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MISSION: INDEXABLE

Unlocking the modern bond market with index investing

May 2026

FOR PROFESSIONAL CLIENTS / QUALIFIED INVESTORS / QUALIFIED CLIENTS ONLY

FOREWORD

ALEX CLARINGBULL
Global Head of Index Investments

When the first bond index fund was launched in 1986, it was widely doubted that broad, rules-based bond portfolios could be implemented at scale. Replicating a benchmark with thousands of securities — many illiquid, some never trading — seemed impossible. The introduction of bond ETFs in 2002 prompted similar scepticism.

Despite these concerns, over the past four decades, indexing in fixed income has been charting its steadfast course in transforming bond market investing. Today, index fixed income has evolved from a nascent investment approach to a core allocation in portfolios as clients seek access to diversification, reliability and transparency.

The relationship between fixed income index investing and the fixed income market has been symbiotic, with both benefiting from improvements in each other. Fixed income indexing has evolved alongside improvements in market structure, trading technology, and index design, with its rules-based, transparent, and long-term framework contributing to improved underlying market liquidity.

This paper explores the value indexing delivers to investors today, how it has evolved to meet modern market realities, and how indexing has helped strengthen the bond market ecosystem.

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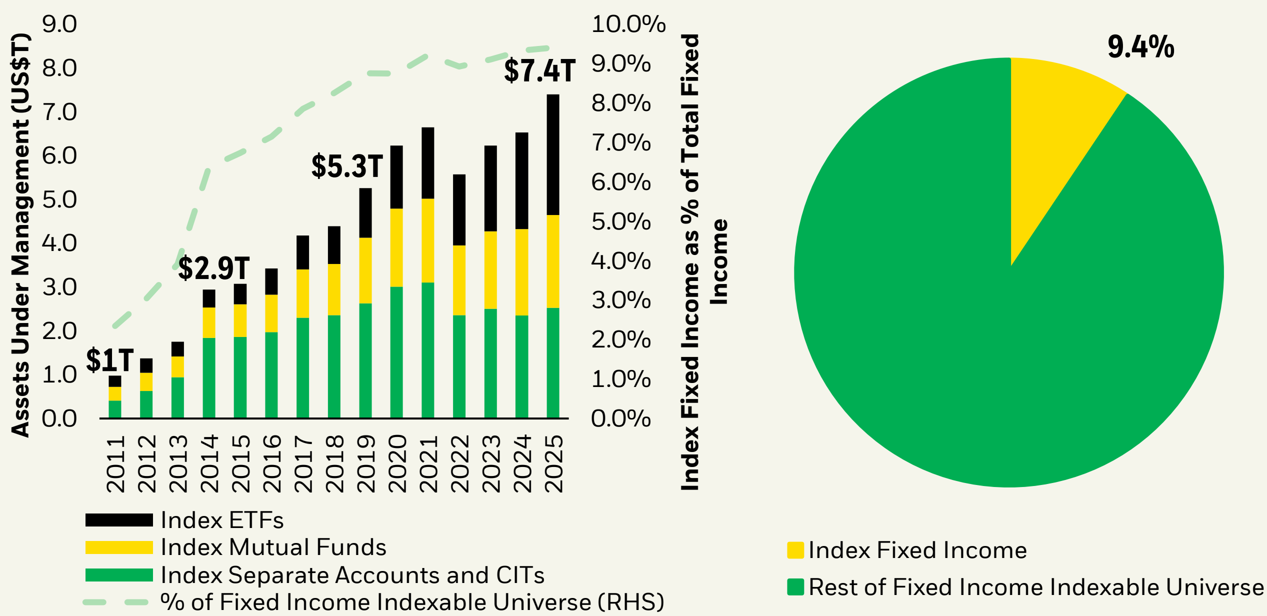
Introduction

Over the past decade, **fixed income indexing has become a cornerstone of modern investing, growing at a compound annual rate of around 16% (since 2011), reaching $7.4 trillion in assets globally** as of December 2025. A previously nascent strategy has now become a core component of investors' portfolios across institutional and wealth channels. Yet despite this growth, **fixed income indexing still represents only around 9.4% of the indexable bond universe**, underscoring its relatively modest market footprint and a significant runway for further adoption.

Figure 1: Index fixed income has grown both in absolute terms and as a % of the fixed income indexable universe

Index fixed income remains a small % of the fixed income indexable universe



Today's indices are the key to unlocking bond market opportunities, reflecting the investable universe and providing a practical and scalable way to access it. By improving transparency and standardization, indexing has also strengthened the wider fixed income ecosystem and opened doors for innovation. For investors, indices are not just benchmarks but essential building blocks for constructing resilient, diversified portfolios. **In this paper we explore in depth how fixed income indexing:**

01 Offers Efficient Access To The Bond Market

02 Enhances The Investor Toolkit

03 Supports Market Function

Source: iShares Global Business Intelligence, as of 31 December 2025, Simfund for US mutual funds, as of 30 November 2025, Broadridge for Non-US mutual funds, as of 30 November 2025, Broadridge Money in Motion for institutional separate accounts, as of 30 June 2025. Fixed Income Indexable Universe is measured using the market capitalization of the Bloomberg Multiverse Index measured in US Dollars. The index covers Treasury, Government-Related, Corporate, and Securitized (MBS, ABS, CMBS, and Covered) across investment grade and high yield rated securities publicly issued in the global & local markets.

A. Fixed Income Indices Have Modernised

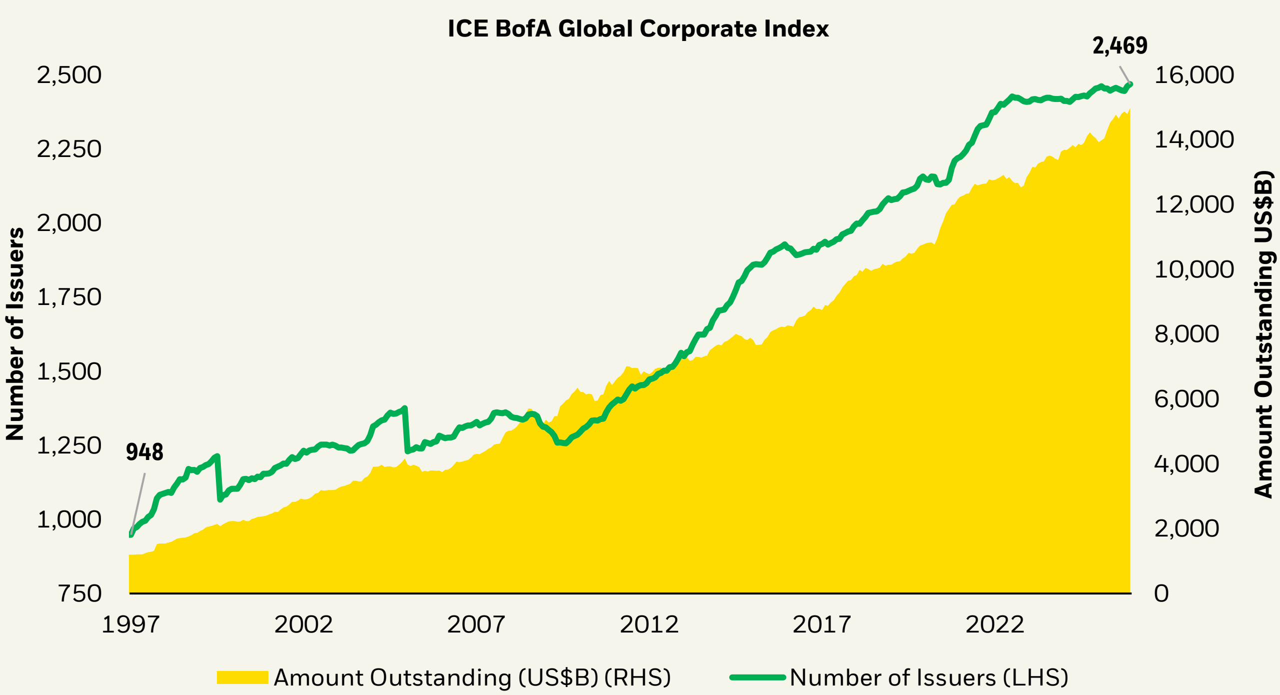
Fixed income index methodologies evolve through formal, institutional-grade advisory processes that balance representativeness with responsiveness. These mechanisms help benchmarks track the investable market more closely and ensure investors can access the full opportunity set as it changes.

Alongside these governance improvements, coverage has expanded. **Fixed income indices today are broader and deeper**, capturing more issuers and a much larger share of outstanding debt. As shown in Figure 2 below for example, the ICE BofA Global Corporate Index has expanded markedly over the past three decades and now includes approximately 2,500 issuers and about $15 trillion of debt outstanding.

Two practical enhancements illustrate how **modern rules keep benchmarks representative and responsive**. First, J.P. Morgan's emerging market debt indices now include at month-end, bonds that are issued at any point in the month as long as they settle by month-end. This reduces the lag around late-month issuance, making indices a more reflective snapshot of the market compared to previously when bonds had to settle on or before the 15th of the month to be included at the end of the month. Second, providers increasingly offer 0+ or 0–1-year index variants so short-dated bonds remain eligible and roll down naturally, thereby reducing turnover and keeping benchmarks aligned with real-world investing outcomes. This contrasts with the previous practice of excluding bonds with less than a year to maturity.

These are examples of how index advancements broaden coverage and keep indices aligned with market mechanics, expanding the practical toolkit for portfolio construction.

Figure 2: Fixed Income Indices Have Grown Broader And Deeper, Capturing More Issuers And A Much Larger Amount Of Outstanding Debt



Source: BlackRock, ICE as of December 2025.

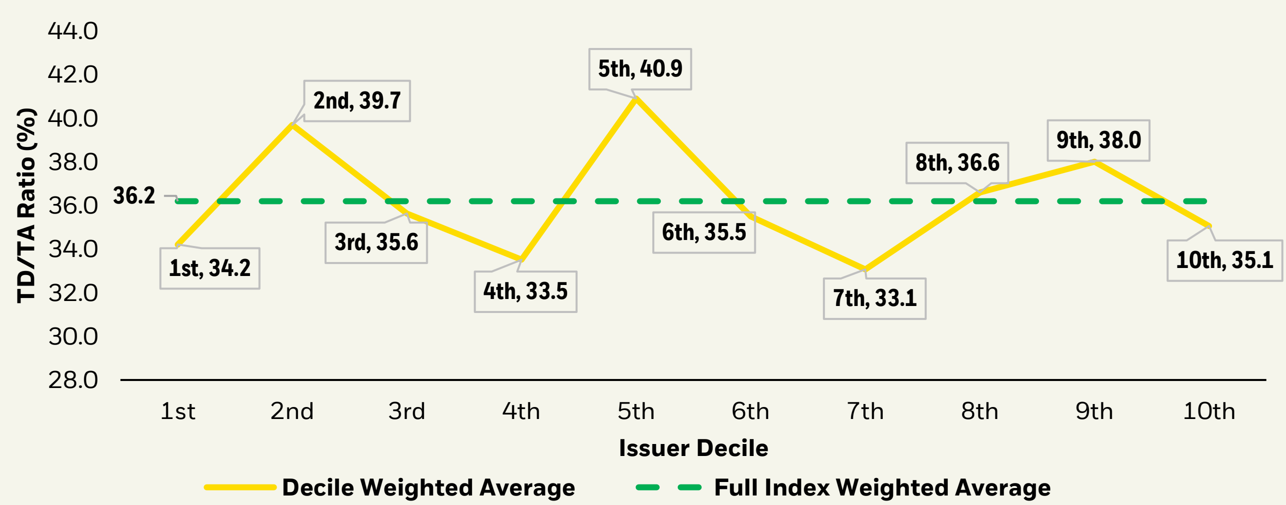
B. Market Value Weighting Is Representative But Does Not Mean Higher Leverage

It may be tempting to assume that market-value weighting in fixed income indexing leads to greater exposure to issuers with higher debt levels, potentially increasing investor risk. However, **larger representation in an index does not necessarily indicate a more leveraged issuer**. In most cases, it simply reflects a bigger company with commensurately substantial assets to service its debt.

To illustrate this, Figure 3 below shows the reliance on debt financing, as measured by the Total Debt-to-Total Assets (TD/TA) ratio, for issuers in the Bloomberg Euro Agg Corporate Excluding Financials Total Return Index. The analysis highlights that there is **no discernible relationship between an issuer's index weight and its leverage**. The chart shows the market-value-weighted average TD/TA ratio for different issuer deciles compared with the full-index average; for example, the top 10% of issuers (when measured by market value weight) have a lower average TD/TA ratio than the full index (34.2% vs 36.2%).

Our analysed index excludes financials as these use different capital adequacy metrics due to their unique business models. These metrics are not comparable with those of other non-financial issuers. It is worth noting, however, that the largest financial issuers in bond indices tend to be the largest banks, which are required to meet strict regulatory limits on leverage and capital adequacy and undergo regular systemic stress tests.

Figure 3: There Is No Relationship Between An Issuer's Index Weight And Its Leverage



Beyond this, fixed income indices come in many variations. While broad market-value-weighted benchmarks are common, others apply issuer caps or sector limits, and some benchmarks exclude higher-risk countries altogether. This diversity allows investors to select indices that align with specific objectives or constraints, reflecting the flexibility and evolution of index construction.

This balance between scale and financial strength, combined with the ability to apply issuer caps or exclusions, demonstrates that **market-value weighting does not equate to excessive leverage** and that indices can be tailored to reinforce diversification and quality.

Source: BlackRock, Bloomberg. Data is the latest available as of 31 December 2025. Issuer defined as the parent company of the debt issuer. Net debt/EBITDA remains the primary leverage measure for non-financial issuers. The TD/TA ratio is presented here as a directionally useful measure of leverage, selected on the basis of greater data coverage and recency. A typical TD/TA ratio for investment grade non-financial issuers is in the range of 20-40%. When assessed across all the issuers in the index, the correlation between their index market value weights and their TD/TA ratios is close to zero and not statistically different from zero.

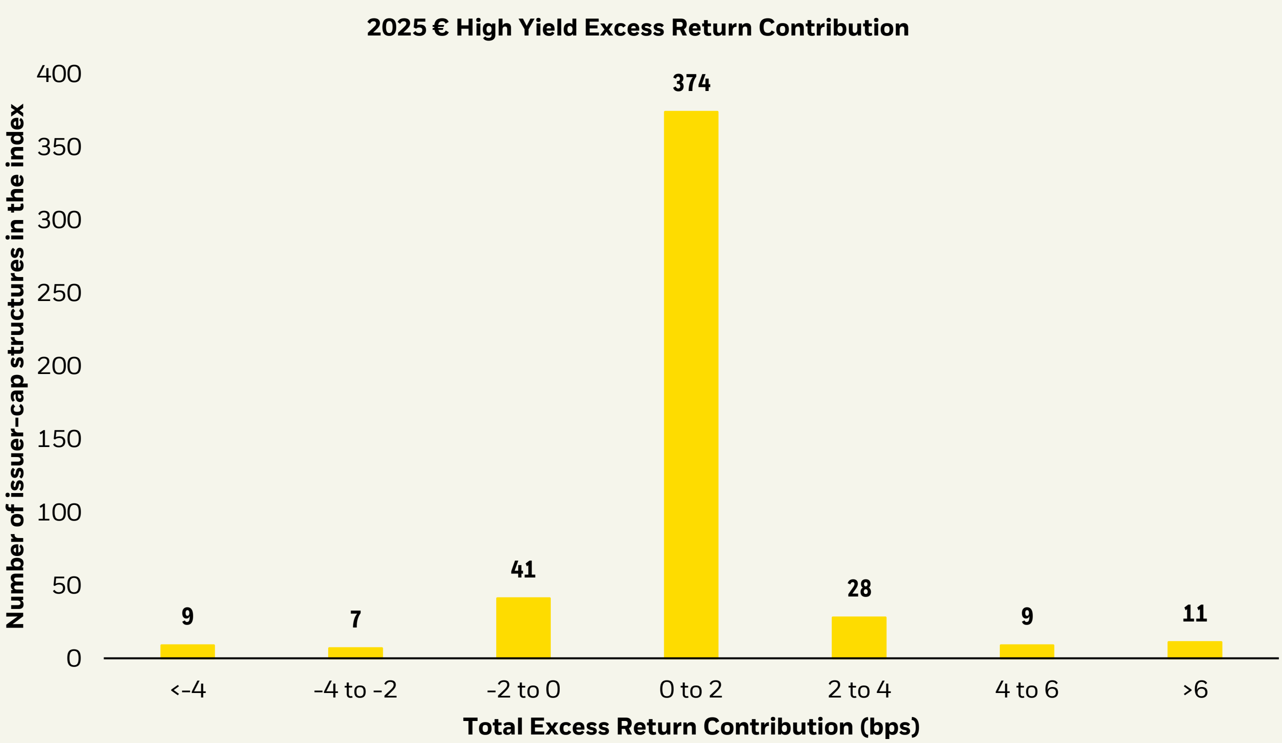
C. Diversification Helps Navigate Dispersion In Markets

Modern fixed income indices have become exceptionally broad, offering exposure across hundreds of issuers and multiple capital structures. This helps diversify idiosyncratic risk and stabilise performance over time, even in periods of elevated dispersion in the performance of individual securities.

High yield provides a useful illustration. Indices such as the ICE BofA Euro High Yield Constrained Index now represent a wide and diverse cross-section of the market, reflecting the significant expansion of the high yield universe over the past decade. As a result, excess returns (after stripping out duration and FX effects) are increasingly generated by small individual contributions from many issuers rather than being driven by just a handful of names. This has been evident in recent years, including 2025, **where most of the index excess returns have come from more than 370 individual issuers, each contributing only a few basis points or less to overall performance** – See Figure 4.

This breadth is precisely what makes indexing effective in fixed income: investors benefit from accumulating modest return contributions across hundreds of issuers, rather than relying on concentrated positions. In today's market, the depth and diversification of indices means that indexing is a robust approach to harnessing the collective return potential of the market while reducing reliance on any single issuer outcome.

Figure 4: Excess Returns In The Euro High Yield Universe Are Largely Attributed To Small Individual Contributions From A Diversified Pool Of Issuers



Source: BlackRock, as of 31 December 2025. Based on the ICE BofA Euro High Yield Constrained Index. Each count refers to a unique issuer and capital structure pair within the index.

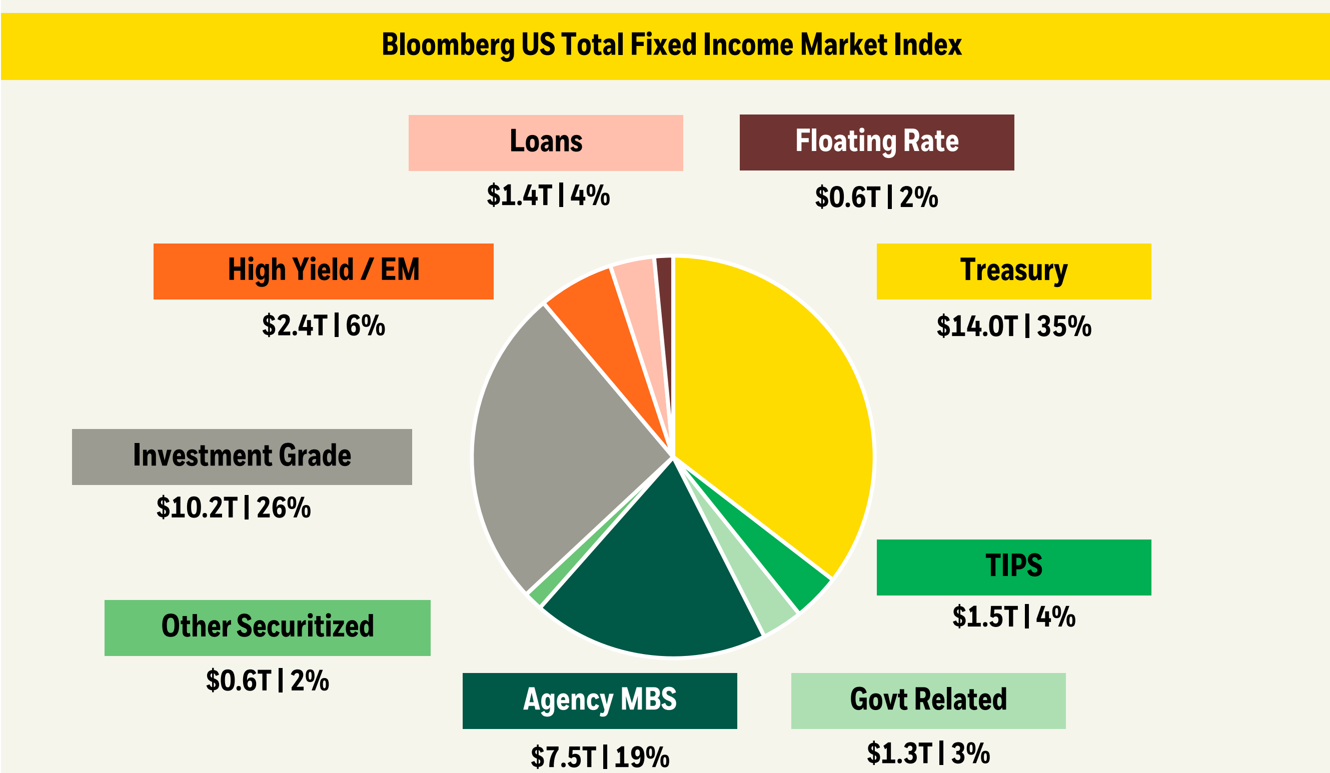
A. Indices Offer Comprehensive Access To The Bond Market

As the global bond market has grown and expanded through the years, fixed income indices have evolved in tandem. Fixed income indices today span multiple sectors of the bond market, allowing investors to customise desired portfolio outcomes via index building blocks.

From government bonds to securitized assets, investment grade to high yield credit, short to long duration, and US to global exposures, as index providers continue to refine methodologies and add new segments, new indices and market unlocks are opening more of the bond market to investors. The result is **that indices today provide robust coverage of the bond market**. While targeted exposures offer access to different segments of the bond market, a single broad market index can deliver market-wide exposure, allowing investors to capture more opportunities in fixed income than ever before.

We demonstrate this using the USD bond market as an example. The Bloomberg US Aggregate Index was launched in 1986 as a core exposure, before the Bloomberg US Universal Index followed in 1999 to provide broader representation of the USD bond market, including the addition of high yield corporates and emerging markets debt. As indexing evolved with the bond market, the **Bloomberg US Total Fixed Income Market Index** was introduced in 2025 to capture an even wider opportunity set, spanning a nearly $40 trillion total investable universe now including Treasury Inflation Protected Securities, leveraged loans, and floating rate notes. Figure 5 shows a breakdown of this index.

Figure 5: A comprehensive ~$40 trillion USD bond market universe accessible through a single index



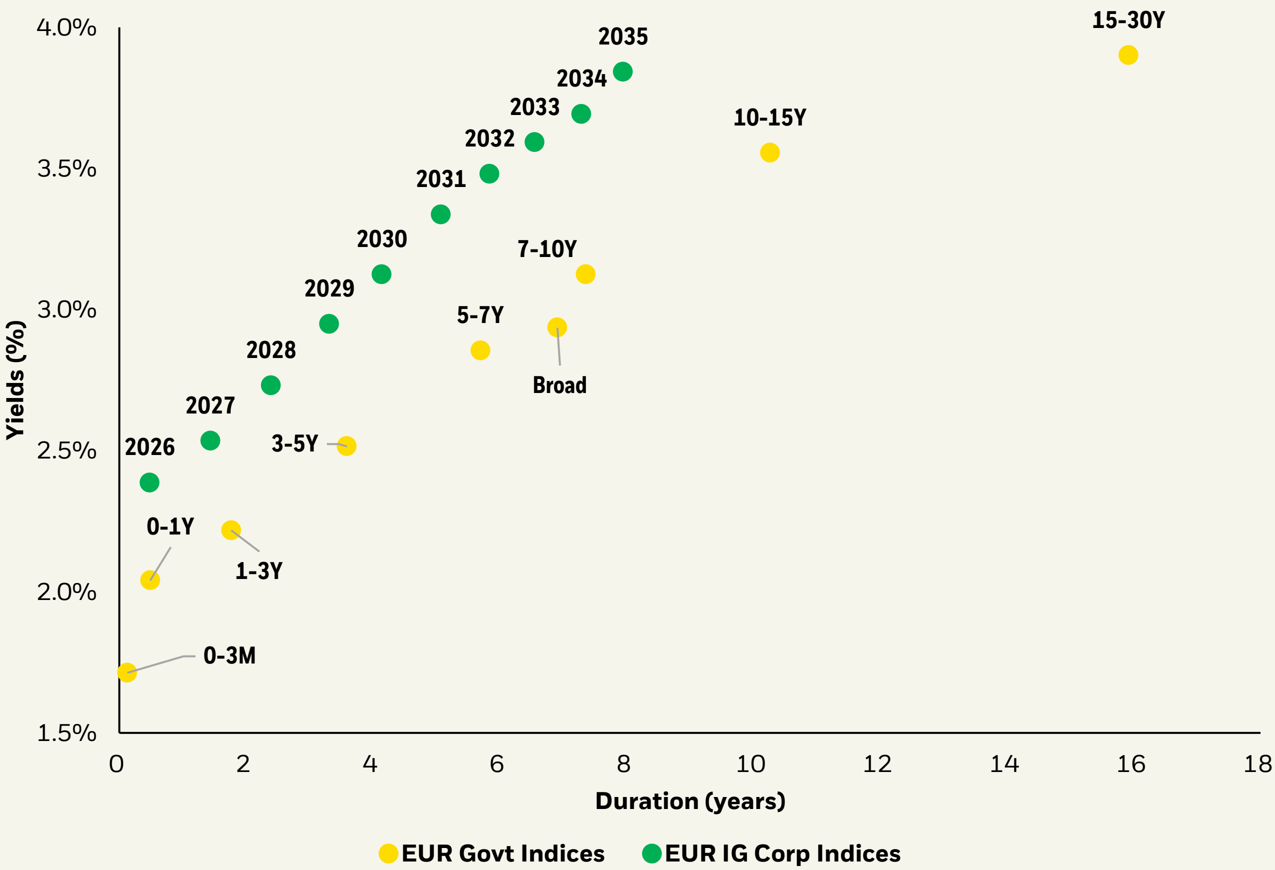
Source: Bloomberg, as of 31 August 2025. Percentages have been rounded.

B. Indices Now Offer Historically Unparalleled Granularity

Today **the menu of fixed income indices is extremely granular, in ways previously impracticable**. The increasing granularity available means that index building blocks allow tilts (such as to sectors or duration) to be made deliberately and with precision, in an efficient and diversified manner. Far from simply gaining broad market beta through an index strategy, using index building blocks gives investors further control over their portfolios to achieve desired portfolio outcomes.

Within the Euro bond market alone, indexing allows investors to target almost any part of the curve, from broad exposures to specific maturity buckets. Beyond that, innovation has also brought the fixed maturity feature of a single bond into indexing through **fixed maturity indices**. These indices follow a rules-based methodology like standard indices but only include a pool of bonds that mature in a specific year. This now allows investors to experience the **hold-to-maturity** feature of a single bond, but in a **diversified** manner. Figure 6 illustrates the granularity offered at different maturity horizons across both government and corporate universes.

Figure 6: The granularity offered within the EUR fixed income market across traditional and fixed maturity indices



Source: BlackRock, as of 31 December 2025. The list of indices is not an exhaustive representation of EUR government and investment grade corporate indices. For further information about the indices, please see the appendix.

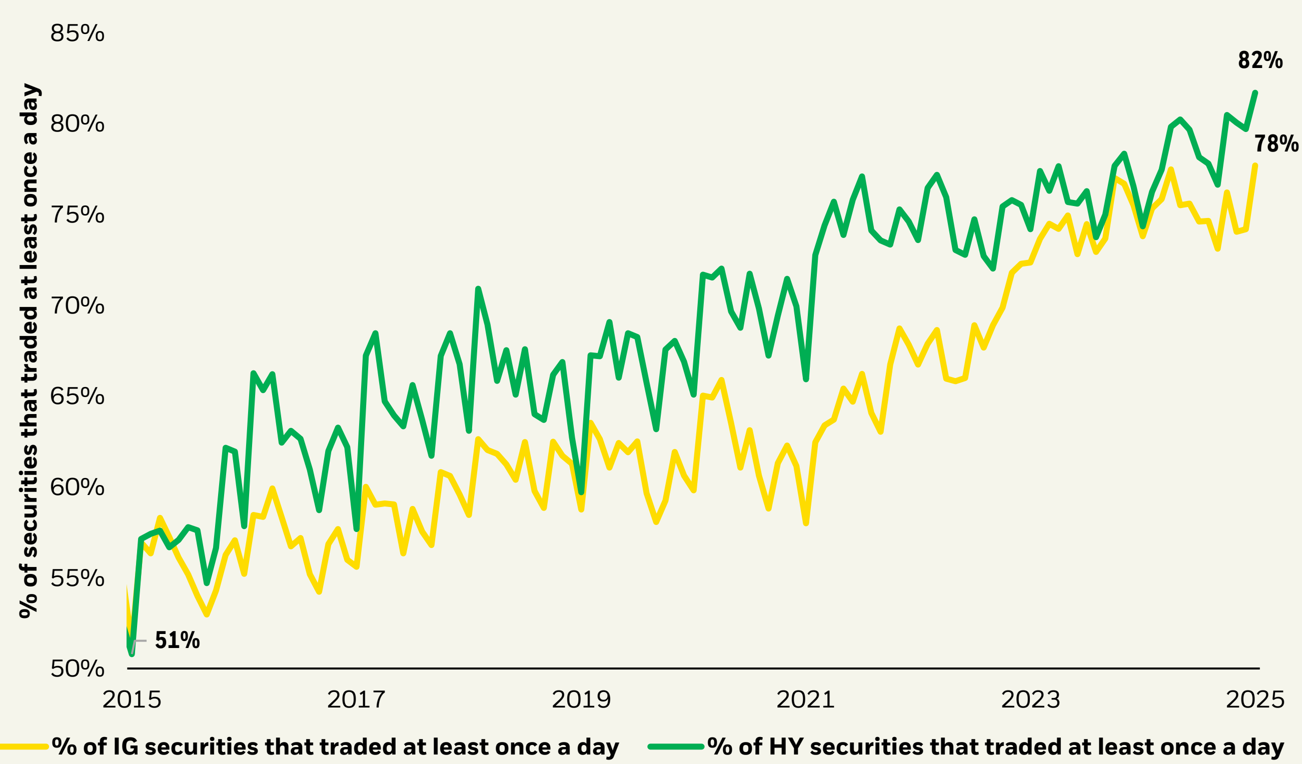
A. Indexing Has Strengthened Market Liquidity And Transparency

Rather than fragmenting liquidity, fixed income index strategies have aggregated and modernized it. The combination of portfolio trading, electronic market-making, and the presence of index-based investors has contributed to a market structure that is more resilient and better able to absorb shocks. This has been particularly evident in recent periods of volatility, where bond ETFs continued to trade efficiently even when individual bonds were less liquid — helping the entire market reprice risk more effectively.

This dramatic shift reflects the growing influence of index vehicles as consistent and transparent liquidity providers. ETFs, which represent the most visible manifestation of **index investing in fixed income, have enabled continuous price discovery and more frequent secondary-market trading of bonds that once rarely changed hands**. TRACE (Trade Reporting and Compliance Engine) data make this clear — trading activity across both investment grade and high yield segments has deepened, bid-ask spreads have narrowed, and the price transparency of the underlying market has materially improved.

Over the past decade, the share of USD denominated bonds in the ICE BofA Global Investment Grade index that traded at least once a day has risen from 51% to 78%, while the share of USD denominated bonds in the ICE BofA Global High Yield index that traded at least once a day has increased from 51% to 82% - See Figure 7.

Figure 7: Improving liquidity in the USD investment grade and high yield markets



Source: BlackRock, as of 31 December 2025 based on USD denominated bonds in ICE Global IG and Global HY Indices and Trade Reporting and Compliance Engine (TRACE) data.

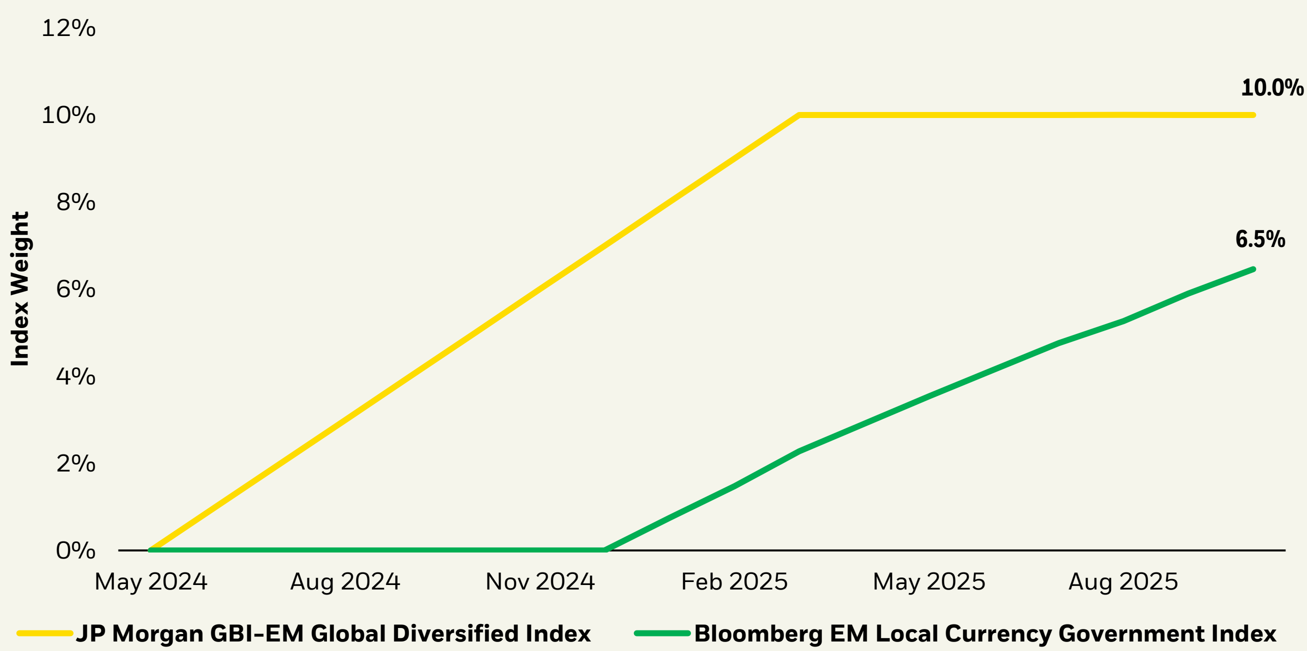
B. Fixed Income Indexing Supports Vibrant Capital Markets

Fixed income indexing strengthens capital markets by **promoting long-term investment, encouraging instrument standardisation, and improving liquidity and transparency**. These effects are most visible when an emerging market (EM) is added to a widely followed index: inclusion typically channels steady capital into the local market, broadening and diversifying the investor base, improving its liquidity, and over time reducing sovereign borrowing costs.

One example of this is the **inclusion of China onshore bonds** in various key fixed income indices, including the flagship Bloomberg Global Aggregate Index, in April 2019. The inclusion followed concrete reforms that made the Chinese onshore bond market easier to access for foreign investors. This drove inflows into the bonds, helping deepen liquidity, widen the investor base, and support international use of the renminbi.

Another more recent example is the **inclusion of Indian government bonds** in major EM debt indices by J.P. Morgan, Bloomberg, and FTSE, expanding access to one of the world's largest economies. This change follows years of market reforms, such as the Fully Accessible Route (FAR), which removed foreign investment caps and made Indian bonds eligible for global benchmarks.

Figure 8: Major EM indices providers have included Indian government bonds in a phased approach



These developments demonstrate that **indexing supports vibrant capital markets**, encouraging countries to align their market governance with global standards to unlock global investor participation. The result is a more robust sovereign debt ecosystem, one where transparency, liquidity, and long-term alignment are embedded directly into the structure of the instruments themselves.

Source: BlackRock, as of 31 October 2025.

CONCLUSION

Fixed income indexing has evolved from a nascent implementation tool into a core pillar of modern bond investing. As bond markets have grown in size, breadth, and complexity, index-based strategies have provided and continue to provide investors with a transparent, diversified, and scalable way to access the global opportunity set. Furthermore, fixed income indexing continues to strengthen market liquidity and transparency, supporting vibrant capital markets.

The increasing sophistication and granularity of fixed income indices has expanded the investor toolkit. Today's benchmarks allow investors to target specific regions, sectors, maturities, and risk exposures with precision, enabling more deliberate portfolio construction and better alignment with investment objectives. Importantly, diversification remains a central strength of indexing: in markets where excess returns are increasingly driven by many small contributors rather than just a handful of large issuers, broad index exposure helps mitigate idiosyncratic risk and stabilise outcomes over time.

Beyond portfolio benefits, fixed income indexing plays a constructive role in the capital markets themselves. By encouraging standardisation, transparency, and index-eligible issuance, indexing supports healthier market ecosystems for developed credit markets and emerging economies, ultimately improving access, price discovery, liquidity, and long-term investor participation.

For investors, the implication is clear: fixed income indexing is a foundational building block for resilient portfolios and more vibrant bond markets.

Appendix

Exposure	Index	**Yield (%)**	**Duration (years)**
Broad	Bloomberg EuroAgg Treasury Index	2.94	6.91
0-3M	ICE 0-3 Month Euro Govt Bill Index	1.71	0.13
0-1Y	Bloomberg Euro 0-12M Bond Index	2.04	0.49
1-3Y	Bloomberg Euro Govt 1-3 Year Index	2.22	1.77
3-5Y	Bloomberg Euro Govt 3-5 Year Index	2.52	3.59
5-7Y	Bloomberg Euro Govt 5-7 Year Index	2.85	5.70
7-10Y	Bloomberg Euro Govt 7-10 Year Index	3.12	7.36
10-15Y	Bloomberg Euro Govt 10-15 Year Index	3.56	10.27
15-30Y	Bloomberg Euro Govt 15-30 Year Index	3.90	15.92

Maturity	Fixed Maturity Index	**Yield (%)**	Duration (years)
2026	Bloomberg MSCI Dec 2026 Mat EUR Corp ESG Scr Index	2.39	0.48
2027	Bloomberg MSCI Dec 2027 Mat EUR Corp ESG Scr Index	2.53	1.44
2028	Bloomberg MSCI Dec 2028 Mat EUR Corp ESG Scr Index	2.73	2.39
2029	Bloomberg MSCI Dec 2029 Mat EUR Corp ESG Scr Index	2.95	3.31
2030	Bloomberg MSCI Dec 2030 Mat EUR Corp ESG Scr Index	3.12	4.14
2031	Bloomberg MSCI Dec 2031 Mat EUR Corp ESG Scr Index	3.34	5.07
2032	Bloomberg MSCI Dec 2032 Mat EUR Corp ESG Scr Index	3.48	5.84
2033	Bloomberg MSCI Dec 2033 Mat EUR Corp ESG Scr Index	3.59	6.55
2034	Bloomberg MSCI Dec 2034 Mat EUR Corp ESG Scr Index	3.69	7.29
2035	Bloomberg MSCI Dec 2035 Mat EUR Corp ESG Scr Index	3.84	7.95

Source: BlackRock, as of 31 December 2025. The list of indices is not an exhaustive representation of EUR government and investment grade indices.

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