S&P Dow Jones Indices

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TalkingPoints

Innovation and Performance in S&P DJI's European Fixed Income Indices

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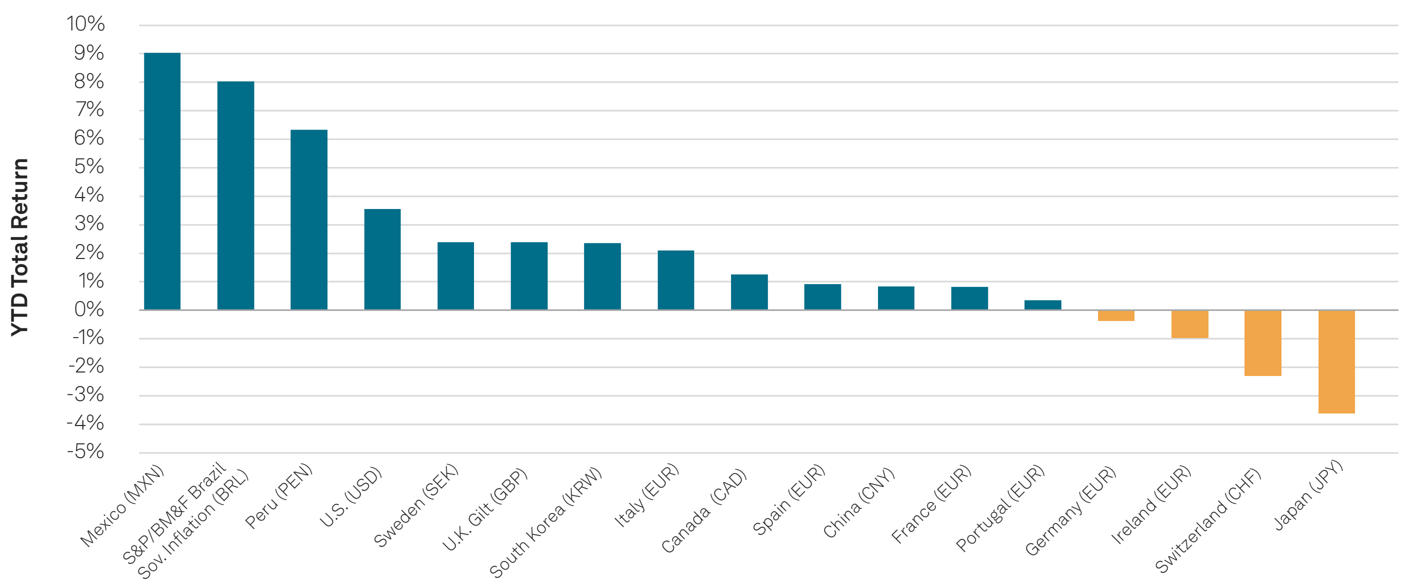
1. What are some of the macro trends occurring in 2025, particularly in relation to the fixed income landscape? Additionally, what were some of the other key trends observed in 2024 and thus far in 2025?

In analyzing the fixed income markets during the first half of 2025, three significant trends emerge.

First, within the sovereign bond sector, various global forces have led to notable performance disparities among sovereign fixed income benchmarks. As shown in Exhibit 1, Latin American indices have notably excelled, with Mexican bonds achieving a remarkable 9% growth—an impressive figure in the fixed income arena. Additionally, Brazilian inflation-linked bonds and Peruvian government bonds also delivered high-single-digit returns during this period. Conversely, the S&P Japan Sovereign Bond Index experienced a decline of 3.6%, attributed to the Bank of Japan's ongoing monetary tightening policy.

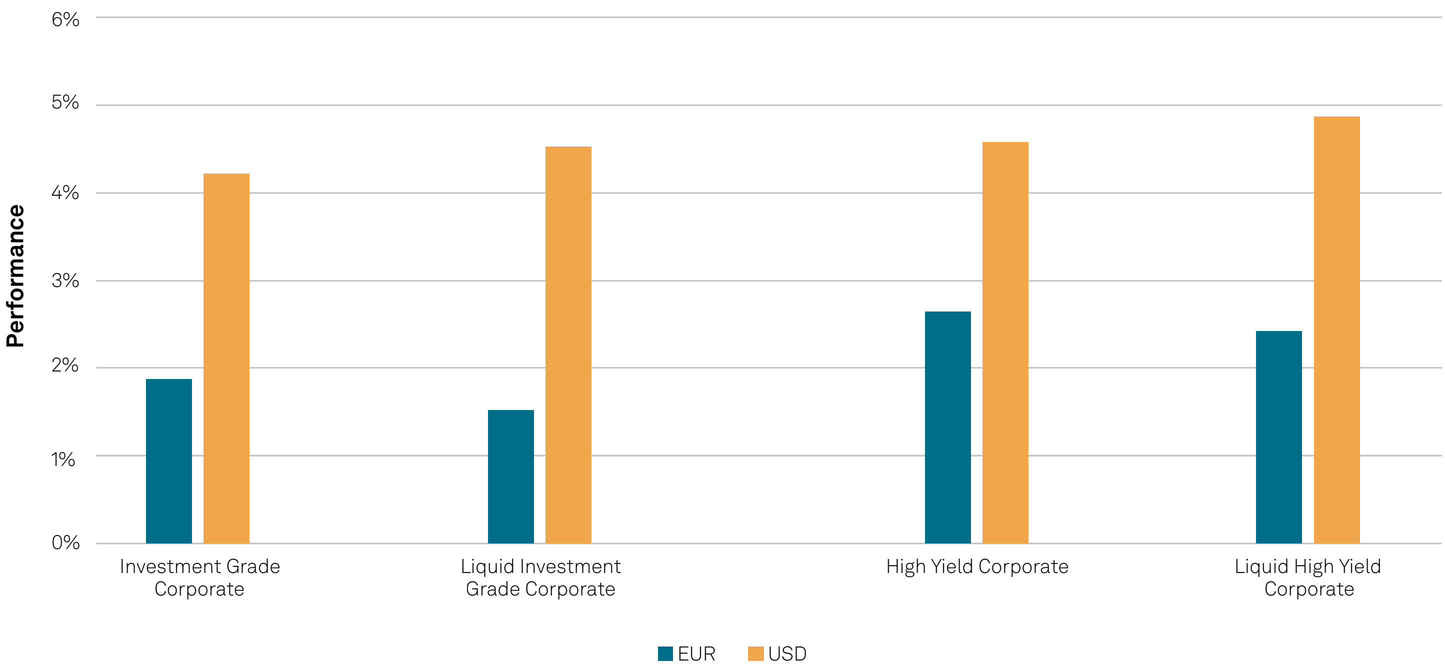
Exhibit 1: H1 Performance of Sovereign Bonds Widely Diverged



Source: S&P Dow Jones Indices LLC. Data from Jan. 1, 2025, to June 30, 2025. Categories are represented by the following indices: S&P/BMV Mexico Sovereign Bond Index, S&P/BM&F Brazil Sovereign Inflation, S&P Peru Sovereign Bond Index, S&P U.S. Treasury Bond Index, S&P Sweden Sovereign Bond Index, S&P U.K. Gilt, S&P South Korea Sovereign Bond Index, S&P Italy Sovereign Bond Index, S&P Canada Sovereign Bond Index, S&P Spain Sovereign Bond Index, S&P China Sovereign Bond Index, S&P France Sovereign Bond Index, S&P Portugal Sovereign Bond Index, S&P Germany Sovereign Bond Index, S&P Ireland Sovereign Bond Index, S&P Switzerland Sovereign Bond Index, S&P Japan Sovereign Bond Index. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Second, U.S. corporate credit indices have shown strong performance, outperforming their counterparts in Europe in both the investment grade and the high yield space. As shown in Exhibit 2, this outperformance is particularly noteworthy given that credit spreads in Europe outperformed those in the U.S. However, taking duration risk in Europe resulted in significant loss, while it was rewarded in U.S. markets.

Exhibit 2: H1 Performance of iBoxx Sovereign Bond Indices Widely Diverged



Source: S&P Dow Jones Indices LLC. Data from Jan. 1, 2025, to June 30, 2025. Past performance is no guarantee of future results.
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Last, there has been a notable increase in both trading volumes and open interest in futures contracts linked to the iBoxx benchmark series. This trend indicates a growing adoption of the fixed income tradable ecosystem among market participants, reflecting a shift toward more active engagement in this sector.

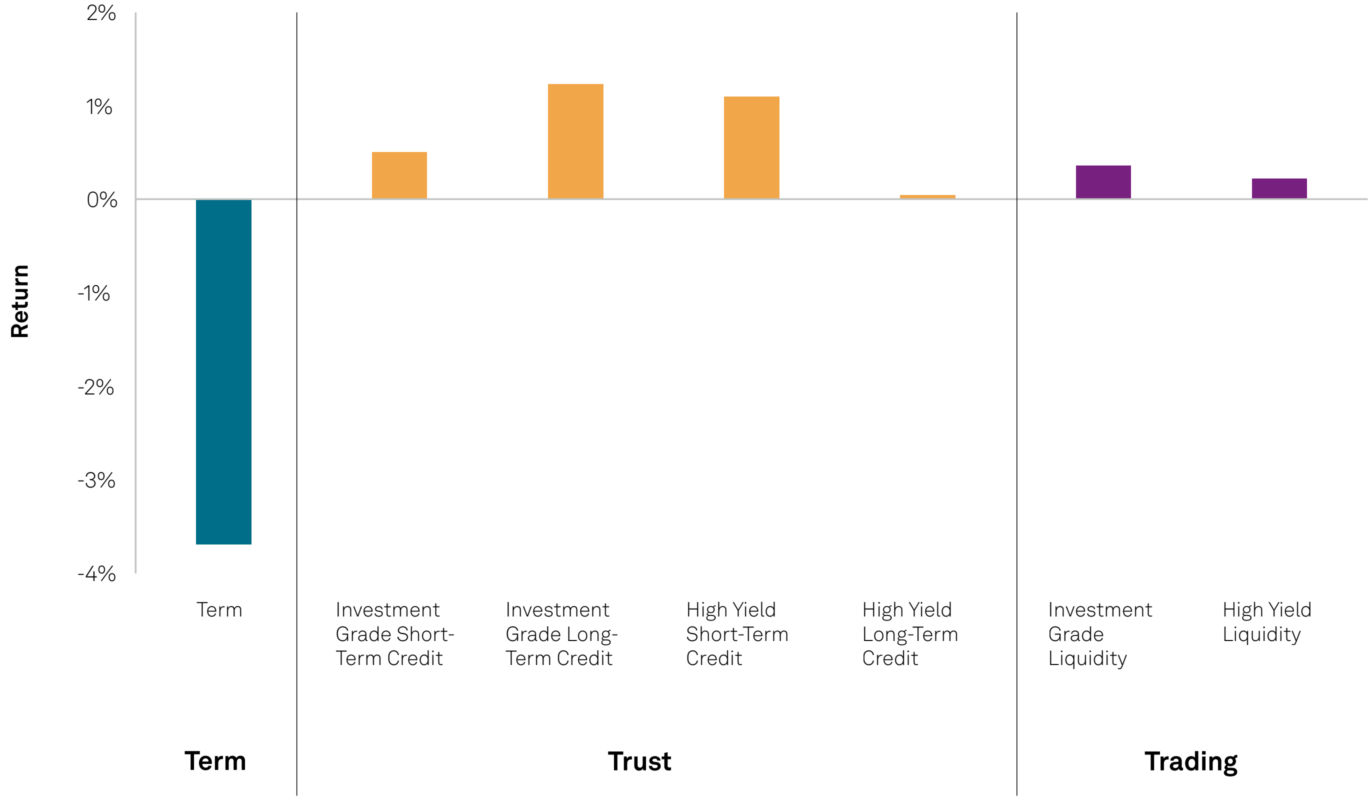
2. Could you explain some of the concepts around duration, liquidity and corporate credit? These tend to be sources of outperformance, or alpha, for active fixed income managers.

The traditional sources of excess returns in the fixed income markets have historically related to three key factors, known as the three Ts: time, trust and trading.

The first factor, time, involves taking on term or interest rate risk, which is reflected in the relative performance of longer-dated bonds compared to shorter-dated bonds. The second factor, trust, relates to assuming more credit risk by moving down the credit spectrum from sovereign bonds to investment grade and high yield bonds. The third factor, trading, pertains to exposure to illiquid bonds, measured by the performance of investment grade and high yield indices against their more liquid counterparts.

In examining the performance of these three Ts in Europe during the first half of the year, we find that trust and trading have contributed positively to returns. In contrast, time, which involves taking on duration risk, has significantly underperformed. This decline is largely due to the eurozone's fiscal loosening, particularly in Germany, which has led to increased bond issuance and a rise in high-duration yields.

Exhibit 3: European Duration Was Heavily Penalized in H1 2025



Source: S&P Dow Jones Indices LLC. Data from Jan. 1, 2025, to June 30, 2025. Past performance is no guarantee of future results.
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3. Understanding the differences between the U.S. and European markets, as well as the rest of the world, is helpful for market participants navigating the current landscape. With that in mind, could you discuss some of the recent innovations in fixed income indexing, particularly regarding our fixed maturity indices?

One notable innovation in the fixed income space is the introduction of fixed maturity indices—S&P DJI launched a range of indices in this space, including the iBoxx EUR Liquid High Yield 2027 3-Year Rolling Index and the iBoxx Sovereigns Italy & Spain Fixed Maturity 2029 Index. These indices have a predetermined maturity date and track the performance of bonds within that specific maturity range.

For example, the iBoxx Sovereigns Italy & Spain Fixed Maturity 2029 Index tracks investment grade, euro-denominated government bonds from Italy and Spain that are set to mature in 2029. These fixed maturity indices utilize a broad, diversified universe of investment grade bonds to track market beta, but they filter this universe to include only those bonds maturing in the specified year. As the maturity year approaches, maturing bonds are replaced by money market benchmark indices instead of corporate bonds. By the end of the maturity year, the entire index transitions to money market instruments, effectively unwinding and maturing at year-end.

Fixed maturity indices can be particularly useful for financial planning when future cash flow needs are known in advance. Unlike a single bond maturing in 2029, these indices focus on diversified bonds while still providing a fixed maturity date.

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