The iBoxx $ Liquid Investment Grade Index: A Cornerstone of Modern Investment Grade Credit

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The iBoxx $ Liquid Investment Grade Index was developed to address the need for representative exposure to high-grade U.S. corporate bonds while maintaining tradability. By applying strict liquidity criteria to the extensive investment grade universe, the index includes bonds that are large and frequently traded, which are commonly held in institutional portfolios.

Size is an important factor in this context. Each bond must meet minimum thresholds that ensure sufficient investability, while issuer caps help to limit concentration. Monthly rebalancing maintains the index's alignment with market conditions. Instead of requiring market participants to construct portfolios on an individual bond basis, the index provides broad credit exposure through a single, transparent mechanism. With its liquid components and consistent methodology, execution is designed to be straightforward.

Credit markets have undergone significant changes over the past 20 years. The growth of ETFs, index futures and total return swaps (TRS) has not only influenced trading practices but has also shifted perspectives on fixed income allocation. Central to this evolution are index offerings such as the iBoxx suite, which provide a transparent, rules-based framework that facilitates modern credit trading. Electronic trading has accelerated this shift. What once required phone calls and relationship capital now happens on screens with point-and-click efficiency. Portfolio trading protocols enable institutions to move entire baskets of bonds in single transactions.

Yet none of these innovations would scale without standardized benchmarks. The iBoxx $ Liquid Investment Grade Index serves as the common language, translating between ETF creation units, futures contracts and swap agreements.

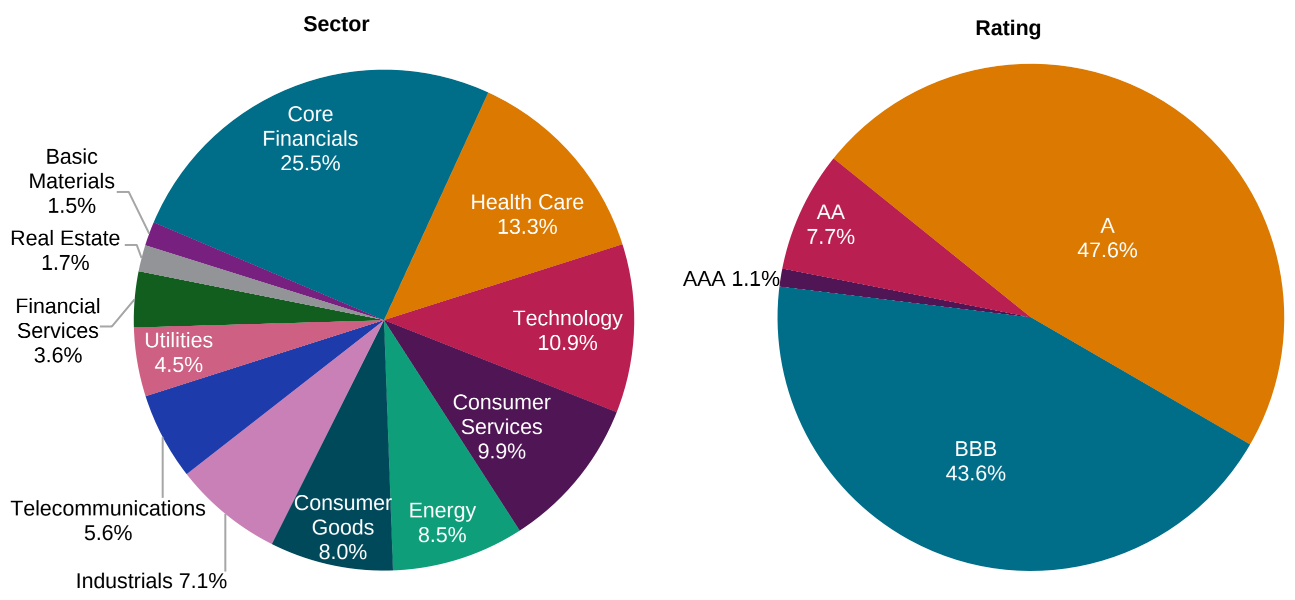
The implications reach beyond efficiency gains. Pension funds, asset managers and central banks now access investment grade credit with precision previously reserved for equity markets. The barriers have fallen, the tools have proliferated and credit has become truly institutional.

1. Construction and Methodology

The iBoxx $ Liquid Investment Grade Index targets the liquid core of USD-denominated investment grade corporate debt through carefully calibrated screens. Bonds must carry at least USD 750 million outstanding and maintain three years to maturity. The 3% issuer cap hedges for outsized single-name risk, while monthly rebalancing ensures that the index reflects current market dynamics.

As of June 30, 2025, Core Financials, Healthcare and Technology represented nearly half the index weight, at 49.60%. Rating distribution tilted toward the middle of investment grade territory: A rated bonds comprised 47.6%, BBB issues represented 43.6%, while AAA and AA securities filled the remaining 8.8% (see Exhibit 1).

Exhibit 1: iBoxx $ Liquid Investment Grade Index Sector and Rating Composition



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Charts are provided for illustrative purposes.

When measured against the broader iBoxx $ Corporates benchmark, the iBoxx $ Liquid Investment Grade Index has demonstrated remarkable efficiency. With just 2,922 bonds from 419 issuers versus the benchmark's 8,559 bonds from 1,259 issuers, the investment grade index represents nearly half the market value while delivering 6 bps of additional yield. The index maintained a duration of 7.92 years, providing meaningful rate sensitivity for market participants seeking to express duration views (see Exhibit 2).

Exhibit 2: Comparison versus Benchmark

Criteria	iBoxx $ Liquid Investment Grade Index	iBoxx $ Corporates Index
Number of Bonds	2,922	8,559
Number of Issuers	419	1,259
Market Value (USD Millions)	3,717,075.51	8,114,974.12
Yield (%)	5.47	5.41
Duration (Years)	7.92	6.46
Option-Adjusted Spread	95.87	97.96

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

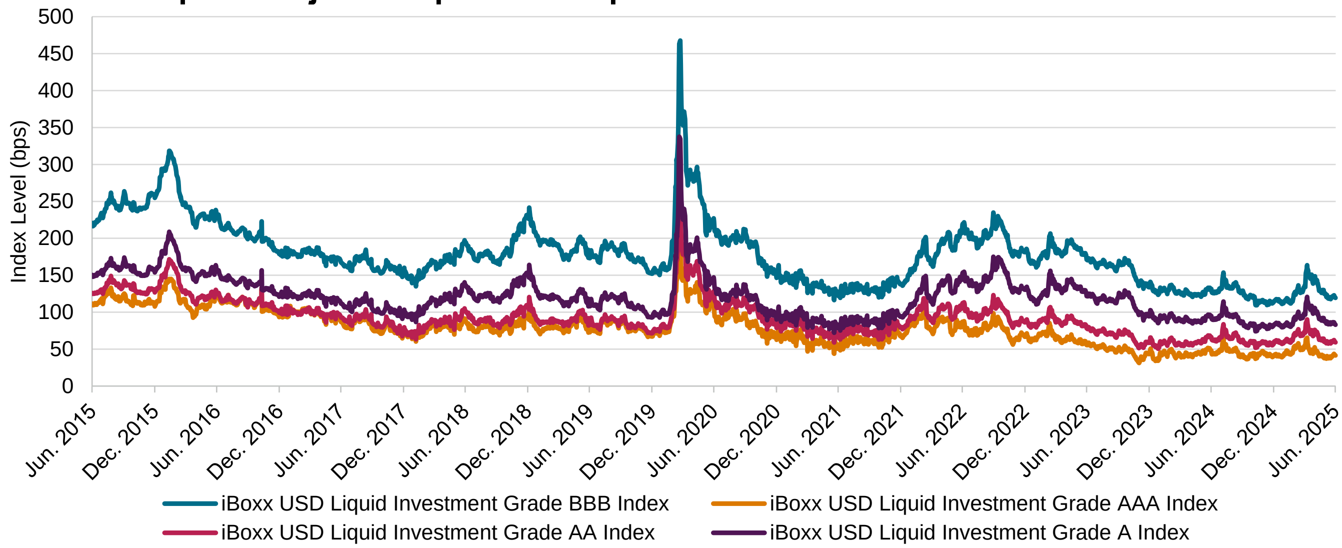
2. Historical Spread Dynamics

Option-adjusted spreads reveal how different credit segments respond to market stress. Examining major disruptions—the 2015 Greek crisis, the 2016 U.S. election, the 2018 volatility spike, the COVID-19 pandemic, 2022 recession fears and the 2024 election cycle—shows a consistent pattern: quality commands a premium when uncertainty rises (see Exhibit 3).

The COVID-19 response proved particularly revealing. In just 12 trading days between March 5 to March 23, 2020, BBB spreads surged from 200 to 468 bps—an increase of 268 bps. AAA bonds, on the other hand, widened only 119 bps over the same period. Markets eventually normalized, with spreads settling below pre-pandemic levels by the end of the year.

The 2025 tariff announcements reignited volatility, pushing all credit segments wider by an average of 24 bps between April 2 and April 8, 2025. BBB bonds jumped 29 bps while AAA securities rose by just 13 bps. Despite these moves, spreads across most categories remained below 10-year averages as of June 30, 2025—only BBBs traded wide to their historical mean.

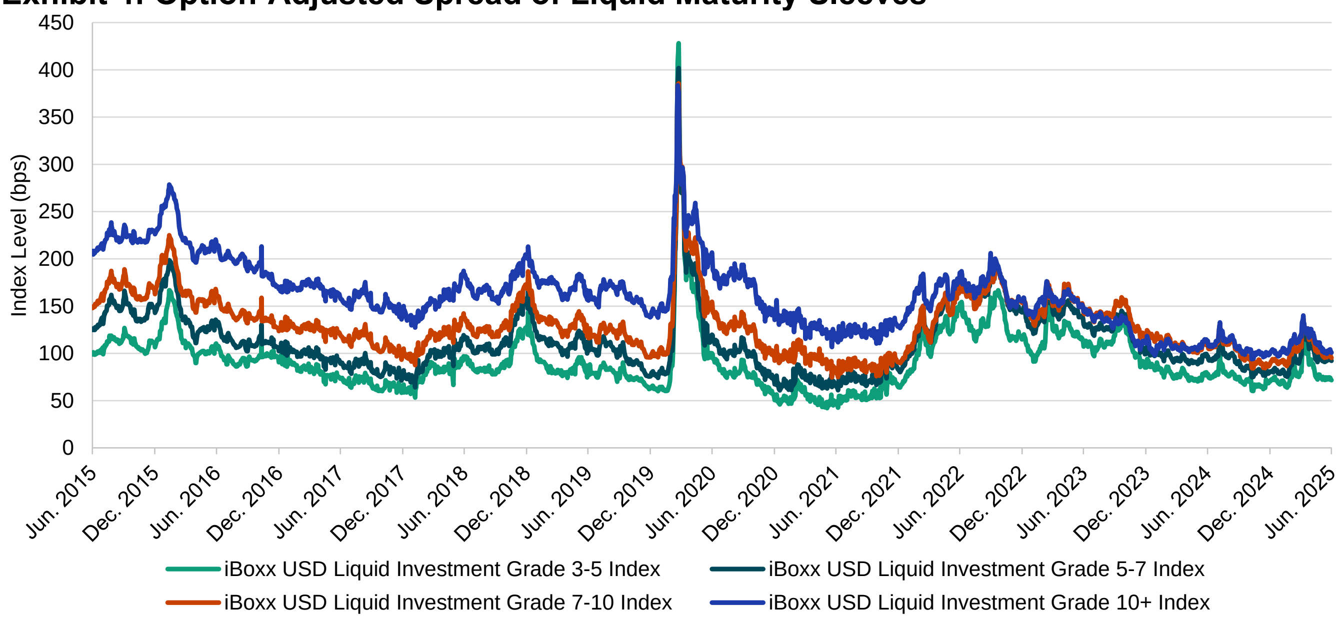
Exhibit 3: Option-Adjusted Spread of Liquid Credit Sleeves



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Maturity analysis tells a similar story. Short-dated bonds (three-five years) proved most volatile during the pandemic, widening 337 bps at the peak versus 193 bps for bonds beyond 10 years. The April 2025 tariff episode saw three-five year bonds gap 35 bps wider while longer maturities moved just 22 bps. As of June 30, 2025, spreads across all maturity buckets traded tight to 10-year averages, suggesting continued investor appetite for credit risk.

Exhibit 4: Option-Adjusted Spread of Liquid Maturity Sleeves

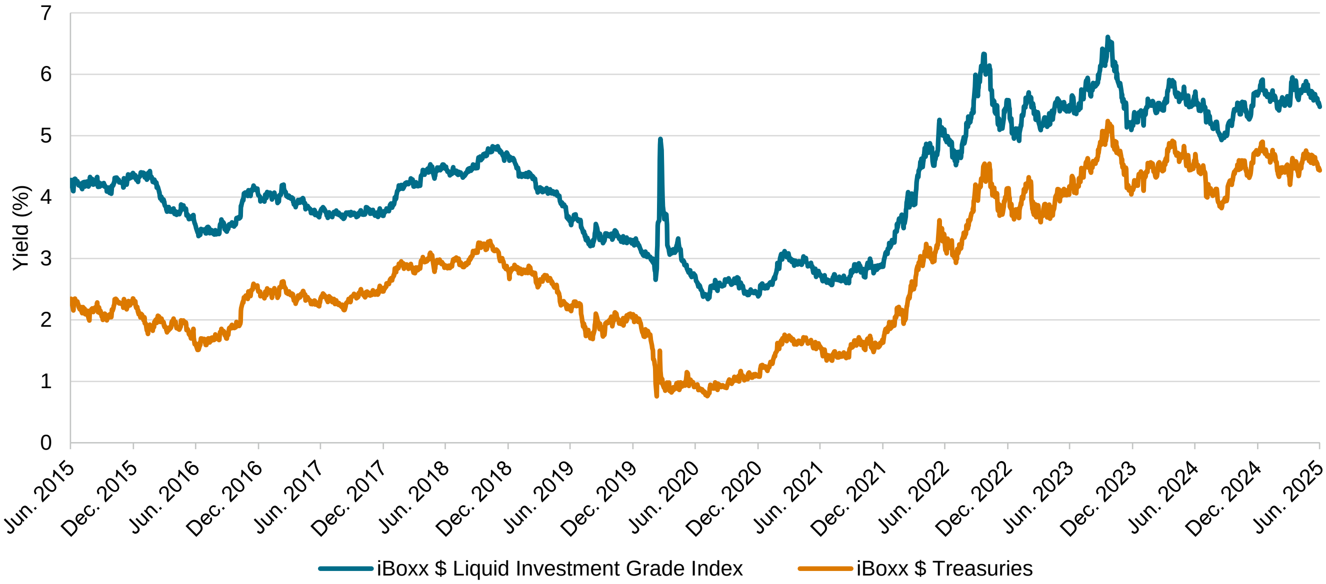


Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

3. Comparison with U.S. Treasuries

Investment grade credit yields merit comparison with those of U.S. Treasuries, the deepest pool of dollar liquidity. Over the past decade, the iBoxx $ Liquid Investment Grade Index has maintained an average yield premium of 147 bps above comparable Treasury securities. At 109 bps as of June 30, 2025, the credit is trading at a premium versus the historical average.

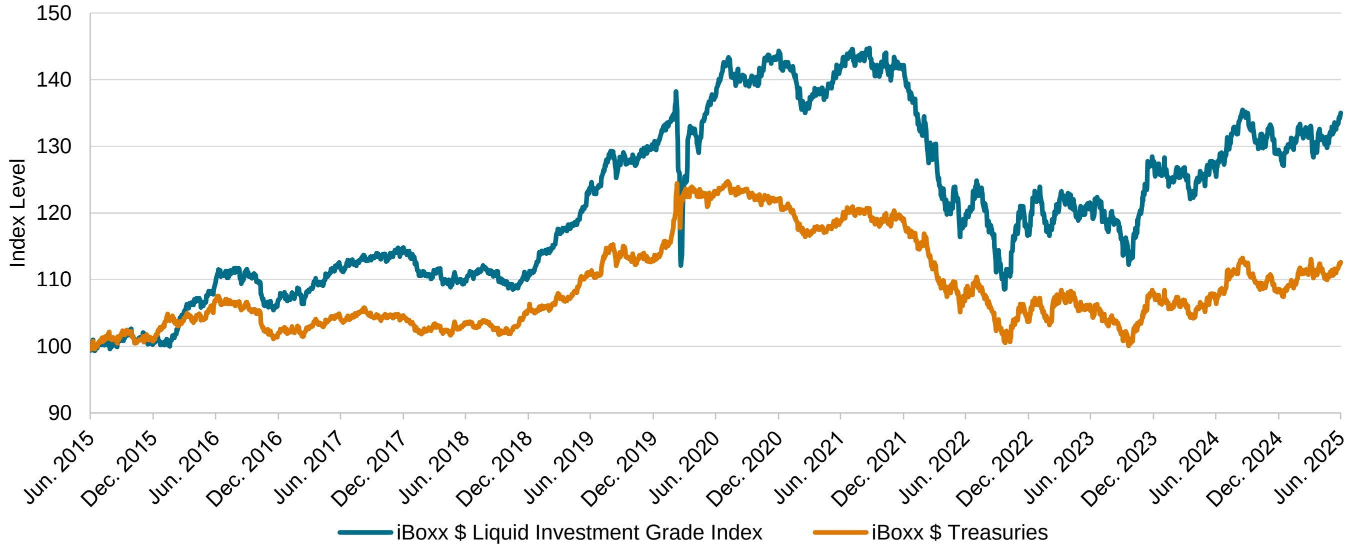
Exhibit 5: Yield Comparison of iBoxx $ Treasuries versus iBoxx $ Liquid Investment Grade Index



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Performance patterns diverge markedly during stress periods. The March 2020 selloff saw investment grade credit decline sharply before recovering, while Treasuries initially rallied on flight-to-quality flows before stabilizing. This pattern illustrates how the index behaves differently across market regimes—tracking carry opportunities in stable conditions and serving as a gauge of credit risk when volatility rises (see Exhibit 6).

Exhibit 6: Performance of iBoxx $ Treasuries versus iBoxx $ Liquid Investment Grade Index



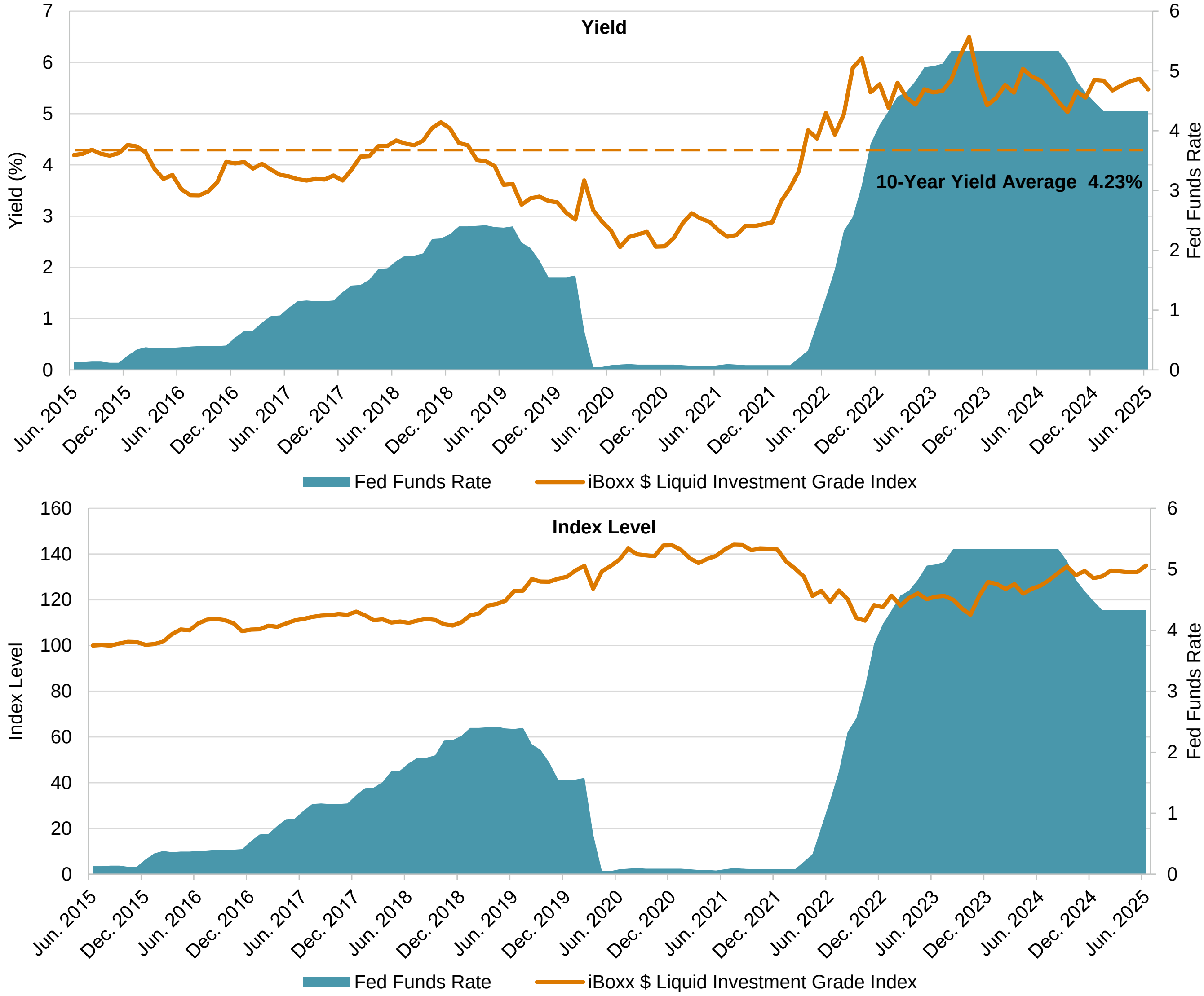
Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Indices were rebased to 100 on June 30, 2015. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

4. Performance through Market Cycles

As shown in Exhibit 7, the U.S. Federal Reserve's hiking cycle that began in March 2022 fundamentally reset fixed income markets. The iBoxx $ Liquid Investment Grade Index, which averaged a 4.23% yield over the past decade, jumped to 5.67% in the first half of 2025—an increase of 144 bps. This yield surge inevitably pressured prices, with index levels plateauing after modest gains in 2024.

However, higher yields mark a shift in market dynamics. Investment grade fundamentals remain strong, corporate balance sheets are healthy and the yield cushion may provide meaningful protection against further rate volatility.

Exhibit 7: Fed Funds versus Yield and Index Performance

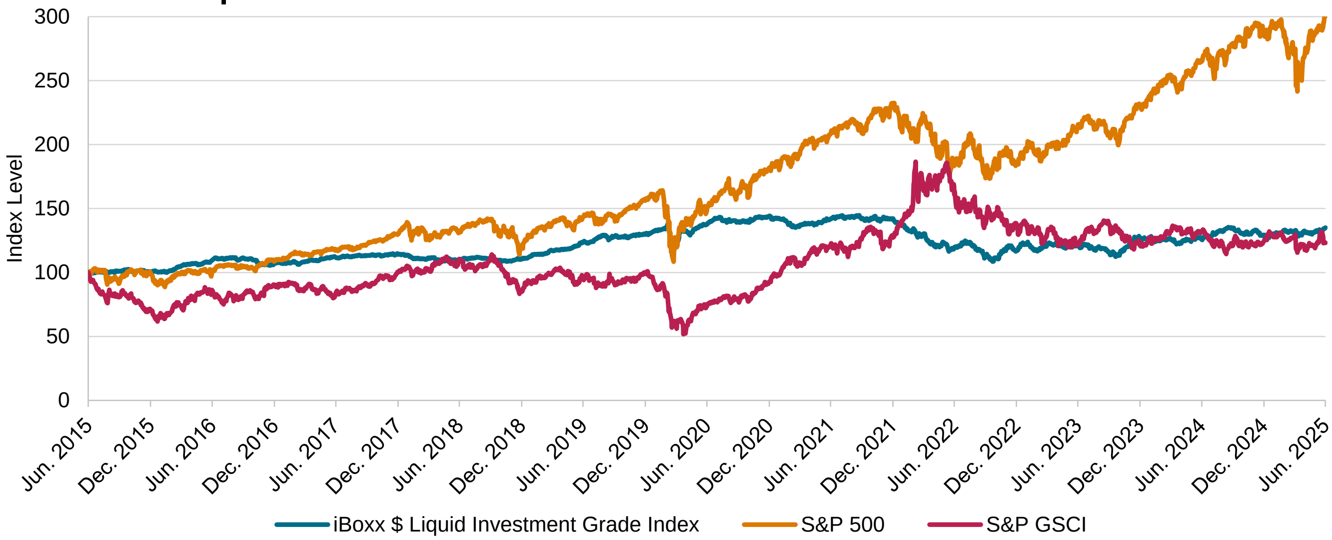


Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Past performance is no guarantee of future results. Charts are provided for illustrative purposes.

Correlation analysis reveals the index's evolving relationship with other asset classes. As we can see in Exhibit 8, over the past decade (June 2015-June 2025), the iBoxx $ Liquid Investment Grade Index showed 66% correlation with the S&P 500® and 30% with commodities (as represented by the S&P GSCI). These relationships shift dramatically over shorter horizons. The five-year correlation drops to 44% with equities and turns negative (-37%) with commodities, highlighting the index's role as a potential diversifier during volatile periods.

The one-year correlations tell an even more striking story: just 14% correlation with equities and -38% with commodities, showing how investment grade credit provided diversification when traditional stock-bond correlations broke down.

Exhibit 8: Comparative Performance and Correlation versus other Asset Classes



Correlation (%)	S&P 500	S&P GSCI
1-Year	13.87	-37.71
3-Year	88.85	-65.40
5-Year	43.80	-36.90
10-Year	66.21	29.75

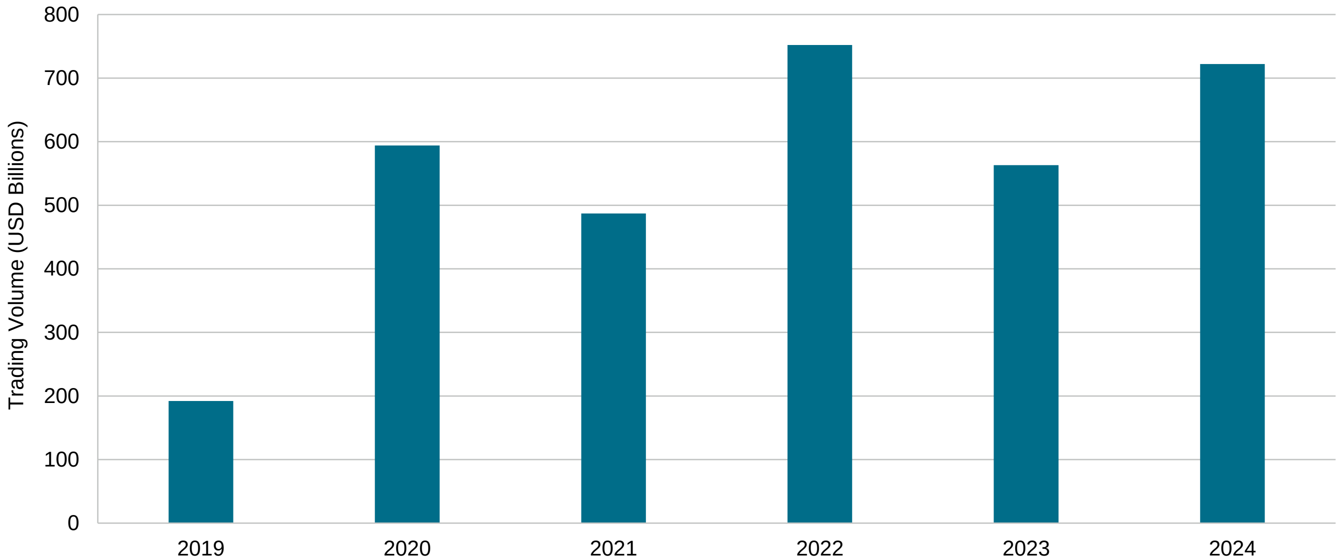
Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes.

5. The Trading Ecosystem

Instrument Evolution

The expansion of index-based trading instruments has reshaped the credit ecosystem. Among these, ETF adoption provides the clearest measure of growth: funds tracking the iBoxx USD Liquid Investment Grade Index traded USD 722 billion in 2024, up 28% year-over-year and approaching 2022's record of USD 752 billion. This isn't passive, buy-and-hold volume—it represents active portfolio management, tactical positioning and sophisticated hedging strategies (see Exhibit 9).

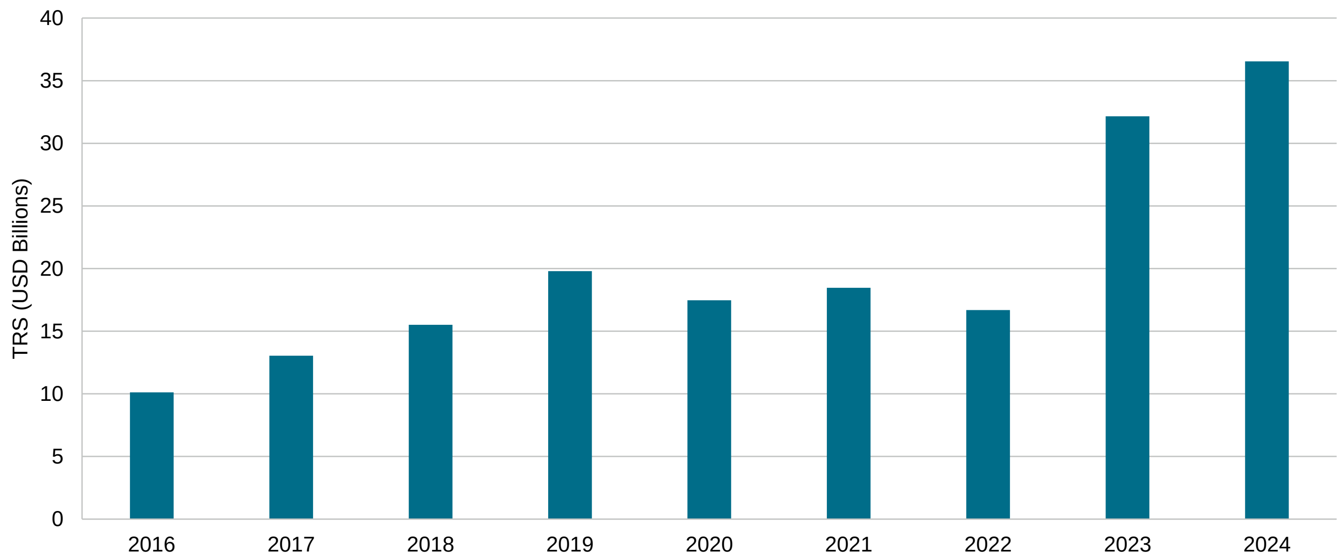
Exhibit 9: ETF Volume Tracking the iBoxx $ Liquid Investment Grade Index



Source: BlackRock, Bloomberg. Data as of Dec. 31, 2024. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

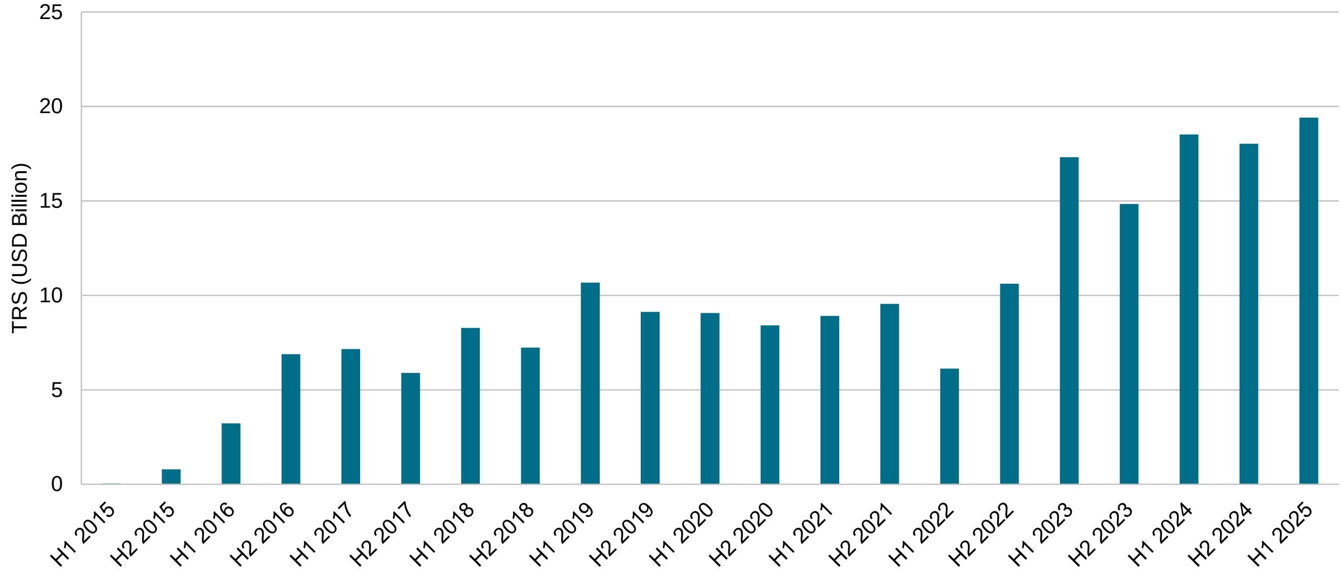
Success in ETFs catalyzed growth in derivatives. As shown in Exhibit 10, standardized TRS referencing the index reached record volumes of USD 36.5 billion in 2024, more than doubling from USD 16.7 billion just two years prior. The momentum continued into 2025, with H1 volumes hitting USD 19.4 billion—a new semiannual record (see Exhibit 11).

Exhibit 10: Annual Standard TRS Volumes Tracking the iBoxx $ Liquid Investment Grade Index



Source: BlackRock, Bloomberg. Data as of Dec. 31, 2024. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

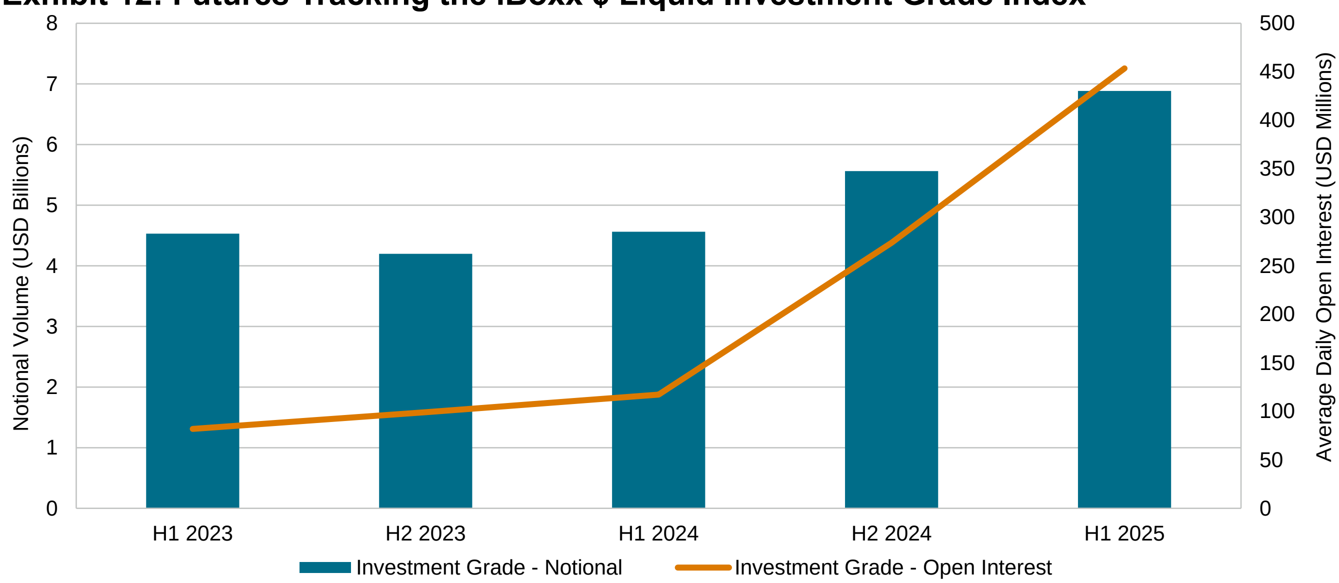
Exhibit 11: Semiannual Standard TRS Volumes Tracking the iBoxx $ Liquid Investment Grade Index



Source: BlackRock, Bloomberg. Data as of June 30, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Futures markets show similar expansion. Average monthly open interest in H1 2025 reached USD 453 million, up 287% year-over-year. Trading volumes hit USD 6.9 billion, a 51% increase over the same period.

Exhibit 12: Futures Tracking the iBoxx $ Liquid Investment Grade Index



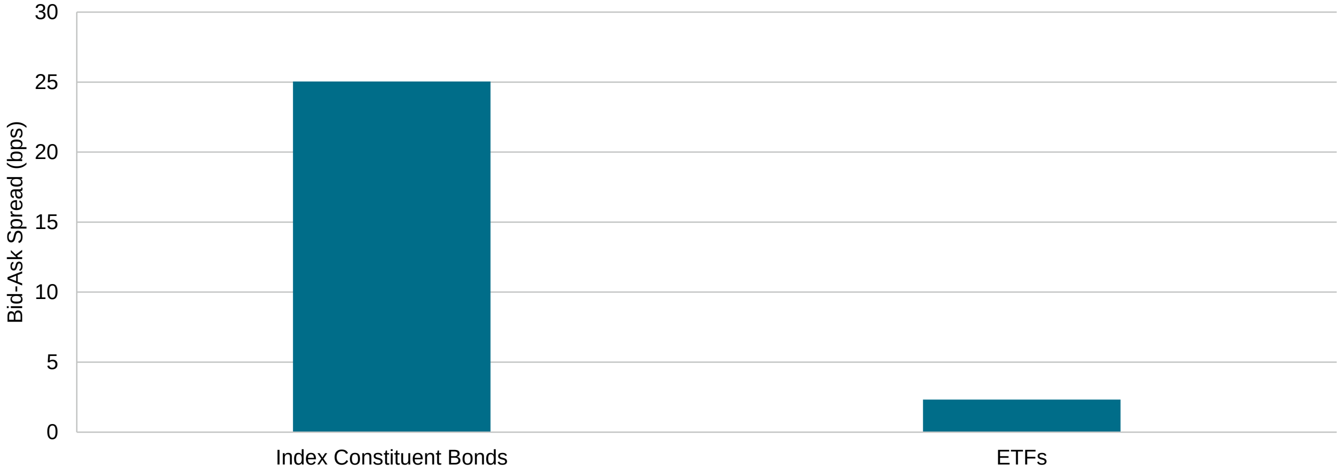
Source: BlackRock, Bloomberg. Data as of June 30, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Different investor types can now use the same tools. Long-only funds trade alongside hedge funds, while fundamental managers employ the same instruments as systematic traders. This broad participation deepens liquidity for everyone.

Execution Efficiency

The numbers speak for themselves. In 2024, bonds within the index traded at average bid-ask spreads of 25 bps. ETFs tracking the index? Just 2.3 bps. That order-of-magnitude improvement in execution costs changes the calculus for portfolio construction.

Exhibit 13: Bid-Ask Spreads



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

More importantly, these products continue functioning when underlying markets freeze. During the March 2020 downturn, when bond trading seized up, index-based instruments provided the only reliable price discovery for investment grade credit. Index products continued trading when individual bonds couldn't, effectively becoming the primary source of price discovery.

Price Discovery Infrastructure

Each bond in the iBoxx $ Liquid Investment Grade Index receives daily pricing from S&P Global Market Intelligence. The process combines TRACE prints, dealer runs, inter-dealer broker data and quantitative models, all reviewed by experienced analysts. Even bonds that don't trade receive prices reflecting genuine market consensus.

This transparency cascades through the product suite. ETFs publish holdings daily, while futures and swaps settle to official index levels. During market stress, these instruments provide live, executable prices when bilateral bond quotes disappear. The evolution from sporadic, relationship-based pricing to continuous, screen-based markets represents a fundamental shift in how credit trades.

6. Potential Implementation

U.S. investment grade credit has earned its place at the center of institutional portfolios through a rare combination of scale, income and stability. With over USD 9 trillion outstanding and daily trading volumes that rival equity markets, it offers the depth that largescale allocators require.

Current yields make the argument even more compelling. At 5.4% as of June 2025, high-quality corporate bonds now compete directly with dividend yields while offering superior downside protection and lower volatility. This level of yield has drawn renewed interest from pension funds managing liabilities, insurers matching long-dated obligations and global market participants seeking USD-denominated yield.

The iBoxx $ Liquid Investment Grade Index has become an implementation vehicle for sophisticated credit strategies. Its transparent methodology, consistent application and broad product suite enable a range of approaches, from core buy-and-hold strategies to dynamic hedging overlays.

This flexibility matters. Portfolio managers can seamlessly shift between funded ETF positions and unfunded derivatives based on capital efficiency needs. They can go long for strategic exposure or short for tactical hedges. The same benchmark supports passive indexing and active management, turning what was once an either/or decision into a spectrum of possibilities.

The methodology itself provides stability. With transparent rules governing credit quality, sector limits and rebalancing frequency, market participants can clearly understand which bonds are included. This predictability transforms the index from measurement tool to portfolio infrastructure.

The iBoxx $ Liquid Investment Grade Index Series continues expanding to meet evolving market participant needs. Short and intermediate duration variants serve liability-driven market participants. The BBB only index targets the sweet spot of yield and quality. Each variant maintains the core principles: liquidity, transparency, tradability—while addressing specific mandates.

Product innovation proceeds in parallel. As markets develop new trading protocols and risk management tools, they invariably reference the established benchmark. This creates powerful network effects: more products drive more usage, which reinforces the index's centrality.

Today's applications would have seemed impossible a decade ago: systematic factor strategies, machine-learning-driven allocation models and real-time hedging algorithms. Yet they all depend on the same foundation: a liquid, transparent, tradable benchmark for investment grade credit.

7. Conclusion

The iBoxx $ Liquid Investment Grade Index shows how modern benchmarks transcend measurement to become market infrastructure. By providing consistent, transparent access to investment grade credit, it supports strategies that simply weren't possible in the bilateral, relationship-driven markets of the past.

This transformation goes beyond operational efficiency. When portfolio managers can implement credit views with the same precision as equity positions, when risk managers can hedge with confidence in continuous pricing or when market participants can access an entire asset class through a single trade, the dynamics of the market change.

The results have been observed repeatedly through historic market cycles: consistent liquidity even during stress, transparent pricing when opacity has risen, diversified exposure without sacrificing quality, and implementation flexibility across instruments and strategies.

The network effects continue strengthening. More participants using index-based tools creates deeper liquidity, which attracts more participants. The index has evolved from benchmark to utility, as essential to credit markets as clearing houses and settlement systems.

The playbook pioneered by the iBoxx $ Liquid Investment Grade Index now guides development across fixed income. High yield, leveraged loans, emerging markets and even private credit are all adopting the same principles: define the universe clearly, ensure genuine tradability and build the product ecosystem systematically.

As markets continue evolving toward greater electronic reliance, more sophisticated analytics and increasingly systematic implementation, these principles will only grow more important. The evolution of the market includes indices that don't just measure markets but enable them, that provide not just benchmarks but building blocks.

The iBoxx $ Liquid Investment Grade Index has already shown the way forward. In transforming how investment grade credit trades, it reflects how credit markets have evolved and where they may continue to develop.

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