

## Contents

# 1

High starting yields have historically led to positive returns

# 2

Higher starting yields give bonds more breathing room in case of upside surprises

# 3

Spreads should remain tight so long as growth remains resilient

# 4

Higher core yields mean investors no longer have to reach for returns

# 5

Diversification potential has improved

## Global Bond Monitor

This piece uses five charts from the *Guide to the Markets* to explain why, despite an uncertain economic backdrop, we still see compelling opportunities across the fixed income landscape.

Fixed income has historically provided two key characteristics in a multi-asset portfolio:

- 1) A steady stream of income.
- 2) Diversification against riskier assets if the growth outlook deteriorates.

For much of the past decade, the ability of bonds to offer either of these elements had steadily diminished. A long bull market compressed yields to record low levels, forcing investors to make an unenviable choice: accept paltry returns by investing in government bonds at ever lower yields, or chase higher yields in lower quality parts of the fixed income universe and take on much more risk as a result.

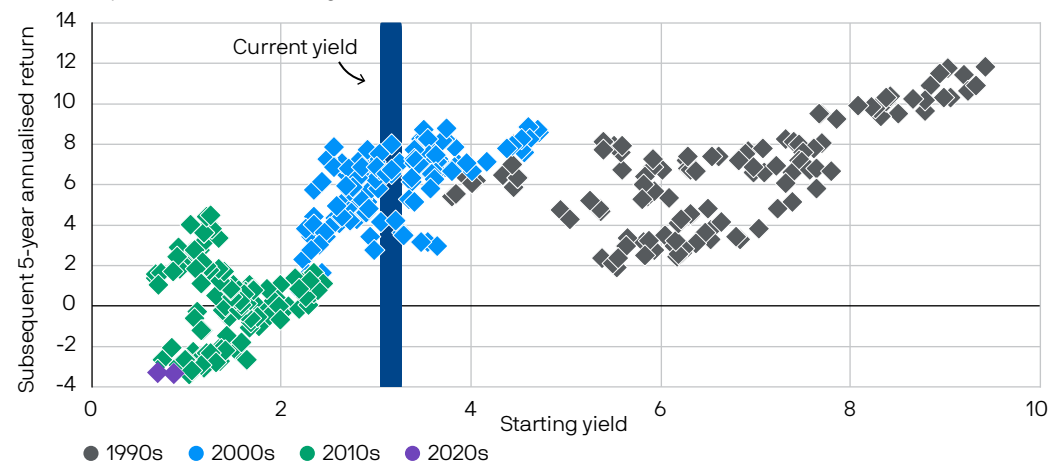
The declines witnessed in fixed income markets in 2022 were unprecedented. As yields normalised, the global aggregate bond index fell by 16%, the worst annual decline since the index began in 1990 and more than three times as bad as the second worst year on record. While uncertainty about the direction of global fiscal policy means markets are likely to remain volatile for some time, we believe that the fixed income reset is now broadly complete and that the role of bonds in a balanced portfolio has been restored.

Bonds once again offer an attractive income stream to investors. Sticky inflation means that absent a shock to growth, yields are unlikely to fall significantly. This means income is likely to form the bulk of investor returns and portfolios should be positioned to capture it. Comfortingly, the higher starting point also means bonds have a greater cushion to absorb further upward pressure on yields before investors lose money over a 12-month period.

## 1 – High starting yields have historically led to positive returns

### Global government bond yields and subsequent 5y returns

%, subsequent return is % change annualised



Our first chart looks at the impact of starting yields on subsequent returns. Investors are aware of the impact of equity valuations on subsequent medium-term returns, and the same dynamic is true in fixed income. After the period of low interest rates following the global financial crisis, government bond yields have now returned to a more normal range. This reset in yields significantly improves the return profile of fixed income as higher starting yields have historically led to higher subsequent returns. From current starting yields, investors have typically enjoyed annualised returns of around 6% over the subsequent five years.

Source: Bloomberg, LSEG Datastream, J.P. Morgan Asset Management. Index used is the Bloomberg Global Aggregate – Treasuries index in US dollars, and thus returns include currency effects. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2025.

## 2 – Higher starting yields give bonds more breathing room in case of upside surprises

### Global government bond yield cushion

Basis point change over 12 months



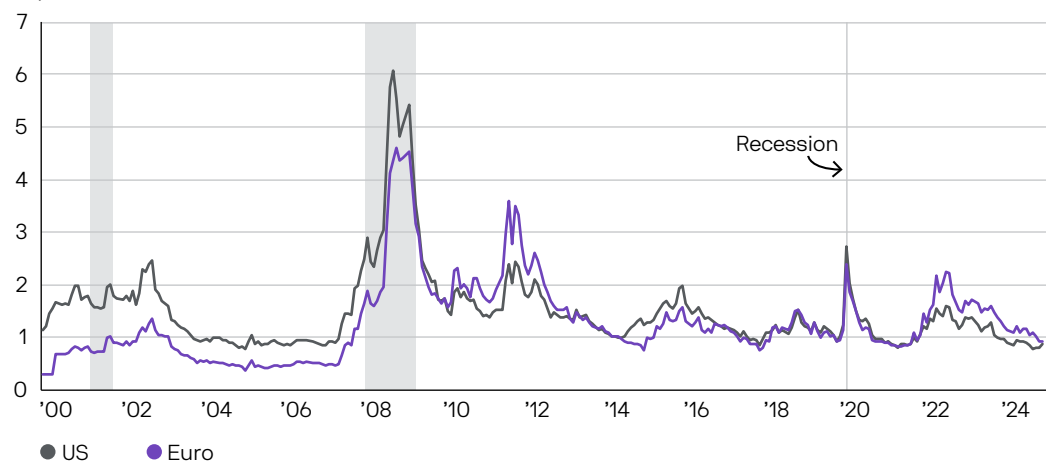
While medium-term return prospects for government bonds look attractive, heightened inflation uncertainty does increase short-term risks. Many investors, burned by their experience in 2022, are understandably nervous about further upward pressure on yields. Our second chart shows how the higher starting yields available in global government bonds give investors greater insulation from rising yields than has been available for over 10 years. The yield cushion measures how far yields would have to rise before capital depreciation wipes out one year's worth of income. Global government bond yields would now have to rise by 45 basis points before investors lose money on a 12-month basis. This means investors can have more confidence in returning to fixed income even if they have concerns about shorter term volatility.

Source: Bloomberg, LSEG Datastream, J.P. Morgan Asset Management. Yield cushion refers to how far yields can rise before capital depreciation wipes out one year's worth of income. Index used is the Bloomberg Global Aggregate – Treasuries index. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2025.

### 3 – Spreads should remain tight so long as growth remains resilient

#### Investment grade spreads

% points



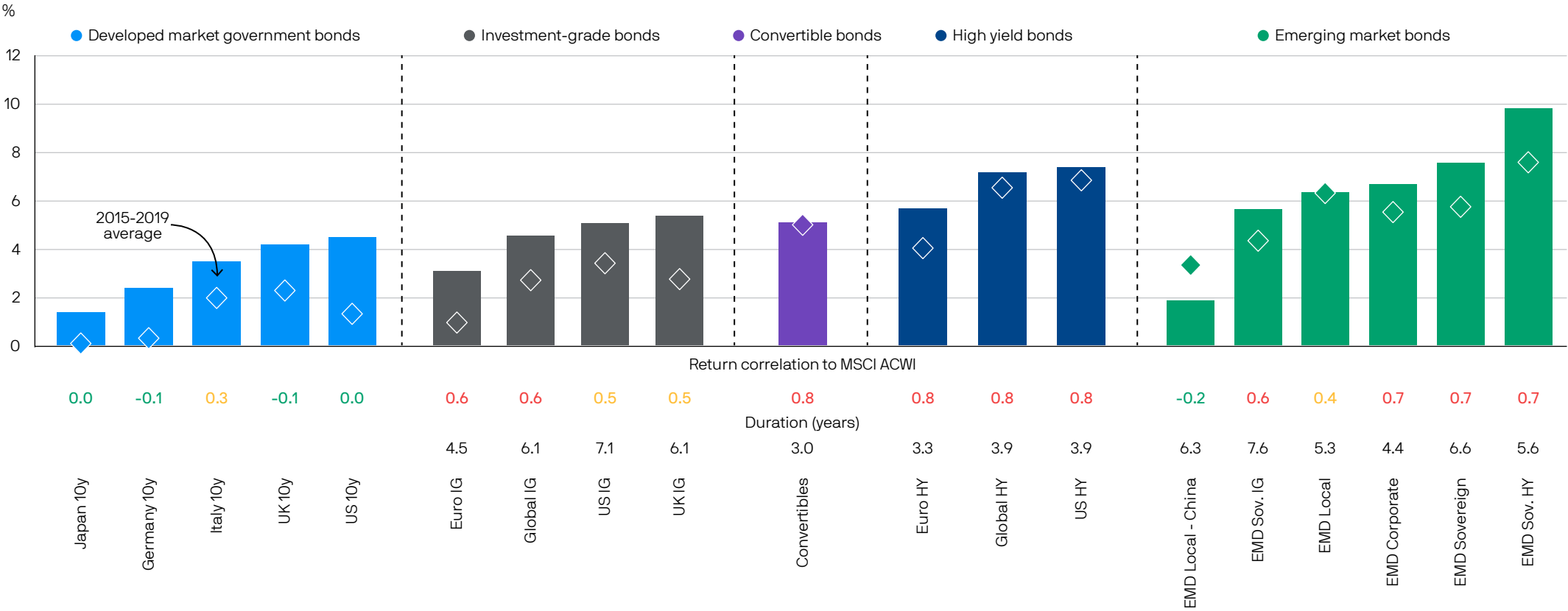
Investors waiting for a more attractive entry point to extend into credit could be waiting for some time. Credit spreads spend most of the time at the tighter end of their range. Since 1990, US investment grade spreads have been tighter than 150 basis points 75% of the time. Historically, spreads have only widened significantly when growth weakens materially. Absent a recession, spreads are likely to remain contained and investors can step out into credit to capture the additional income on offer.

Source: Bloomberg, LSEG Datastream, J.P. Morgan Asset Management. US IG: Bloomberg US Aggregate – Corporate; Euro IG: Bloomberg Euro-Aggregate – Corporate. Periods of recession are defined using US National Bureau of Economic Research (NBER) business cycle dates. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2025.

## 4– Higher core yields mean investors no longer have to reach for returns

Our fourth chart considers the ‘menu of options’ across the fixed income universe. The bars show yields in February 2025, and the markers show average yields over the period 2015 to 2019. As the chart highlights, yields have increased across core fixed income. With core bonds now offering yields in excess of 4%, investors no longer have to take on significant credit risk in high yield or emerging market debt in order to generate positive real returns.

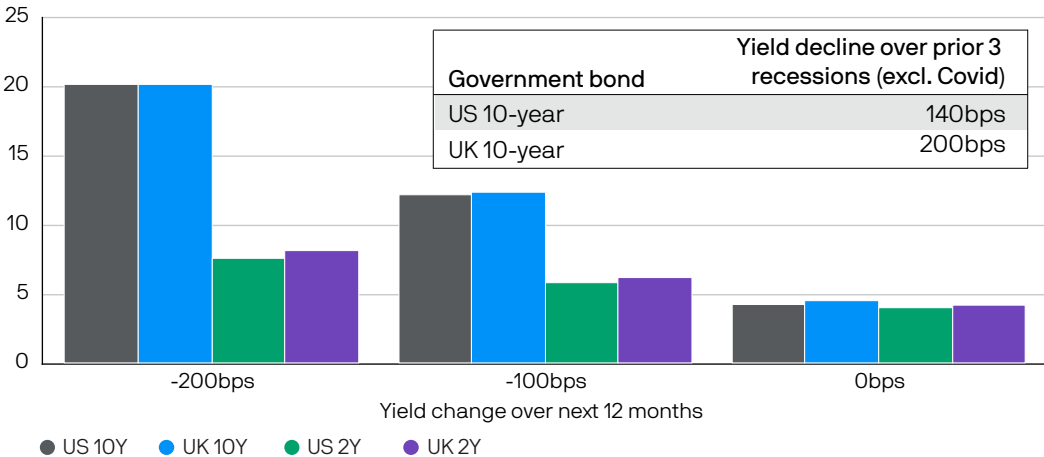
### Fixed income yields



Source: Bloomberg, ICE BofA, J.P. Morgan Economic Research, LSEG Datastream, J.P. Morgan Asset Management. Return correlation to MSCI ACWI is calculated using monthly total returns since 2008. Indices used are as follows: Euro IG: Bloomberg Euro-Aggregate – Corporate; Global IG: Bloomberg Global Aggregate – Corporate; UK IG: Bloomberg Sterling Aggregate – Corporate; US IG: Bloomberg US Aggregate – Corporate; Convertible bonds: Bloomberg Global Convertible Rate Sensitive hedged to USD; Euro HY: ICE BofA Euro Developed Markets Non-Financial High Yield Constrained Index; Global HY: ICE BofA Global High Yield Index; US HY: ICE BofA US High Yield Constrained Index; EMD corporate: CEMBI Broad Diversified; EMD local: GBI-EM Global Diversified; EMD local – China: J.P. Morgan GBI-EM Broad Diversified China; EMD sovereign: EMBI Global Diversified; EMD sov. IG: EMBI Global Diversified IG; EMD sov. HY: EMBI Global Diversified HY. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2025.

## 5 – Diversification potential has improved

Government bond return scenarios  
%, total return over 12 months



Our fifth chart considers the total return that investors would receive from government bonds, depending on how yields move over the next 12 months. If the economic outlook deteriorates over the coming months, the pressure on central banks to cut interest rates will only intensify. In this scenario, bond yields still have significant room to fall from current levels. In the event that 10-year government bond yields fell by 100 basis points over the next 12 months, this would deliver a return of more than 10%. This is the kind of meaningful diversification against equity losses that multi-asset investors rely on when constructing balanced portfolios, which has not been available for several years given the very low level of yields.

Source: LSEG Datastream, J.P. Morgan Asset Management. Chart indicates the calculated total return achieved by purchasing the given government bond at its current yield and selling in 12 months' time given various changes in yield. For illustrative purposes only. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2025.

## Conclusion

The opportunities available in fixed income remain attractive. The reset higher in yields means core bonds can deliver sustainable income in the medium term. Absent a shock to growth, yields and spreads are likely to remain contained and investors should position their portfolios to capture it. However, if the outlook does deteriorate then government bond yields have room to fall, providing diversification against equity losses. These two factors mean that after a decade in the doldrums, the role of core bonds in multi-asset portfolios has been restored.

---

**The Market Insights programme provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the programme explores the implications of current economic data and changing market conditions.**

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programmes are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programmes, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not a reliable indicator of current and future results.

J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our EMEA Privacy Policy [www.jpmorgan.com/emea-privacy-policy](https://www.jpmorgan.com/emea-privacy-policy).

This communication is issued in the UK by JPMorgan Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority. Registered in England No. 01161446. Registered address: 25 Bank Street, Canary Wharf, London E14 5JP.

Copyright 2025 JPMorgan Chase & Co. All rights reserved.

LV-JPM56315 | 03/25 | UK | bf296d40-a250-11ed-9a38-eeee0afc79d3