ALTERNATIVE THINKING

The Illusion of Active Fixed Income Alpha

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Do fixed income managers (FI) generate alpha? In this Alternative Thinking, we take a deep dive into the determinants of excess of benchmark returns for a broad set of popular active FI categories (Global Aggregate, U.S. Aggregate, and Global Unconstrained Bond). Our analysis finds that passive exposures to traditional risk premia—primarily term risk, corporate credit risk, emerging markets risk, and volatility risk—explain a majority of FI manager active returns. There is largely no outperformance at the category level after controlling for exposures to well-known traditional risk premia. The implication for asset owners is clear: traditional discretionary active FI strategies offer little in the way of true alpha.

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