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GLOBAL ABSOLUTE RETURN A SOLUTION FOR UNCERTAINTY



BNP PARIBAS
ASSET MANAGEMENT

The sustainable
investor for a
changing world

INTRODUCTION

After years of yielding close to or even below zero percent, bonds are looking more attractive once again – but that's not to say that a traditional fixed income strategy is guaranteed to provide positive returns from here. We believe an allocation to an absolute return bond strategy is an excellent way of diversifying a broad fixed income allocation and maximising its risk-adjusted returns. In this note, we consider what absolute return bond investing involves, the reasons to invest in such a strategy and BNP Paribas Asset Management's approach to global absolute return bond management.

What is an absolute return bond strategy?

Traditional long-only fixed income funds, managed against a benchmark of bonds reflecting the composition of a particular segment within the bond universe, generally aim to track or outperform their index and tend to rise or fall based on movements in interest rates and the broader bond market. If interest rates go up, these strategies are likely to lose value – sometimes significantly, as they follow the performance of the index.

Absolute return bond strategies, by contrast, are managed against a cash benchmark and invest in a global unconstrained fixed income universe. They aim to generate positive returns across market cycles regardless of what is happening in the broader bond market. Essentially, they seek to provide steady positive returns whether interest rates are rising or falling, or corporate bond spreads are widening or tightening. Their performance is not assessed with respect to a fixed income benchmark but compared to the performance of cash.

These strategies are more flexible than long-only funds as they use a range of tools to try to make money in a variety of environments. They invest in a mix of developed government and corporate bond markets as well as emerging market bonds, structured securities and currencies. They can generally go long or short the risk of these assets through derivatives, providing the potential to benefit from rising or falling markets, and protect against downside risk.

Why invest in absolute return bond strategies?

“Because no one individual fixed income asset class has the ability to deliver 2.5% over cash through the entire fixed income and economic cycle”

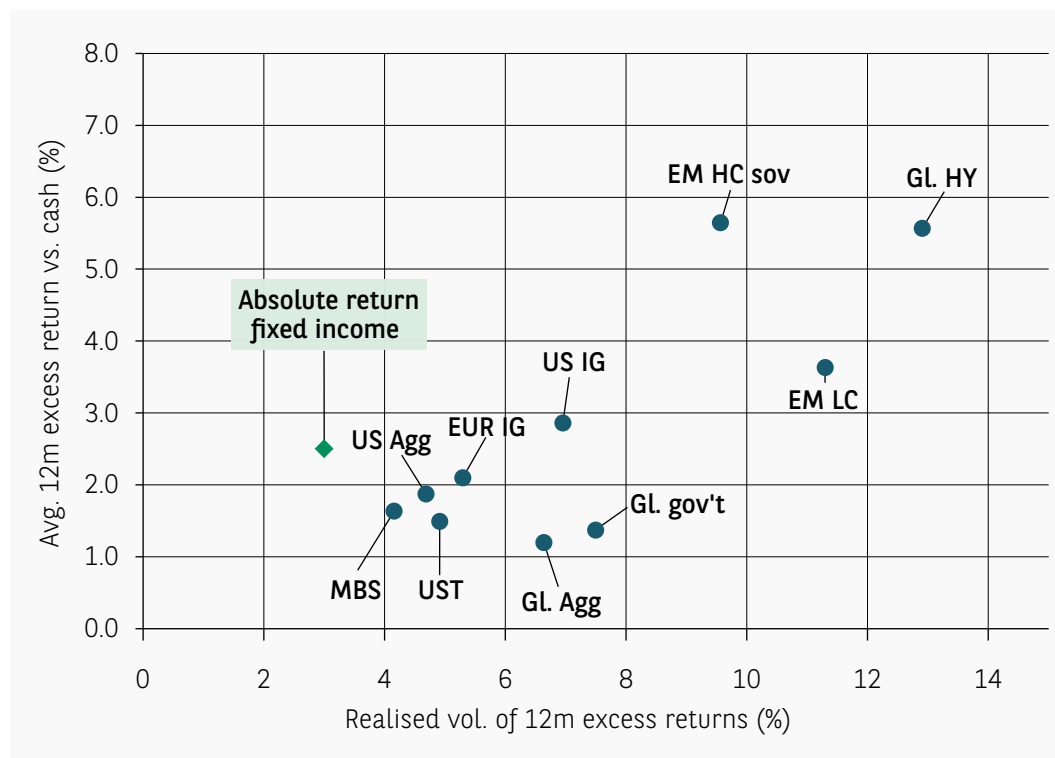
Absolute return bond strategies offer investors a compelling risk-return profile, which compares favourably to other fixed income assets over the long term. They typically deliver an excess return of 2-3% over a cash index for a low volatility of 2-5%.

Instead of investing in a single bond strategy, absolute return bond strategies enable investors to obtain exposure to income streams from several relatively uncorrelated fixed income strategies within one vehicle. That's a compelling attribute, particularly at a time when the risks of a surge in inflation cannot be dismissed. So, we believe absolute return fixed income should form a core part of any overall fixed income allocation.

Such strategies can generate positive returns and preserve capital over time. This is thanks to their flexible approach, access to all segments of global bond markets and ability to go short as well as long risk.

What's more, because of the tools at their disposal, the returns of these strategies generally have a low correlation with those of traditional fixed income strategies such as global high-yield, making them a good source of portfolio diversification.

Exhibit 1: Absolute return bonds offer a compelling risk-return profile which compares favourably to other fixed income assets over the long term



Source: BNP Paribas Asset Management, Bloomberg, as of 12/06/2025

Please note that data for absolute return bonds represents the excess return target of 2.5% cash combined with volatility of 3% - it does not represent realised returns. Data for the other indices is based on the risk/return of these indices since 1 January 1999.

Why now?

The potential for absolute return bond strategies to generate steady returns and preserve capital makes them particularly useful tools in today's markets.

In recent years, we've seen a spike in inflation, rapid interest rate hikes by central banks and heightened economic uncertainty. Many investors were caught off guard when their bond investments, which were supposed to be the 'safe' part of their portfolios, suffered significant losses in 2022 and 2023. Rising interest rates caused bond prices – especially those of long-term government and corporate bonds – to fall sharply.

Many central banks are now cutting interest rates, which is good news for traditional bond strategies, but it's still unclear what comes next:

- Near term, inflation has been proving sticky in many countries, and US import tariffs have the potential to cause it to rise sharply again. This has implications for central banks' interest rate decisions
- Longer term, deglobalisation and high levels of government debt may lead to higher inflation than we have become used to over the last 20 years.
- The outlook for economic growth has worsened, raising the spectre of more corporate bond defaults and increased market stress
- Geopolitical tensions are high, and it is unclear how this will impact bond markets.

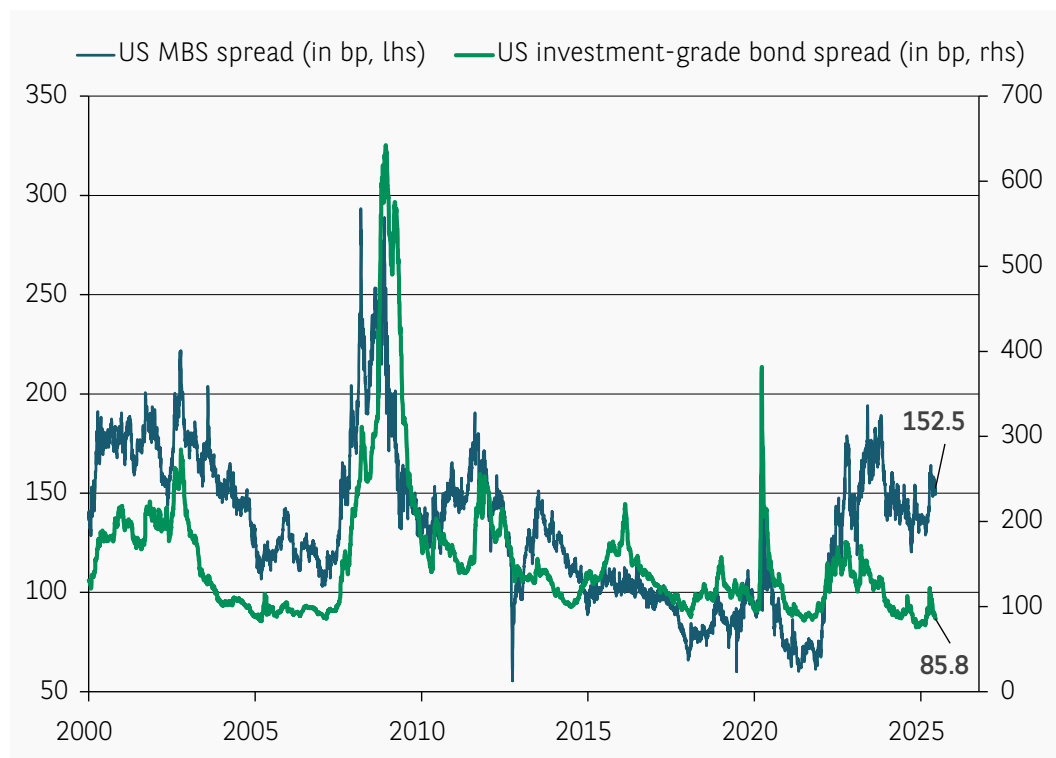
In this kind of unpredictable environment, the flexibility that absolute return bond strategies provide can be a significant benefit. Managers can adopt defensive positioning when they see trouble ahead or quickly increase risk whenever they identify opportunities.

Relative value at work – US agency MBS offers better credit quality than corporate bonds plus a pickup in yield

US agency mortgage-backed securities offer investors potential return streams that are uncorrelated with other fixed income sectors. The primary risk with US agency MBS is not credit risk (they benefit from the implicit backing of the US Treasury), but volatility via prepayment risk.

US agency MBS is a large component of the global bond universe: it makes up about 12% of the global bond market and about 23% of the US bond market (source: Bloomberg, June 2025). That size means market liquidity is deep.

Exhibit 2: A higher credit rating and a higher yield - Current coupon US agency mortgage-backed securities currently offer a pickup in yield relative to US investment-grade corporate debt with lower credit risk



Source: BNP Paribas Asset Management, Bloomberg, as of 12/06/2025

Conclusion – A vital portfolio constituent

By allocating to an absolute return strategy as part of your overall fixed income allocation, we believe you are adding a layer of resilience and adaptability that works in complement to traditional long-only bond allocations.

In today's shifting economic landscape, when the paths of interest rates, inflation and geopolitics are all uncertain, allocating to a dynamic, defensive bond strategy could play an important part in protecting your wealth, while achieving steady attractive fixed income returns.

We see global absolute return bonds as a core and staple component within a long-term fixed income allocation that has the potential to perform and diversify in any market environment – not just times of uncertainty.

Our absolute return bond team



James McAlevey

Head of Global Aggregate and Absolute Return

James is the Head of Global Aggregate and Absolute Return team and is responsible for the performance, growth and development of global aggregate and global sovereign bond portfolios which are managed against a benchmark as well as total and absolute return strategies.

James joined BNP Paribas Asset Management in 2021 and is based in London. Prior to his current role, James was Head of Rates and managed the AIMS Fixed Income and Target Return funds for Aviva Investors. Prior to that, James worked at Henderson Global Investors as Head of Rates.

James holds an MSc degree in economics from the University of Bristol and is a CFA charterholder.



Jayesh Mistry

Senior Portfolio Manager

Jayesh is a Portfolio Manager in the Global Aggregate and Absolute Return team focusing on government debt and currencies as well helping to further quantitative elements within the investment process.

Before joining BNPP AM, he worked at Allianz Global Investors as a core fixed income portfolio manager responsible for Global Aggregate, Global Government and Absolute Return strategies. Prior to moving into a portfolio management role, Jayesh worked as a global fixed income portfolio construction analyst at Rogge Global Partners. He started his career at JPMorgan Chase as a graduate financial analyst.

He holds a Bachelor's degree in mathematics from the University of Bristol. He is a CFA charterholder and a Chartered Financial Data Scientist.



Gaetan Fenerol

Junior Portfolio Manager

Gaetan is a Junior Portfolio Manager in the Global Aggregate and Absolute Return team and is based in London. He is responsible for portfolio construction and risk monitoring of Global Aggregate and Absolute Return portfolios.

In 2020, he joined FundQuest Advisor as a Risk & Due Diligence Analyst in charge of reviewing External Asset Managers. Prior to this, he worked as a Portfolio Manager assistant at Platinum Gestion in Paris, researching investment opportunities in the mutual funds universe.

He holds a Bachelor's degree in accounting and finance and a Master's in financial markets from IAE Clermont-Ferrand.



Heyuan Qian
Junior Portfolio Manager

Heyuan is a Junior Portfolio Manager in the Global Aggregate and Absolute Return team and is based in London. She is responsible for portfolio construction and risk monitoring of Global Aggregate and Absolute Return portfolios.

In 2019, she joined BNP Paribas CIB as a Valuation Analyst, reviewing commodity derivatives pricing. Prior to this, she was an intern in hedge fund sales at KeyQuant in Paris, analysing fund performance and researching potential clients.

She holds a Master's degree in risk and finance from EDHEC Business School.



Vicky Browne
Investment Specialist

Vicky is an Investment Specialist in the Global Aggregate and Absolute Return team and is based in London. She is responsible for the communication, growth and commercialisation of the Global Aggregate and Absolute Return business.

Vicky joined BNPP AM in 2023. Prior to this role, Vicky was a Client Portfolio Manager in the Corporate Credit Team at Janus Henderson Investors.

Vicky holds an MSc degree in finance from Bayes Business School and a Bachelor's degree in international business, finance and economics from the University of Manchester.



Peter Greco
Front Office Risk Manager

Peter is a Senior Risk Manager in the Front Office Market Risk Management group. He works closely with portfolio managers to improve and automate investment processes, and to provide market risk analysis and attribution. He

covers primarily inflation-linked, structured securities, currencies as well as Global Multi Sector strategies within Global Fixed Income.

In this position, he has led projects working closely with the investment team to enhance risk, stress testing, optimisation and performance attribution analysis. He regularly coordinates projects with clients on risk management topics.

Prior to this position, Peter worked in operations in various capacities, including Reconciliations Analyst, Master File Administrator, Performance Analyst, and Market Risk Analyst. He joined FFTW, a predecessor of BNP Paribas Asset Management, in 2004 and is based in New York.

Peter holds a BSc degree in economics and finance from Northeastern University.



Michal Jezek
Senior Fixed Income Strategist

Michal has been a Senior Fixed Income Strategist since 2022. He is responsible for rates and credit strategy in the Macro Research and Investment Strategy team, working closely with economists and other strategists on formulating macro views and trades.

Before joining BNP Paribas Asset Management, Michal was a Global Macro and Credit Strategist at Deutsche Bank in London from 2010 to 2021. In 2005-2006, he worked as an Economic Analyst at the Czech National Bank.

Michal holds an MPhil and PhD in economics from the University of Cambridge (2010) and a BA and MA in economics and finance from Charles University in Prague (2004).

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VIEWPOINT



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