Q&A:

POTENTIAL YIELD OPPORTUNITIES AND THE CASE FOR GOING GLOBAL

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INVESTMENT VIEWS
FROM INSIGHT INVESTMENT

Insight Investment's Senior Portfolio Manager Nathaniel Hyde takes an opportunistic and active approach to fixed income and makes the case for global fixed income exposure.

What should investors consider in a market where credit spreads are narrow, but yields are historically high?

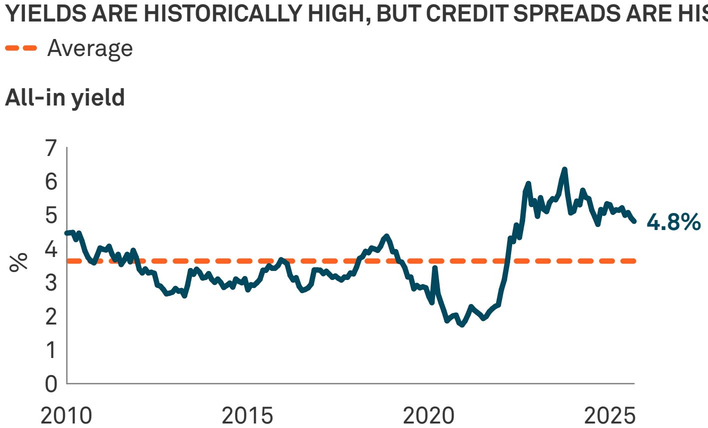
Ultimately, we think yield trumps spread for most investors.

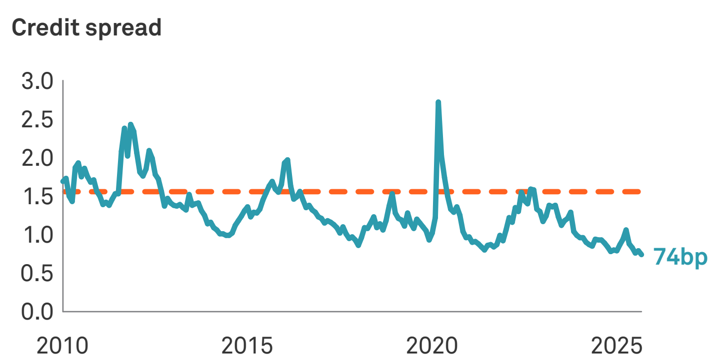
For those looking for regular and reliable returns from bonds, yield — absent default — is what they will get paid over the long term.

In most macroeconomic environments, we expect credit spreads and government bond yields to be negatively correlated and move in opposite directions. Since the pandemic, however, the monthly correlation of these two series has been -0.2.[1] This means that waiting to invest at a wider spread will not necessarily guarantee a higher all-in yield.

This is not to say that credit spreads are not important. They are a key valuation metric, and current levels suggest stretched pricing. We think taking an active approach could therefore be important here. As an active player with a wide opportunity set, our approach is to be highly selective and keep some powder dry in case market sell-offs deliver opportunities.

YIELDS ARE HISTORICALLY HIGH, BUT CREDIT SPREADS ARE HISTORICALLY LOW





Source: Bloomberg U.S. Aggregate Corporate Bond Index, Insight Investment, October 2025. **Past performance does not guarantee future results.** Chart is for illustrative purposes only.

[1] Bloomberg U.S. Aggregate Corporate Bond Index, October 2025.

Consensus estimates indicate the economy is slowing — Is this a threat to credit?

Provided nominal growth remains comfortably positive, a slowing economy is not necessarily a problem for credit.

A significant deceleration in economic activity would be a danger to credit, however. While a recession is not our base case, or projected by consensus forecasts, we cannot rule it out.

With that in mind, we focus on compensation for risk. Unfortunately, at present we find that many assets with lower credit ratings and lower liquidity do not generally offer that compensation. So, our current bias is to stay relatively high-quality and relatively liquid to be ready for opportunities.

Is fixed income attractive for those concerned about U.S. fiscal risks to the Treasury market?

We believe many investors, but particularly those concerned about U.S. debt dynamics, may wish to consider expanding their exposure into a global fixed income approach.

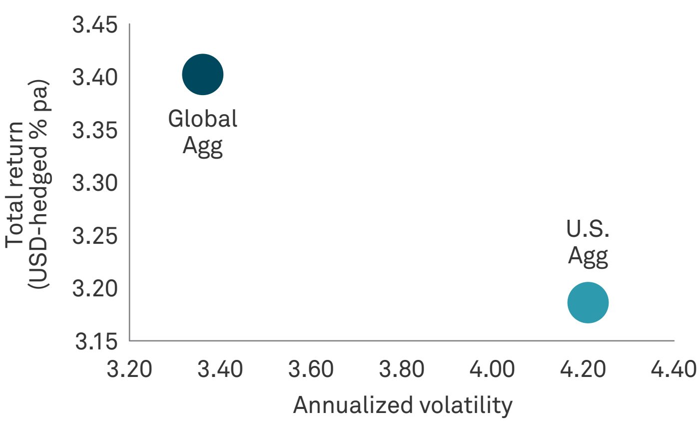
We do not advocate leaving the U.S. behind entirely as a capital market of this size will also offer opportunities of some sort to the active manager. That said, global diversification increases the breadth of the investment opportunity and, historically, has yielded a less volatile return stream than single market strategies.

Global bonds have historically delivered higher returns for meaningfully lower volatility than U.S. bonds on a currency-hedged basis. Since 2005, the U.S. has never been the best-performing country within the Bloomberg Global Aggregate Bond Index (Global Agg) in a calendar year.[2]

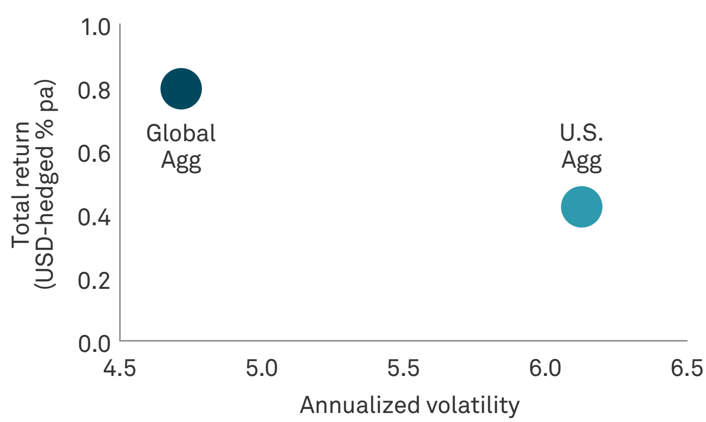
Global bonds also offer a larger universe for those with large enough global teams to mine alpha opportunities from. Such opportunities may be driven by rising monetary policy divergence and geopolitical uncertainty (relating to tariffs for example), which can create sectoral and security-selection-based winners and losers across the globe.

GLOBAL BONDS HAVE OFFERED HIGHER RETURNS FOR LOWER VOLATILITY

Since 2005



Since 2020



Sources: Bloomberg Global Aggregate Bond Index and Bloomberg U.S. Aggregate Bond Index (U.S. Agg), Insight Investment, October 2025. **Past performance does not guarantee future results.** Chart is for illustrative purposes only.

[2] Source: Bloomberg (Global Agg = Bloomberg Global Aggregate Bond Index, U.S. Agg = Bloomberg U.S. Aggregate Bond Index), October 2025.

Given that markets like Europe and Japan have significantly lower central bank interest rates than the U.S., is that not likely to be a drag on global bond returns relative to the U.S.?

That would be true if investing on an unhedged currency basis.

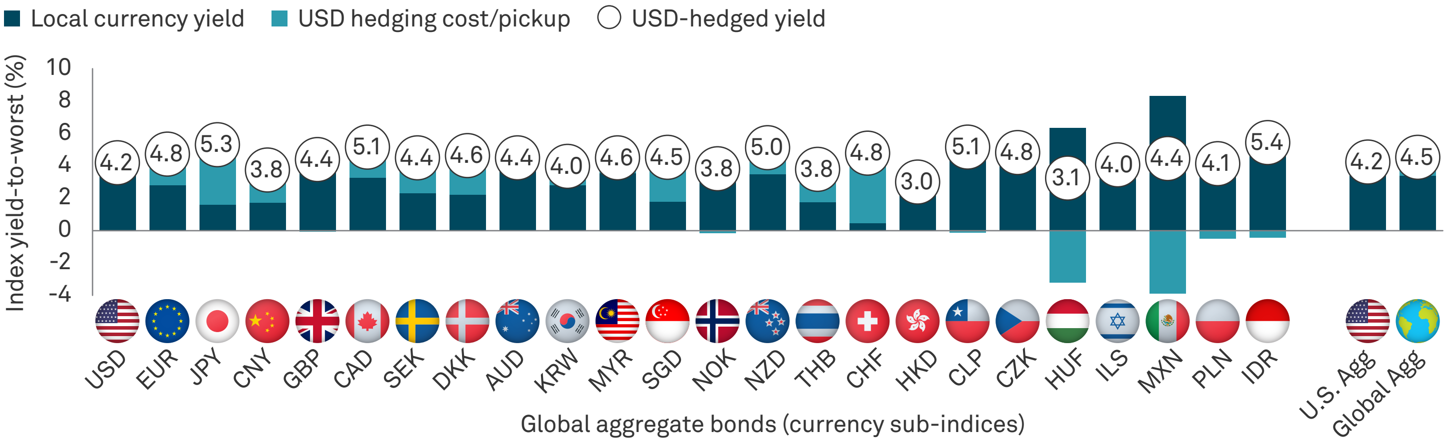
But in a USD-hedged strategy, currency hedging costs are negative for markets like euros and Japanese bonds, which effectively add yield back to the strategy. Hedging costs are determined by short-term interest rate differentials.

For example, the Japanese yen portion of the Global Agg currently yields 1.6% in local currency terms, but 5.3%, when hedged to U.S. dollars on a three-month basis, which is higher than the 4.2% yield on the U.S. dollar component.[3]

On the flip side, the effect is the opposite for markets that have higher interest rates than the U.S., like Mexico. The Mexican peso share of the Global Agg yields 8.3% on an unhedged basis, but 4.3% on a USD-hedged basis.

But overall, because yields are mostly lower outside the U.S., the Global Agg yields 3.4% on an unhedged basis, but 4.4% on a USD-hedged basis, or slightly higher than the 4.2% yield on U.S. bonds. In other words, global fixed income strategies do not force you to give up yield.

ON A USD-HEDGED BASIS, GLOBAL FIXED INCOME YIELDS MAY BE HIGHER THAN YOU THINK



Source: Bloomberg Global Aggregate Index and currency sub-indices. Hedging cost based 3-month FX forwards. Insight Investment, October 2025. **Past performance does not guarantee future results.** Chart is for illustrative purposes only. See currency notes in disclosures.

Could unhedged local currency global bond exposure benefit from a weakening dollar over time?

Yes, the upside of investing on an unhedged basis is the portfolio would likely gain from U.S. dollar depreciation over time. In a hedged portfolio, currency fluctuations become irrelevant.

But currencies are highly volatile and can end up dominating the periodical performance of a bond portfolio. Fixed income investors typically look for a negative correlation against equities, which may be less reliable when assuming a high degree of currency risk.

What are the main risks to fixed income right now?

We are clearly in unusual and uncertain times, so there are many non-traditional as well as traditional sources of uncertainty.

On the immediate horizon, continued interest in U.S. sovereign debt dynamics has meant greater sensitivity to U.S. Treasury supply patterns. At the same time, foreign demand for U.S. Treasuries may be about to weaken, which could be a challenge to the Treasury market. From a fundamental standpoint, a reacceleration in developed market inflation could limit the ability of policymakers to meet weaker economic activity with monetary stimulus. In our view, these remain tail risks, but tail risks of sufficient magnitude to meaningfully impact the performance of the asset class in aggregate.

Elsewhere, the ongoing recalibration of global trade may have unexpected side effects on private-sector demand.

Ultimately, we believe this justifies a value-based, diligent approach targeting security selection and diverse opportunities across the widest possible universe and fixed income sectors, with the flexibility to deploy capital quickly when value presents itself.

[3] Bloomberg Global Aggregate Bond Index, October 2025.

About Insight Investment

Insight Investment is a leading global investment manager and fixed income specialist firm within BNY Investments.

Currency

USD: U.S. dollar. **EUR:** Euro. **JPY:** Japanese yen. **CNY:** Chinese renminbi. **GBP:** Great British pound. **CAD:** Canadian dollar. **SEK:** Swedish krona. **DKK:** Danish krone. **AUD:** Australian dollar. **KRW:** South Korean won. **MYR:** Malaysian ringgit. **SGD:** Singapore dollar. **NOK:** Norwegian krone. **NZD:** New Zealand dollar. **THB:** Thai baht. **CHF:** Swiss franc. **HKD:** Hong Kong dollar. **CLP:** Chilean peso. **CZK:** Czech koruna. **HUF:** Hungarian forint. **ILS:** Israeli new shekel. **MXN:** Mexican peso. **PLN:** Polish zloty. **IDR:** Indonesian rupiah.

Alpha is a measure of selection risk in relation to the market. A positive alpha is the excess return awarded to the investor for taking a risk and beating the market. **Basis point (bp)** is one-hundredth of a percent.

Bloomberg Global Aggregate Bond Index is a comprehensive measure of the global investment-grade fixed-income market. **Bloomberg U.S. Aggregate Corporate Bond Index** measures the investment-grade, fixed-rate, taxable corporate bond market. Investors cannot invest directly in an index.

Risks

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees. 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. **Currencies** can decline in value relative to a local currency, or, in the case of hedged positions, the local currency will decline relative to the currency being hedged. These risks may increase volatility. **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.

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