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WHY ACTIVE FIXED INCOME ETFs ARE GAINING GROUND

November 2026

Fixed income exchange-traded funds (ETFs) have seen remarkable growth, with €61 billion flowing into European funds[1] during the first nine months of 2026. By broadening access to bond markets, enhancing liquidity, and demonstrating resilience during market stress, they are becoming an indispensable portfolio tool. Now, the focus is shifting to actively managed vehicles that combine the efficiency of the ETF structure with the security selection and risk management of seasoned portfolio managers.

Broadening access to bonds

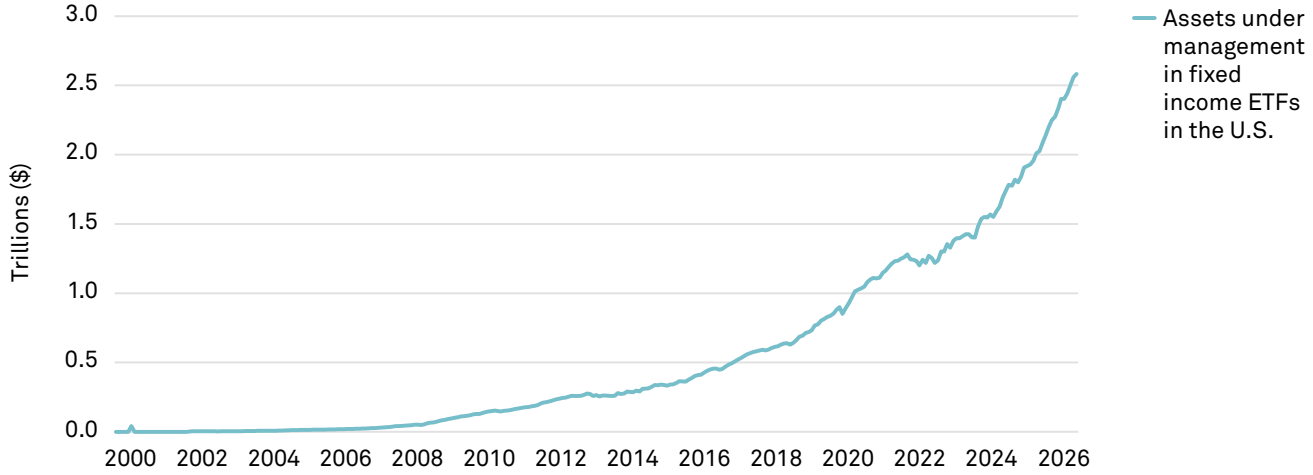
Traditionally, building a diversified bond portfolio can be operationally complex and costly, particularly in less liquid sectors. ETFs have dramatically simplified this process, significantly broadening access to bond markets by allowing investors to gain exposure to hundreds or even thousands of securities through a single trade.

Because ETFs can be bought and sold throughout the trading day on exchange, investors can adjust overall portfolio exposures quickly and efficiently without needing to transact in multiple underlying securities. This flexibility means investors can now use fixed income ETFs for a range of purposes, including strategic asset allocation, short-term cash management, duration adjustments and tactical portfolio positioning.

As the range of available products has expanded, investors have gained more efficient ways to express investment views across sectors, regions, credit qualities, and maturities.

Against this backdrop, fixed income ETFs have grown dramatically, with assets under management in U.S. fixed income ETFs more than doubling in the last few years to almost $2.6 trillion.[2] While the European market is smaller, we have observed signs of significant growth, highlighting the possibility of a similar trajectory.

U.S. fixed income ETFs have grown dramatically in recent years



Source: Bloomberg Intelligence, as at 31 July 2026.

Technology-driven efficiency

The bond market has undergone a significant technological transformation in recent years. Electronic trading platforms have helped to smooth some of the frictions that historically characterised fixed income trading. Investors can now execute trades more efficiently than in the past, often with greater visibility of market pricing and available liquidity.

Portfolio trading has been another important development. Investors can now transact baskets of securities in a single execution, reducing transaction costs and supporting tighter bid-offer spreads in ETFs.

Such innovations have supported the growth of fixed income ETFs. Authorized participants and ETF market makers can increasingly use electronic and portfolio trading tools to manage creations, redemptions and hedging activity more efficiently. This has helped support improved liquidity and increased investor confidence in the ETF ecosystem.

Liquidity and transparency

One of the most significant advantages of fixed income ETFs is their ability to provide continuous market pricing. While many bonds may trade over the counter and infrequently during the day, ETFs trade on exchange whenever markets are open. As a result, ETF prices can reflect changing investor sentiment and market conditions in real time.

This continuous trading has strengthened the role of ETFs in price discovery. Investors often look to ETF prices as an indicator of the market value of underlying bond portfolios, particularly when individual bonds have not traded recently. In this way, ETFs can provide valuable information about market conditions even where activity in bond markets is limited.

Real-time pricing information can help investors assess risks, identify opportunities and make informed allocation decisions across different segments of the fixed income market.

Resilience in volatile markets

Market volatility can test the resilience of a fixed income portfolio, particularly if the underlying bonds become less liquid. Fixed income ETFs can often facilitate substantial trading activity even if underlying bond markets are challenged, as seen during Covid-19 in March 2020 and UK gilt market stress in the autumn of 2022.

Importantly, ETF investors can trade with one another on exchange without requiring transactions in the underlying securities each time shares change hands. This secondary market activity can support liquidity and allow investors to adjust exposures efficiently, even when trading conditions for individual bonds have deteriorated.

For portfolio managers and asset allocators, this can be a valuable liquidity management tool. Rather than buying or selling large numbers of individual bonds during volatile periods, investors can use ETFs to raise cash, rebalance portfolios or manage risk exposures quickly and efficiently. This capability has contributed to the growing role of ETFs within institutional investment strategies.

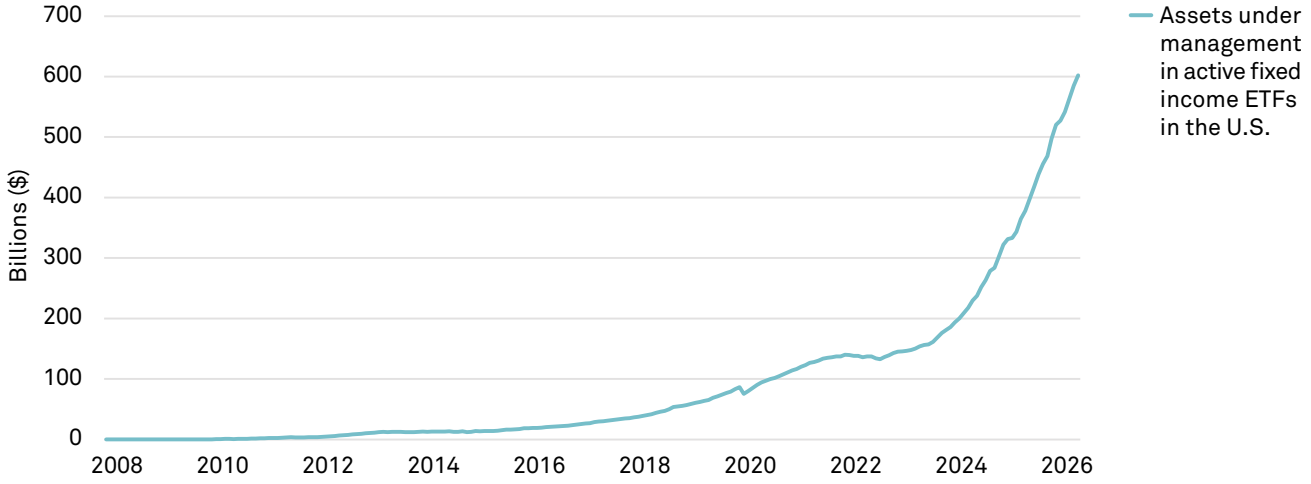
The rise of active ETFs

While passive fixed income ETFs remain an important way for investors to gain exposure, active fixed income ETFs continue to see significant growth. They combine the benefits of the ETF structure with the ability of portfolio managers to drive security selection, sector allocation, and risk management decisions. This gives investors access to professional active management in a vehicle that offers intraday trading and transparency.

Such features seem to have proved attractive to U.S. investors, where assets in active fixed income ETFs have grown dramatically in recent years. We believe such growth could also emerge in the European market, given the underlying drivers.

The active ETF market is also broadening access to more specialised areas of fixed income. Using ETFs, investors can increasingly access actively managed exposures to sectors such as high yield credit. These segments may offer attractive diversification or return opportunities but can be more complex than traditional government or investment grade bond markets.

Actively managed fixed income ETFs have surged in the U.S.



Source: Bloomberg Intelligence, as at 31 July 2026.

Looking ahead, innovation is likely to remain a defining feature of the ETF market. However, ETF providers will need to ensure that new product structures remain consistent with the liquidity and tradability investors expect from exchange-traded vehicles. Striking the right balance between expanding access to less liquid asset classes and maintaining efficient ETF trading will be critical to the continued development of the active fixed income ETF market.

Endnotes

1. Morningstar, Europe ETF Flows Monthly Roundup September 2026
2. Source: Bloomberg Intelligence, as at 31 July 2026

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