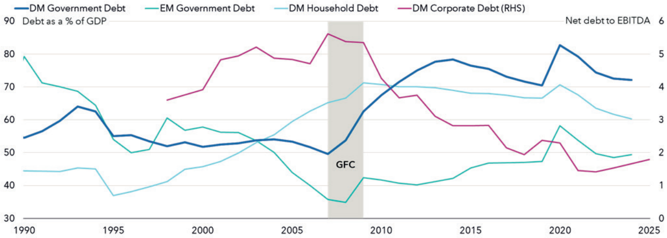
Dynamic Global Bonds — investing across the cycle

Despite geopolitical strains, elevated borrowing, and shifting policy dynamics, the global economy has shown notable resilience over the past 12 months. Valuations across major asset classes (including equities, gold and high yield credit) remain elevated, even as several macroeconomic indicators point to potential softening beneath the surface. We believe these tensions highlight the importance of a flexible and globally diversified fixed income approach, one that can adapt to rapidly evolving conditions across markets, sectors, and currencies.

Regardless of an investor's base case, holding some defensive ballast against future potential volatility has historically been a prudent way to maintain exposure to risk markets like equities. Developed market government bonds have long been used for this purpose, helping to provide stability during periods of stress. However, with developed market governments continuing to borrow at historic levels and central bank balance sheets contracting, such bonds may not always deliver the defensive qualities investors have relied upon.

Global debt dynamics since the global financial crisis (GFC)



Source: LHS axis – IMF. Data as at 31 December 2024 for DM Government Debt, EM Government Debt and DM Household Debt. RHS Axis – Data as at 31 December 2025 for DM Corporate Debt, based on the net debt to EBITDA ratio of the MSCI World Index.

These developments do not suggest a complete departure from government bonds as a defensive anchor in portfolios; rather, we think they highlight that the traditional approach may no longer be sufficient on its own. One potential option is to seek defence from a broader array of sources and to extend diversification beyond traditional boundaries. A dynamic approach allows these components to be combined and adjusted as conditions evolve.

In practice, this might mean implementing a multi-faceted investment strategy to achieve the desired defensive risk position. For example, a traditionally defensive DM government bond allocation, such as US treasuries, could be combined with other sources of debt that have lower levels of borrowing, such as, higher quality emerging market sovereigns or investment grade corporate bonds. So that this does not add additional unwanted risk, the allocation can be paired with a relative value sector position or selective currency exposure. The successful implementation of a strategy of this kind requires the high degree of flexibility that sits at the core of a more dynamic approach to global bonds.

Dynamic portfolios are designed to balance the key benefits of fixed income: capital preservation, diversification, income, and capital appreciation. Maintaining exposure to high-quality assets may help mitigate equity market volatility while maintaining flexibility across geographies and sectors can enhance diversification versus equities and other risk assets. Importantly, flexibility does not only provide the opportunity to strengthen defensive capabilities; it can also help identify opportunities for capital appreciation.

This is important because today the global bond market offers a rich source of potential capital appreciation and income opportunities. For the dynamically minded manager these opportunities include capturing relative value between developed and emerging market economies, duration positioning, credit, where bottom-up security selection can help identify value, and opportunities across emerging markets local currency and foreign currency.

In an environment where volatility is likely to be elevated and the outlook somewhat uncertain, the ability to effectively adjust portfolio positioning can help strengthen a portfolio's defensive characteristics and capture potential investment opportunities. In short, we believe a dynamic global bond approach can help balance income, capital preservation, diversification and capital appreciation in a world where resilience and adaptability are increasingly essential.

The Great Global Restructuring – Drivers of change investors should watch

For a broader perspective on the Great Global Restructuring and what its long-term implications could mean for investors, scan the QR code to learn more.

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