, indicating this could be a broad bond market theme. Over the next several years, we will likely see a considerable increase in bond supply. The key question is: At what level will bond investors be willing to finance these debts?

BRENDAN: We are clearly in unusual and uncertain times, which brings both traditional and non-traditional risks. On the immediate horizon, growing interest in U.S. sovereign debt has led to increased attention on Treasury issuance patterns. If supply rises when foreign demand weakens, this could lead to performance risk associated with duration exposure. Though not our base case, there is also a possibility of stagflationary risk stemming from tariff-related inflation. Another risk that we're paying attention to is the ongoing recalibration of global trade, which could lead to unexpected side effects on private sector demand.

ELLA: Our view is that a diversified bond allocation, especially to global markets, is key. Active management is also very important in managing interest rate and currency risks. It's not just about picking the right jurisdictions and points on the curve but also knowing when to shift the allocation from sovereigns to credits, understanding what currency risk to hedge and how much interest rate sensitivity or duration is appropriate for the portfolio.

BRENDAN: Additionally, we believe that adhering to a strict valuation discipline and having dry powder available to act quickly when opportunities arise can be beneficial.



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