Who owns the decisions that matter in fixed income?

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As bond markets diverge, some of the most important fixed income allocation decisions increasingly sit between markets, sectors and specialist mandates. The question is who should be accountable for them.

For much of the post financial crisis-period, bond allocation was relatively straightforward. Low yields and low inflation largely limited the role of core bonds to that of an equity diversifier. With yield scarcity as the 'new normal', investors were simply compelled to take duration and credit risk to earn a decent income.

That approach worked for several years. But after the global pandemic and Russia's invasion of Ukraine caused inflation to spike to levels not seen in decades and central banks to respond with aggressive rate hikes, the days of easy returns ended and the gap between managers started to widen. In 2022 alone, for example, returns between the top and bottom quartile managers in the UK strategic bond sector ranged between -4.6% and -14.1%.[1]

It was a chastening experience for investors and strengthened the case for them to take back control of allocation decisions: sizing their preferred exposure through specialists and retaining ownership of the bigger calls rather than delegating them to a flexible bond fund manager.

The question is whether it remains the right answer for markets today. The answer is not necessarily to reserve that instinct, but to narrow what it applies to – retaining ownership of manager selection while having a mandate in place to make the big calls across the whole portfolio.

Out of sync

In fixed income today, asset allocation decisions are no longer simply about whether to own duration or credit, but where to own duration, which markets offer the best compensation, whether credit spreads justify the risk and how those decisions interact across the whole portfolio.

In effect, the most consequential decisions in fixed income are increasingly between, rather than within, markets. Should investors own UK Gilts or US Treasuries? Bunds or Japanese government bonds? Sovereign duration or investment grade credit? Long-dated exposure or short-maturity income? Together, these decisions contribute to different drivers of return and risk.

Take government bonds which, on the face of it, is the most straightforward building block in a portfolio. Across UK-authorised funds, assets in UK gilt funds (including index-linked funds) total around £28 billion, roughly two and a half times the £11 billion sitting in funds offering global, diversified government bond exposure.[2]

Gilts continue to provide an important role in portfolios through income generation and equity diversification. However, allocating to domestic government bonds should still be an active geographic decision. Investors should not assume UK duration offers the most attractive opportunity set amid government bonds.

Who should own the allocation decision?

The same issue extends beyond government bonds. Many fixed income portfolios are built from sleeves: domestic government bonds, global government bonds, investment grade credit, high yield bonds, each managed by a different specialist.

Each specialist manager may be highly capable; the issue is who owns the allocation decisions that sit between them - the aggregate portfolio duration decision, whether government bonds offer better value than credit or whether investment grade offers superior risk-adjusted returns than high yield.

Those decisions may be made by committee, implemented slowly or simply left unchanged. The result can be a collection of strong specialist allocations without a clear owner or visibility over the broader opportunity set.

Recognising this challenge, some investors may conclude the simplest solution is to move towards a global passive bond allocation. After all, if the key decisions increasingly sit between markets, why not own the entire opportunity set through a broad index and avoid making big allocation calls altogether?

Yet while the global bond index provides diversification by country, sector and issuers and reduces governance complexity, it doesn't solve the allocation problem.

Bond indices allocate capital according to the amount of debt outstanding, not where valuations are most attractive or where investors are best compensated for risk. The largest borrowers therefore become the largest allocations irrespective of value or the wider opportunity set.

Hyperscaler-related debt is a live example. Heavy issuance from a small number of large technology-adjacent borrowers has pushed that sector's weight within investment grade indices higher. This is despite concerns over the leverage and revenue profiles of issuers relative to the massive capex required. An investor who holds the index passively has no ability to opt out of that theme – they simply become a larger, involuntary holder of whatever the index has been issuing into.

In practice, that sleeve structure often collapses into a barbell. Domestic government bonds provide defence and reliable income while short-dated credit strategies provide additional yield and return potential.

But the middle remains unresolved. Because, although the barbell approach addresses the two ends of the portfolio, it misses the wider allocation decisions that have become critical return drivers.

Addressing this requires a mandate that can invest across multiple markets via a valuation framework that has clear guard rails. This allows investors to allocate dynamically as opportunities emerge while avoiding areas of the market where compensation is no longer attractive.

Why flexibility matters more than ever

Flexibility is often associated with bold, high-conviction calls. Its real value, however, lies in the ability to allocate across markets and sectors as they move apart, which is precisely what we are seeing today with rates, inflation, fiscal paths and credit valuations.

Disciplined flexibility gives those decisions a clear owner, with the scope to adjust duration, geography, curve and credit exposure as the opportunity set changes rather than leaving them fragmented across different sleeves.

That ownership matters more now than it has for years.

References

1. Morningstar, Investment Association, as of July 31, 2026
2. The Investment Association, Fund statistics by sector, May 2026

Contact us

Email: Clientsolutions@nedgroupinvestments.com

London: Nedgroup Investments, 7th Floor, 12 Arthur Street, EC4R 9AB,

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