BNY | INVESTMENTS

GLOBAL AGGREGATE
MASTERING THE WORLD'S LEADING BOND INDEX

June 2026

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EXECUTIVE SUMMARY

- The Bloomberg Global Aggregate Bond Index (the Global Agg) is one of the world's most widely used bond indices and is arguably the index that best encompasses the vast scale and diversity of global bond markets.
- The index includes both government debt and investment grade corporate credit diversified across a range of markets and currencies.
- Returns were volatile around the pandemic, but with yields now back at pre-global financial crisis levels we believe this has created a more stable foundation for future returns.
- We outline nine strategies that active managers can employ as they seek to outperform the Global Agg:
  - **Duration and yield curve strategies:** Positioning portfolios based on market yield outlooks.
  - **Security selection via fundamental analysis:** Identifying undervalued securities.
  - **Capturing new-issue premia:** Taking advantage of higher yields offered on new debt.
  - **Exploiting market fragmentation:** Leveraging the diverse range of debt issues.
  - **Sector strategy:** Avoiding sectors with concerning outlooks.
  - **Beta management:** Adjusting credit risk exposure.
  - **Relative value:** Capitalising on value fluctuations across markets.
  - **Cross-country trades:** Seeking to take advantage of relative economic performance.
  - **Inflation versus nominal:** Using inflation-linked bond markets to express an inflation view.
- Repeated shocks are driving higher volatility in global asset markets, including bond markets. In fixed income, when volatility rises, it creates opportunities for active managers to exploit. When we look back at history, we can observe a clear correlation between higher volatility and higher excess returns.
- We highlight the hidden risks of passive investment in fixed income markets, with many passive strategies doomed to structurally underperform due to the inefficiencies inherent in bond markets.

> "In fixed income, when volatility rises, it creates opportunities for active managers to exploit"
>
> **BRENDAN MURPHY,**
> HEAD OF FIXED INCOME,
> NORTH AMERICA
> INSIGHT INVESTMENT

REVISITING THE BLOOMBERG GLOBAL AGGREGATE BOND INDEX

Tracking bond markets through the decades

Launched in 1998 with a history backdated to 1990, the Bloomberg Global Aggregate Bond Index (Global Agg) is one of the world's most widely used bond indices. Its investment grade credit focus provides a high quality, broadly diversified, multi-currency universe. Its scale is vast, encompassing more than 30,000 securities from more than 3,100 issuers and with a market capitalisation of over $70 trillion[1]. In our view, few indices better capture the true scale and breadth of global bond markets.

Over its decades-long history, the Global Agg has delivered steady, compounding returns, although volatility rose sharply during the pandemic and its aftermath (see Figure 1). Yields plunged to historic lows amid global lockdowns, before sharply reversing as disrupted supply chains drove inflation higher. With yields back at levels last seen before the global financial crisis (see Figure 2), we believe the asset class should now offer a more attractive and resilient starting point for future returns.

Figure 1: The Global Agg has generated solid long-term performance bar a pandemic blip[1]

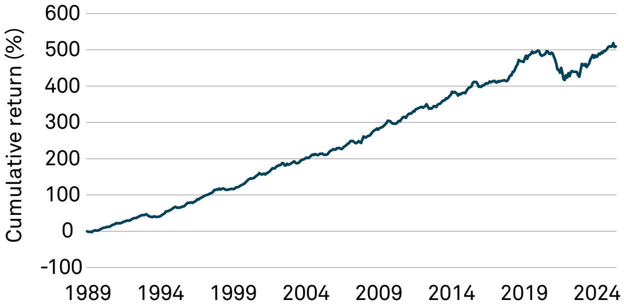
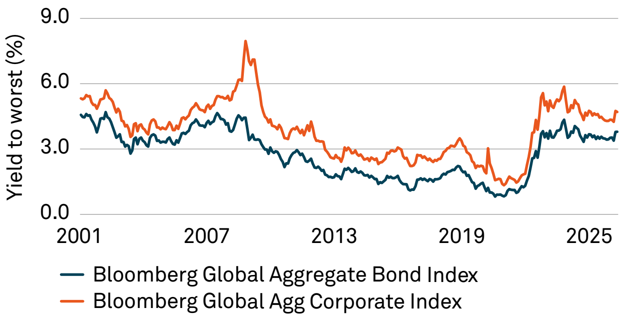


Figure 2: Yields are back to pre-global financial crisis levels[1]



Vast in scale and depth: breaking it down

From a credit perspective, the index can be broken into four key components:

- **Government bonds:** Represent the largest component, being just over half of the index, and includes inflation-linked securities.
- **Corporate bonds:** These are bonds issued by corporate issuers split across the three major categories of industrials, utilities and financials and are close to 20% of the index.
- **Government-related bonds:** These are generally corporate issuers, but usually with some element of government ownership or control, and around 15% of the index.
- **Securitised bonds:** US mortgage-backed securities (MBS), commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and covered bonds make up over 10% of the index.

1. Source: Bloomberg Global Aggregate Bond Index. As at 30 April 2026. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

Government and government-related bonds issued by major developed markets typically offer more safety through economic downturns, as well as potential for capital gains if yields fall due to a flight-to-quality. Meanwhile corporate credit may provide greater potential positive excess returns if spreads tighten, often when economic outlooks improve, and corporate sectors face more favourable prospects.

At a geographic level, the Global Agg is biased towards US dollar-denominated debt as that is the deepest and largest bond market, but it also includes large exposures to European and Asian markets, providing international diversification. The benefits of this are clear, as the Global Agg (hedged into US dollars) has historically outperformed the US Aggregate Index (see Figure 4).

Figure 3: A globally diversified index[2]

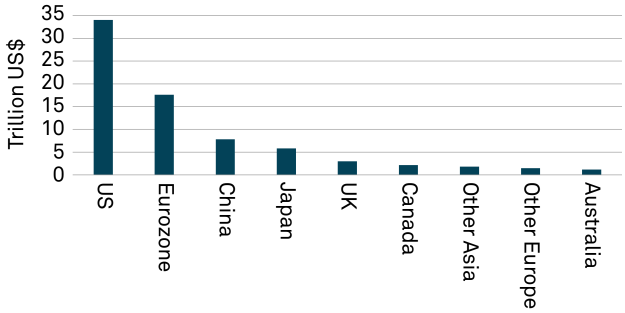
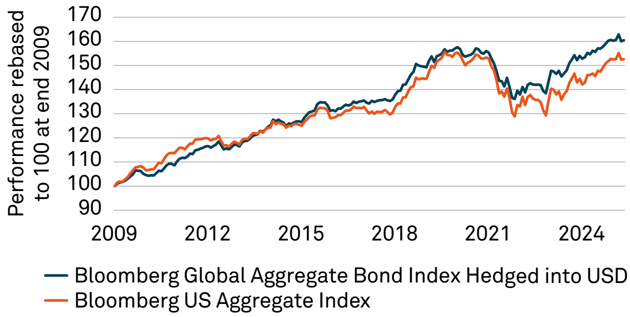


Figure 4: A global approach has historically generated higher returns[2]



2. Source: Bloomberg Global Aggregate Bond Index. As at 30 April 2026. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

NINE WAYS ACTIVE MANAGERS CAN SEEK TO BEAT THE GLOBAL AGG

Beating benchmarks and exploiting inefficiencies

While equity markets assign the highest index weights to companies with the largest market capitalisation and generally the highest profits, fixed income benchmarks are skewed towards issuers with the most debt outstanding. This creates a myriad of structural inefficiencies across bond markets that active managers can seek to exploit.

As a result, we believe the index is merely the starting point for returns.

We present nine strategies that skilled active managers with a robust investment process can use as they seek to generate returns in excess of the index:

1. **Duration and yield curve strategies:** Active managers can strategically position their portfolios based on their outlook for market yields. If they anticipate a decline in yields, they might add longer-maturity issues, which are expected to benefit the most from such a scenario. More sophisticated strategies may involve targeting specific segments of the yield curve or varying investments across different maturities.

2. **Security selection via fundamental analysis:** Fundamental credit analysis aims to identify securities whose valuations do not accurately reflect the company's current and future fundamental strength or weakness. When selecting an issuer's securities, it is crucial to choose those with robust balance sheets and easy access to money markets.

3. **Capturing new-issue premia:** New debt may be issued for various reasons, such as funding growth or acquisitions. In the corporate world, issuers often offer new debt at slightly higher yields than the market to attract buyers – a phenomenon known as new-issue premia. Active managers can seek to capitalise on this by keeping a close eye on opportunities in primary issuance markets.

4. **Exploiting market fragmentation:** When an investor buys a bond, a single corporate issuer may have a range of debt issues across different maturities and currencies, each with different legal documentation, and even exposed to different parts of the capital structure. Each issue may be a different size, with variable levels of liquidity. This fragmentation introduces a range of options for an active manager to consider and potentially take advantage of.

5. **Sector strategy:** Whole industry sectors in fixed income markets can sometimes have valuations that do not reflect the current or future strength or weakness of their constituent companies. Active managers have the flexibility to avoid investing in sectors where they believe the outlook is concerning.

6. **Beta management:** The constituents of a bond index represent a certain level of aggregate credit risk at any given time. Active managers have the flexibility to take on higher or lower credit risk compared to the index. This decision can be influenced by the stage of the credit cycle, average valuations, or a tactical market view.

7. **Relative value:** The value of fixed income instruments, especially credit, can fluctuate across markets or between segments of the fixed income universe at any given time. Active managers can capitalise on these variations by overweighting credit in the market that offers the greatest value and underweighting credit in the market that offers the least value.

8. **Cross-country trades:** Diverging economic conditions can impact the relative performance of government bond markets. A manager might decide to overweight the bond market of a country with a positive economic outlook while underweighting the bond market of a country with a negative outlook. Historically, Italy was perceived as a weaker economy within Europe, whereas France was seen as one of the strongest. However, this perception has shifted considerably in recent years, with Italian bonds significantly outperforming their French counterparts as a result.

9. **Inflation versus nominal:** Many governments issue inflation-linked bonds, with coupon and principal repayments linked to a broad measure of inflation. If market rates diverge from the inflation outlook held by a manager, they can seek to over or underweight inflation-linked bonds to reflect that view.

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The power of incremental returns

The broad reach of the Global Agg means that it encompasses numerous pockets of value that can be exploited. Active managers have the potential to amplify this by pivoting to the areas of greatest value at any given time. By maintaining a diverse range of risk positions aimed at generating small additional returns from multiple sources, it can be possible to aggregate these into a meaningful excess return without being reliant on any specific investment environment.

> "The broad reach of the Global Agg means that it encompasses numerous pockets of value that can be exploited."
>
> **APRIL LARUSSE,**
> HEAD OF INVESTMENT SPECIALISTS - CSG
> INSIGHT INVESTMENT

TAKING ADVANTAGE OF GLOBAL UNCERTAINTY

Uncertainty has increased, and volatility has followed

The conflict in the Middle East is the latest in a long line of 'mini crises' that have unsettled markets. While each episode may appear distinct, investors have become increasingly quick to reprice risk and demand higher compensation for uncertainty when these events happen. Once the scale of the mini-crisis becomes quantifiable, the risk premia demanded typically fades and buyers return. As a result, these intermittent spikes in volatility appear to have become an embedded feature of the investment landscape.

When market dislocations occur, they are often accompanied by periods of indiscriminate spread widening, as investors are forced to sell assets to meet redemptions. In these environments, particularly when liquidity is thin, the assets that can be sold most easily are often the highest quality or most liquid, rather than those investors would prefer to offload. This dynamic can distort pricing and makes it difficult to predict where volatility will have the greatest impact, as selling pressure becomes less selective and more driven by liquidity needs than fundamentals.

For active managers, volatility creates opportunity

Evidence suggests that active managers in credit markets are typically able to achieve the greatest excess returns over their benchmarks (known as alpha), when implied volatility in these markets is elevated.

While active investors can look for ways to exploit the structural inefficiencies within fixed income indices, passive investors find themselves hostage to them.

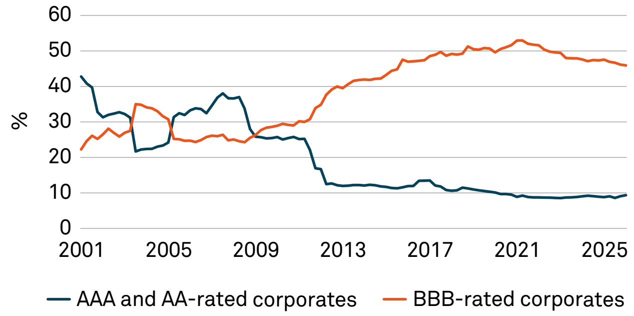
THE HIDDEN RISKS OF PASSIVE FIXED INCOME INVESTING

Debt is concentrated in lower-rated issuers

A challenge for passive investors is the deterioration in credit quality over recent decades. While the Global Agg includes only investment-grade rated corporate bonds, the composition of that universe has changed dramatically as companies have increased leverage in response to shareholder pressure.

This shift is illustrated in Figure 5, which shows that BBB-rated issues now represent just under 50% of the Global Agg's corporate component, while the best rated AAA and AA-rated issues represent under 10%. As a result, passive investors are heavily exposed to issuers at the lower end of the investment-grade spectrum and, by construction, tilted toward the most heavily indebted companies.

Figure 5: BBB-rated credits dominate the Bloomberg Global Corporate Aggregate Index[3]



Downgrades are coming

The volume of corporate issuance dropping from investment grade rated indices into high yield indices picked up in 2025, reaching just over $28bn versus just $7bn in 2024. This trend has continued into 2026, reaching $30bn in just the first four months of the year[5].

When an investment grade bond is downgraded to high yield, many passive Global Agg funds are forced to sell them, often at the worst possible time, as they are no longer eligible for inclusion within the index. As markets anticipate this wave of forced sales, more of the bonds are sold, which typically exacerbates these bonds' underperformance. However, for those active managers able to take off-benchmark positions, there is a potential opportunity to purchase the issue in anticipation of a price recovery as the forced sales draw to a close. Since 2004, excess returns on fallen angels have averaged -10% over the six months before a downgrade, but +20% over the 12 months after[4].

Considering these factors, along with the transaction costs needed to keep up with index changes and fees, we believe many passive strategies are doomed to structurally underperform.

> Passive investors are heavily exposed to issuers at the lower end of the investment-grade spectrum and, by construction, tilted toward the most heavily indebted companies."

BRENDAN MURPHY

3. Source: Insight and Bloomberg. Data as at 31 March 2026.
4. Bloomberg, Insight, December 2025. Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

CONCLUSION

For many investors, the Global Agg is the natural choice of benchmark for their fixed income assets. The index offers exposure to a broad range of global bond markets, with a substantial allocation to government related debt. Its investment grade credit and securitised components can act to enhance the income generated by the index without compromising risk or liquidity.

With the yield of the Global Agg back at pre-financial crisis levels, it should create a more stable foundation for future returns. But the income generated from the index is potentially just the starting point.

In our view, structural inefficiencies within global bond markets can create significant opportunity for skilled active managers to outperform the Global Agg. Against a backdrop of persistent policy and geopolitical uncertainty, periods of market volatility are likely to be a recurring feature. However, this is not something to fear. These volatile periods typically increase pricing dislocations and inefficiencies, and history suggests that such environments have often been associated with stronger active outperformance.

At the same time, investors need to be aware of the inherent dangers of passive investment in fixed income. Fixed income markets differ to equity markets as they are weighted towards those issuers with the greatest level of debt. With a greater concentration of corporate debt in the lowest rated BBB category, we believe downgrades are likely to increase. As bonds drop below investment grade and are removed from the index, passive investors become forced sellers, often at the worst possible time. An active or systematic approach that seeks to exploit such inefficiencies can turn such dynamics to an investor's advantage.

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