# Navigating volatility: The rise of Cboe Credit Index Futures in a transforming bond market

In an era defined by macroeconomic uncertainty and digital transformation, credit futures are revolutionizing how investors manage risk and access liquidity. Cboe® Credit Index Futures were designed to mirror the liquidity and structure of popular credit ETFs and have seen record adoption in recent years. This growth reflects a broader transformation in how investors manage credit exposure, hedge risk and optimize capital allocation.

**The Evolution of the Corporate Bond Market**

The corporate bond market has undergone a dramatic shift since the Global Financial Crisis. Electronification, increased data transparency and the rise of systematic investment strategies have reshaped the fixed income ecosystem. The proliferation of fixed income ETFs — particularly the iShares® iBoxx® $ High Yield Corporate Bond ETF (HYG) and the iShares® iBoxx® $ Investment Grade Corporate Bond ETF (LQD) — has been central to this evolution. These ETFs are hubs for price discovery and risk transfer, catalyzed by the SEC's 2019 "ETF Rule" (Rule 6c-11), which standardized the use of custom baskets in ETF creation and redemption.

This regulatory milestone unlocked liquidity across thousands of bonds, enabling more seamless portfolio trading and laying the groundwork for the development of credit futures. Cboe's Credit Index Futures — IBHY ( Cboe® iBoxx® iShares® $ High Yield Corporate Bond Index Futures) and IBIG (Cboe® iBoxx® iShares® $ Investment Grade Corporate Bond Index Futures ) — were intentionally designed to align with these ETFs, using a unique index construction methodology that intersects benchmark indices with actual ETF holdings. This alignment helps to facilitate efficient arbitrage, hedging and access to deep liquidity pools.

**Record Growth and Market Integration**

As of May 2025, open interest in IBHY futures grew to $1.2 billion, a 4.5x increase year-over-year. IBIG futures followed closely with $598 million in open interest, marking a 4.4x rise. Average daily volume (ADV) has also climbed significantly, driven by customer demand — a sign of genuine market adoption. Bid-ask spreads in these futures mayoffer cost efficiency compared to trading the underlying bonds. For example, IBHY and IBIG futures generally maintain average bid/offer spreads within0.05% of the futures price. Liquidity is further enhanced by integration with ETF and swap markets, and the shift to quarterly expirations has concentrated trading activity, aligning with treasury futures and improving roll mechanics for institutional users.

Importantly, large trades in IBHY and IBIG futures may occur offscreen via block trades. In May 2025, 47% of IBIG futures volume was executed as block trades, underscoring the market's capacity for large-scale risk transfer beyond the visible order book.

**Strategic Utility in Volatile Markets**

The increase in credit futures usage is not merely structural, it's also strategic. Recent April 2025, have triggered increases in volatility, with the VIXHY and VIXIG credit volatility indices (the CDX/Cboe NA High Yield 1-Month Volatility Index and CDX/Cboe NA Investment Grade 1-Month Volatility Index) reaching levels unseen since 2020. In such environments, credit futures offer a dynamic hedging solution.

These instruments inherently combine credit and interest rate risk. Investors seeking to isolate credit risk may be able to offset interest rate exposure using U.S. Treasury (UST) futures. The optimal hedging strategy depends on the nature of the market shock. For example, in a deflationary shock like the one experienced during the COVID-19 pandemic IBHY and IBIG futures dropped 22% and 21%, prompting some market participantsto short IBHY and go long USTs to target credit risk.

Looking ahead, concerns around stagflation — marked by slow growth, persistent inflation, and rising trade tensions — could make unhedged short positions in IBHY or IBIG futures a potent risk management tool.

**Deep Ecosystem Integration**

Cboe credit futures are deeply embedded in the broader credit ecosystem. They interact seamlessly with ETFs, Total Return Swaps (TRS), Credit Default Swap Indices (CDX), and Portfolio Trading (PT). This interconnectedness fosters a coherent environment, enhancing price discovery and facilitating cross-instrument strategies.

**Expanding the Toolkit: Options on Credit Futures**

In 2024, Cboe launched options on its credit futures, addressing structural challenges in ETF options. These American-style options settle physically into futures and incorporate dividends into the underlying index, reducing early exercise risk. Unlike ETF options, which suffer from borrowing complexities and concentrated liquidity in short tenors, futures-based options may offer more efficient hedging across the term structure.

The rapid evolution and adoption of Cboe Credit Index Futures underscore their crucial role in today's dynamic credit market. By bridging liquidity, efficiency and strategic flexibility, these instruments can empower investors to manage credit exposure with greater precision amid market uncertainty. As the credit ecosystem continues to innovate, Cboe Credit Index Futures are poised to remain at the forefront of how institutional investors navigate risk, optimize portfolios and respond to macroeconomic shifts. Their growth signals not just a transformation in trading tools, but a step forward in the resilience and adaptability of the fixed income landscape.

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