

# Fixed Income



Why bond markets are set up to provide a compelling combination of attractive yield and portfolio diversification in 2025.



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## What role will bonds play in investors' portfolios in 2025?

Looking at bonds in 2025, the key things that stand out to me are their **attractive all-in yields and the diversification factor**. Central banks have begun the easing cycle. Some more forcefully, some more gradually. But the clear trend of lower interest rates that was established in 2024 will continue to be a very strong tailwind for bonds in 2025. Encouragingly, 2024 saw the re-establishment of the classic relationship between bonds and other risk assets in periods of market distress. So, in 2025, investors can look for bonds as an opportunity to get some diversification into their portfolios.

## What are the biggest opportunities and risks facing fixed-income portfolios?

The biggest opportunity for fixed income in 2025 is actually also the biggest risk: **duration**. Long-term bond yields are, in many cases, at multi-decade highs. So when we look into 2025, there's obviously a clear opportunity there. **If we see a dramatic fall in bond yields, longer duration assets could perform very well**. However, this is also where the greatest risk is embedded. We're just becoming acclimatized to

the post-QE environment where central banks are reducing the size of their balance sheets. This is all in an environment where governments are running larger deficits than ever before, and **bond supplies are hitting the market in larger and larger sizes**. So, for us, the opportunity is to avoid some of that duration risk and **focus on short-maturity**, investment-grade and high-yield bonds, which offer the same level of yield with a fraction of the risk.

## With inflation not falling as quickly as the market once hoped, are bonds still a 'buy'?

While inflation hasn't fallen as quickly as the market might have hoped, **we still think that bonds are a 'buy' for 2025**. We're talking about an environment where inflation is in the 3%-ish range versus a situation at the start of 2024 when we were looking at about 5% plus. So, if we look at 2025, while the last yards of getting inflation towards the 2% target might prove to be the hardest yards, I'm still quite confident that the trend is still very much in place. In 2025, we can see a situation where central banks are continuing to lower policy rates gradually as inflation continues to slowly forge back towards target. So, I think investors can be pretty optimistic about returns from fixed income.

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