Fixed Income Investor Survey 2025

TwentyFour
a boutique of Vontobel

How investors are responding to unsettled markets

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Executive summary

Optimism has returned to the fixed income asset class. A period of inflation-driven volatility has calmed, and central banks' watchful approach to interest rate cuts is keeping yields elevated. In response, investors appear to be increasing their fixed income allocations in the expectation of steady returns.

Beyond the favourable short-term outlook, there are new undercurrents driving investment decisions in fixed income. Geopolitics continues to weigh on investors' minds, with many shifting geographical exposure and 61% of our respondents saying the recent climate has altered their risk appetite. Government deficits are also back on the agenda, with 76% saying this will play a material role in their asset allocation this year.

The shifting narrative around ESG and sustainable investing is another important topic. Despite the new US administration leading a backlash against ESG policies and commitments at the start of 2025, institutional investors rank Sustainable/ESG bonds highly, both for performance projections and planned allocation increases.

These major trends form the bedrock of this report, which explores the outlook for the fixed income market.

Ben Hayward
Partner, CEO
TwentyFour Asset Management

What's next for fixed income?

The first half of 2025 has seen investors continue to direct assets towards fixed income, a trend that was already gaining momentum through 2024.

With inflation cooling and growth looking solid, elevated yields have revived optimism around the asset class and most are expecting another year of healthy returns.

Looking ahead, market conditions remain complex. Trade tensions and geopolitical instability are creating uncertainty around the macroeconomic outlook, with the new US administration's tariffs policy, in particular, having the potential to spark more volatility in the coming months.

Fixed income investors face specific challenges, with government debt levels back in the spotlight and corporate bond spreads having quickly returned to relatively tight levels following the tariff-induced turmoil of early April.

"Higher yields improve potential returns, but they can also give portfolios some protection against volatility, so it is no surprise to see investors increasing allocations to fixed income across sectors," says Ben Hayward, CEO at TwentyFour Asset Management.

"It is in these conditions that we think active managers can really prove their worth by targeting the right opportunities while managing the broader market risks."

What's next for fixed income? Our latest research, involving 200 UK institutional investors, suggests that, despite the complexity of broader market conditions, investors expect the asset class to have the desired impact on their portfolios – delivering income, reducing volatility, and mitigating some of the broader macro and geopolitical risks. In this report we examine investors' performance projections for different sectors, where they plan to allocate both in the short and medium term and the factors driving these decisions as they seek returns for their clients.

"It is no surprise to see investors increasing allocations to fixed income across sectors."

Ben Hayward
Partner, CEO
TwentyFour Asset Management

Part One

Fixed income asset allocation trends

Appetite for bonds is building

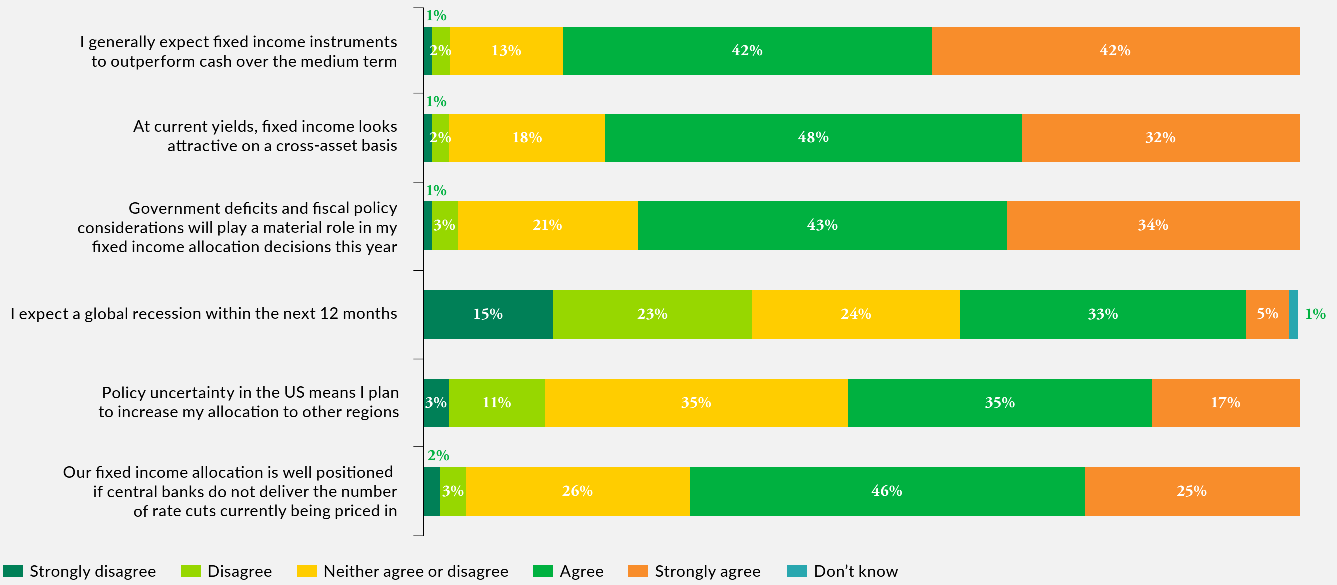
Fixed income remains an asset class that investors deem fundamentally attractive, with 84% expecting fixed income instruments to outperform cash over the medium term – 42% strongly agree with the statement.

The research findings show most (80%) institutional investors agree that, at current yields (at the time of the research), fixed income is attractive on a cross-asset basis. In light of this, most plan to hold or increase their allocation to the asset class in the next 12 months.

Across most fixed income sectors listed in our research, optimism is high – the majority of respondents project performance will meet or exceed market averages across all categories. Sustainable/ESG, strategic and government bonds are considered the assets most likely to outperform. Allocations moving forward are expected to follow these patterns – these are broadly the markets to which investors plan to increase their allocations in the next 12 months.

Percentages shown may exceed 100% due to rounding.

Chart 1: To what extent, if any, do you agree or disagree with the following statements?



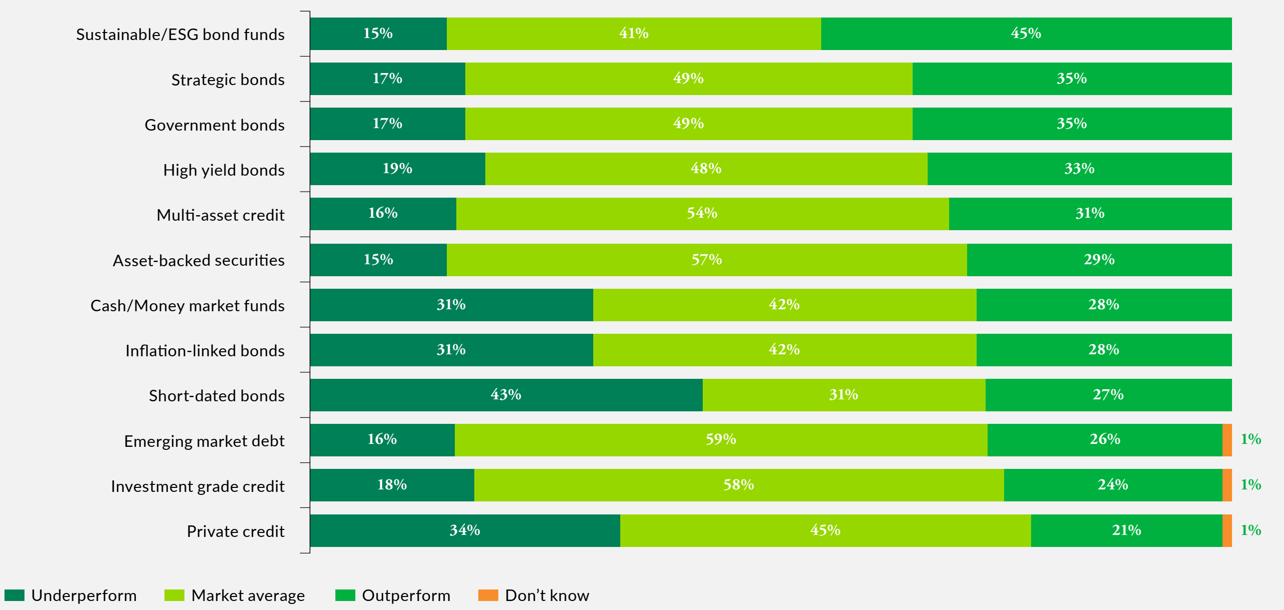
Interestingly, government bonds and high yield bonds are both expected to perform well over this period. This perhaps reflects the fact that yields are relatively high, and the income generated from both government bonds and high yield bonds is expected to support total return. It is also interesting to note that there is less faith in short-dated bonds than cash, despite their higher yield and the level of overall optimism around fixed income performance.

While the first half of 2025 saw significant volatility, the backdrop in terms of yields and credit spreads is little changed from the start of the year. "Fixed interest markets have remained relatively constant," says Thomas Becket, Co-CIO at Canaccord Wealth. "If you look back at yields and spreads now [compared with the start of the year], although there has been a round trip through that time, there's not a marked difference. Yields at the start of the year were about fair value. Where we are now is still about fair value."

"Yields at the start of the year were about fair value. Where we are now is still about fair value."

Thomas Becket
Co-CIO
Canaccord Wealth

Chart 2: How do you expect the following asset classes to perform over the next 12 months?



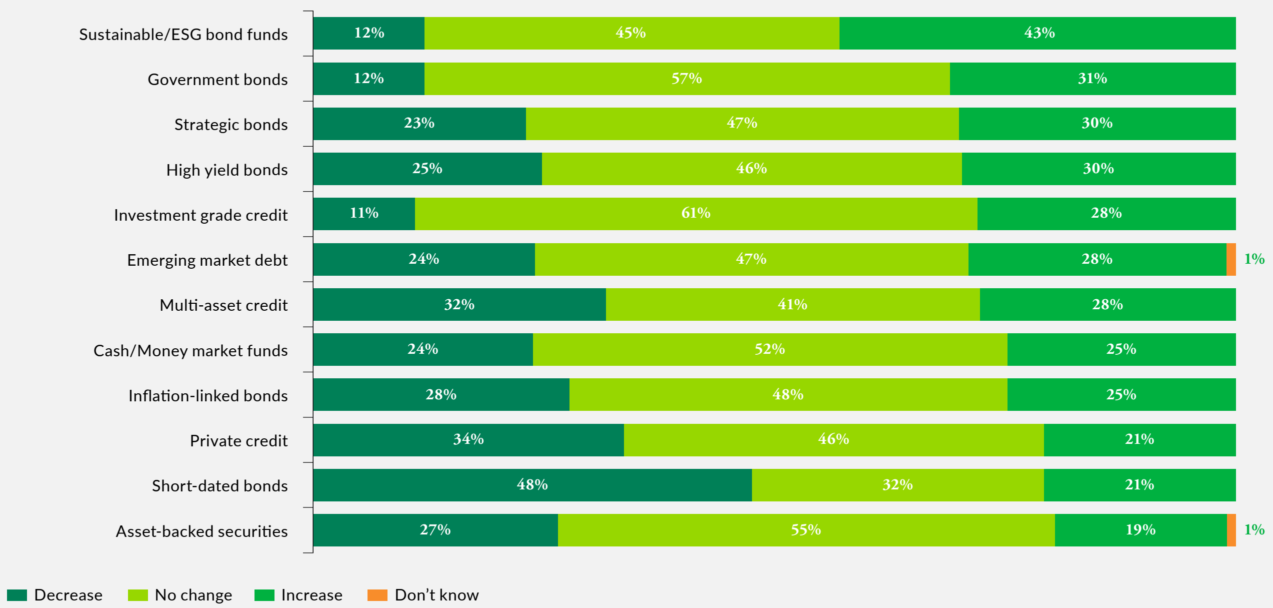
In April, widening credit spreads afforded investors "an opportunity to take a bit more credit risk," adds Becket. "But [fast-forward] to today, we've seen something of a round trip back to historically tight credit spreads, which I feel are sensible and reflect the current risks and rewards on offer in global fixed interest markets.

"We're still in a world where fixed income yields are sensible, relevant and offer investors attractive yields going forwards," concludes Becket.

Confidence in fixed income remains generally high. Large numbers of investors plan to hold steady in their allocations. And, in line with performance forecasts, investors surveyed are, on balance, more likely to increase than decrease allocations.

Comparison of the trends between the asset owners and intermediaries in our research base reveals different priorities. Asset owners place high yield as the category most likely to attract a greater share of their portfolios through to 2026. Intermediaries are more likely to be planning to increase exposure to emerging market bond funds over the next 12 months.

Chart 3: How do you anticipate your overall allocations changing over the next 12 months with your fixed income fund usage?



Dialling up duration?

Despite an intensified focus on government debt levels and sharp rises in government bond yields during the first half of 2025, short-dated bonds are the asset class expected to attract lower demand. While some investors in our sample plan to retain or dial up these assets, short-dated bond funds is the category thought most likely to be reduced in allocations over the next 12 months, as noted by the relative majority (48%) of respondents.

William Morris, Head of Investments at Weatherbys Private Bank, notes: "We're currently in the middle of our annual portfolio refresh and I expect that allocations will be a little bit different to where we were last year, because yield curves have shifted since then." Morris adds: "We might start to take on a little bit more duration risk than this time 12 months ago. But perhaps only within portfolios that are more tilted towards equities overall."

Gordon Shannon, Co-Head of Investment Grade at TwentyFour Asset Management, suspects investors are anticipating that, as central banks cut rates, there will be a contraction in short-dated bond yields and are planning to rotate if that materialises.

"There's generally a trade-off between the lower volatility associated with short-dated bonds and the opportunity cost of not buying longer bonds when they offer higher yields," he says.

"In recent years, with flat yield curves, we have been able to take the stronger predictability of returns available at the front end without foregoing yield, but as curves steepen we would expect to shift some of the allocation further out on the curve.

"However, with macroeconomic risks high and inflation not completely quashed, we like the resilience to potential market stress short-dated bonds give us today. It will take more macro stability, as well as higher potential carry, to make that rotation really compelling."

"We might start to take on a little bit more duration risk than this time 12 months ago."

William Morris
Head of Investments
Weatherbys Private Bank

Recalibrating in private credit

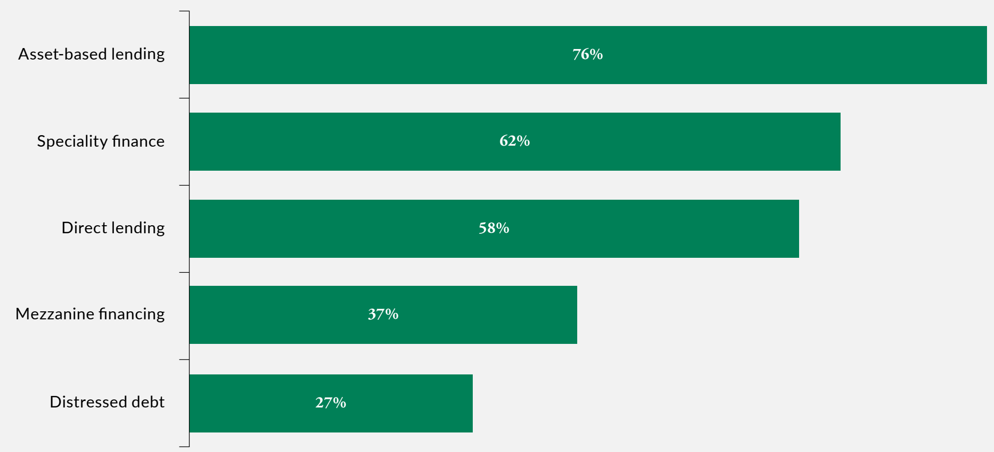
Most respondents (55%) surveyed plan to recalibrate their exposure to private credit funds, with the majority of this group planning to decrease their use of this asset class in portfolios.

Nevertheless, a healthy 67% acknowledge private credit has a place in their future portfolios, with 46% of the total base planning to maintain and 21% planning to increase exposure in the next 12 months. This follows the momentum in this space. Private credit assets under management (AUM) globally were around $1.5 trillion at the start of 2024, up from $1 trillion in 2020, and are projected to rise to nearly $3 trillion by 2028.[1]

Moody's expects at least $1 trillion of private credit growth over the next five years to come from asset-based lending (also known as asset-backed finance or ABF), as investors seek alternatives to more mainstream areas of private credit such as direct lending, where growing competition has been compressing returns.[2] Our data bears this out, with the investors that confirmed they were interested in this area looking to prioritise asset-based lending over other private credit sectors. The preference for this sub-sector in our research was greater among intermediaries than asset owners (12 percentage points higher).

[1, 2] Moody's, *Global Private Credit Outlook*, 12 January 2025.

Chart 4: As you indicated that private credit is of interest, please specify which parts of the private credit markets your organisation will focus on in the next year



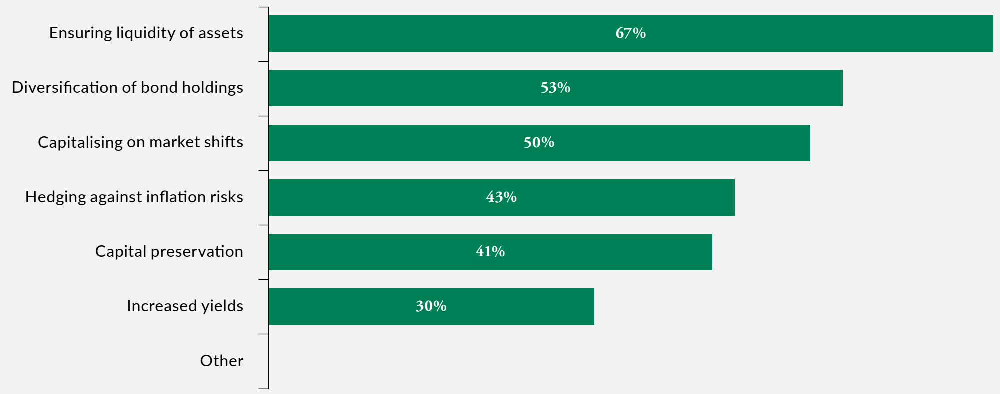
In search of liquidity and diversification

Over the three-year investment horizon, our data shows investors will sustain an appetite for fixed income. As with the 12-month outlook, across categories, most investors plan to hold or increase their fixed income fund allocations over the next three years. For the 12-month horizon this stands at 75% of investors surveyed, through the forecast softens to 66% over the three-year horizon.

In terms of the objectives at the core of these plans, securing liquidity is a priority among respondents. Unsurprisingly given the geopolitical volatility and economic uncertainty investors have faced in recent months, diversification is also a key driver. A major source of recent market volatility has of course been heightened geopolitical tensions, which will be explored in the next chapter.

75% of investors surveyed plan to hold or increase their fixed income fund allocations over the next 12 months.

Chart 5: Which of the following fixed income portfolio objectives are most important to your institution over the next 12 months?



Part Two

Geopolitics is driving portfolio changes

Geopolitical shifts are significantly impacting risk appetite. The ongoing war in Ukraine, escalating tensions in the Middle East, and bold trade and fiscal policies from the Trump administration are just a few of the issues driving uncertainty around growth, inflation, and monetary policy globally.

While 40% of respondents say that the geopolitical climate has not impacted their positioning over the past 12 months as it is just 'short-term noise', most (61%) acknowledge that the environment has indeed shifted their risk appetite. Of the total sample, 50% admit that market conditions have made them more defensive/risk-off. Only 11% feel the uncertainty has created more investment opportunities for greater risk/alpha-generating assets, though this likely reflects how quickly risk asset valuations recovered after the deep sell-offs triggered by the initial US tariff announcement.

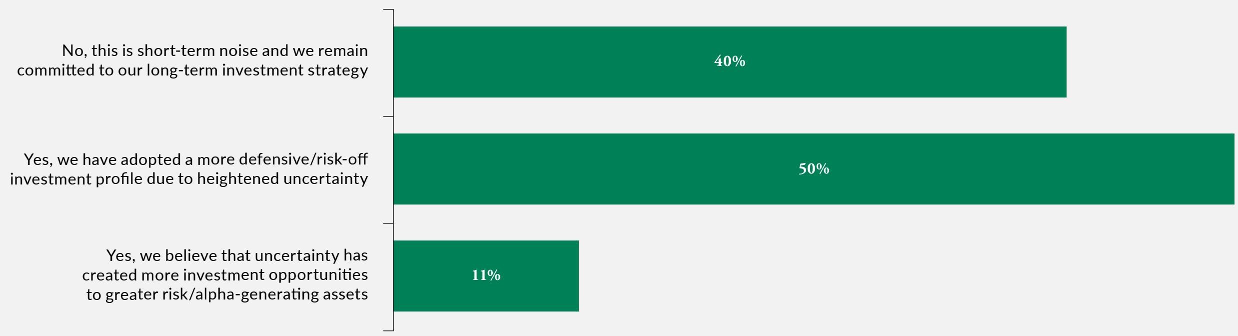
Barry Jones, CIO at Isio, has observed this defensiveness emerge in the behaviour of institutional investors since January. "Fund managers and asset allocators have gone defensive," he says. "Part of that was based off market pricing. In 2024 everything was pricing for perfection, especially in the public markets. So, we saw investors looking for alternative sectors of credit where there was still value or going defensive by moving up the credit rating spectrum and/or shortening duration. And we've seen quite a lot of material cash holdings.

"For instance, a fund manager, whose multi-sector strategic risk is around about the triple B level across the portfolio, and they've got 35% in cash. That's quite extreme in terms of their flexibility on risk – they have gone about as defensive as possible."

"Fund managers and asset allocators have gone defensive. Part of that was based off market pricing."

Barry Jones
CIO
Isio

Chart 6: Has the current geopolitical climate changed your investment risk/appetite positioning in the last 12 months?



A geographical shift in allocations

With these conditions in mind, investors are paying close attention to which geographies they are exposed to moving forwards. Today, the majority of portfolios are weighted to the UK – 46% of portfolios are exposed to this market, compared with 21% in Europe, 18% in the US and 12% in Asia. Over the next 12 months, the UK is expected to absorb even more, with its allocation rising to 48%, taking a point each from the US and Asia.

Most investors (52%) say policy uncertainty in the US is forcing them to increase their allocations to other regions. Pete Drewienkiewicz, CIO at Redington, believes investors have inadvertently become slightly overdependent on the US.

"There has been a wake-up call recently," he explains. "We've all been a bit complacent about the role the US plays in the investment landscape. It's not going to stop being a good place to invest overnight – it has been a great place for companies to innovate and create capital. But I do think a lot of people have let their allocations in the US creep up above the levels they should have there. The last six months has really got people thinking."

He adds that there are two key factors driving shifts in geographic allocations: stock market performance and currency.

"Even if you need money invested in the US, it's likely you'll look to hedge a little bit more," he says. "It's going to drive some outflows from the dollar, even if you don't see equity selling. There is a bit of a rotation going on."

"I do think a lot of people have let their allocations in the US creep up above the levels they should have there. The last six months has really got people thinking."

Pete Drewienkiewicz
CIO
Redington

Navigating global tail risks

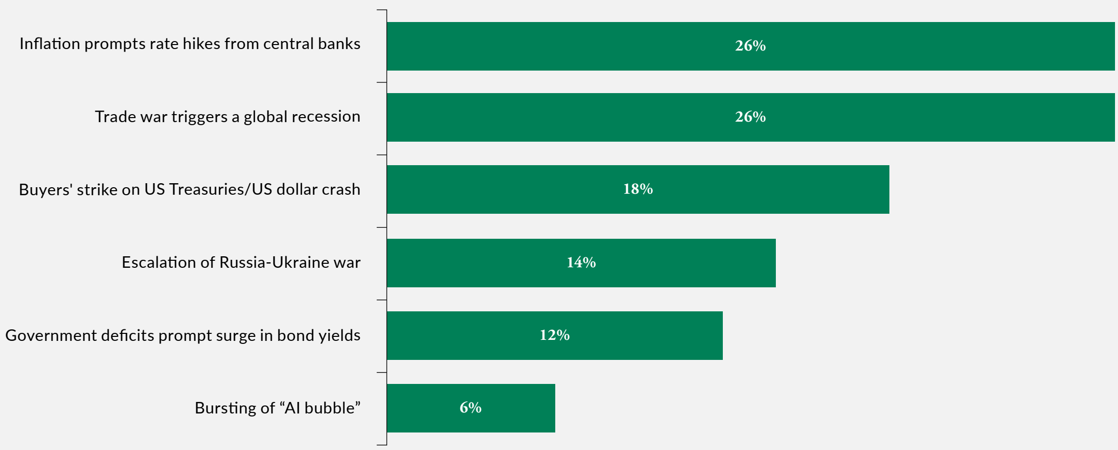
In terms of potential disruptions to return expectations in the next 12 months, the investors surveyed identified two prominent tail risks: inflation prompting rate hikes from central banks, and a trade war triggering a global recession. The risk of global recession is a contentious issue for investors, who remain evenly split: 38% expect that one will happen in the next 12 months, and 38% do not.

Rate hikes concern investors, but they are taking steps to mitigate these concerns: 71% say their fixed income allocation is well positioned if central banks do not deliver the number of rate cuts currently being priced in. Intermediaries are significantly more confident than asset owners on this point (76% vs 58%). When asked about objectives, intermediaries are more likely to rank hedging against inflation in the top three for the next 12 months (8 percentage points higher).

Becket notes that the current fixed income dynamic offers a natural diversifier and risk buffer in portfolios: "With yields where they are, and fixed interest markets performing well overall, there should be a natural offset from areas of fixed income to the riskier areas of portfolios, which does reduce the necessity for dedicated tail risk hedging."

While the current level of yields affords fixed income portfolios some natural defence against these tail risks, investors' concern about inflation-driven rate hikes would appear to run counter to their willingness to dial up duration and their projected lower appetite for short-dated bonds.

Chart 7: Out of the following, which do you consider the most likely tail event? (Ranked Top 1 Summary)



Spotlight on: FX risk

From a currency risk perspective, geopolitical flashpoints and tail events can have a significant impact on fixed income. Isio's Jones says this is an important consideration for investors, especially those holding overseas assets. He says the new administration in the US puts long-established norms of how currencies behave to the test.

"Historically, it's been great from a UK/European perspective to leave your US assets unhedged," Jones explains. "When trouble occurs, the fact that the dollar has been the global reserve currency since World War Two means you essentially get a cushion in times of stress. So, it protects against tail risk because sterling falls relative to the dollar." But, he adds, things are changing.

"We saw in the pre-'Liberation Day' market turmoil, for the first time in a long time, that we've had a market crisis where the dollar didn't rally. In fact, the dollar had sold off by 10-15%, depending on which currency bucket you're looking at. And that's a really odd correlation.

"It's always been a safety blanket for European investors holding overseas assets. And FX hedging can be difficult, especially in assets that aren't perfectly liquid, because you've got to collateralise them at some point. So, essentially, this is a real headache that exists, and this change might persist," he concludes.

Most traditional long-only fixed income managers choose to hedge away their FX exposure, largely because investors generally expect most of their total return to come from income, plus some capital gain, says Felipe Villarroel, Partner, Portfolio Management at TwentyFour Asset Management.

With currencies being notoriously volatile, "you might have nailed your macro investment thesis and your credit analysis, only for one unfriendly currency move to wipe out a substantial portion of your total return," Villarroel says. "Hedging is designed to remove the impact of currency volatility in a portfolio's non-base currency holdings, so that the main contributor to total return is the performance of its underlying securities."

"We saw in the pre-'Liberation Day' market turmoil, for the first time in a long time, that we've had a market crisis where the dollar didn't rally."

Barry Jones
CIO
Isio

Sovereign debt dynamics

Traditionally viewed as a safe-haven play, investor confidence has wobbled around government bonds, leading to sharp sell-offs this year. Demand for longer-maturity government bonds, in particular, has softened in response to renewed scrutiny of government debt sustainability.

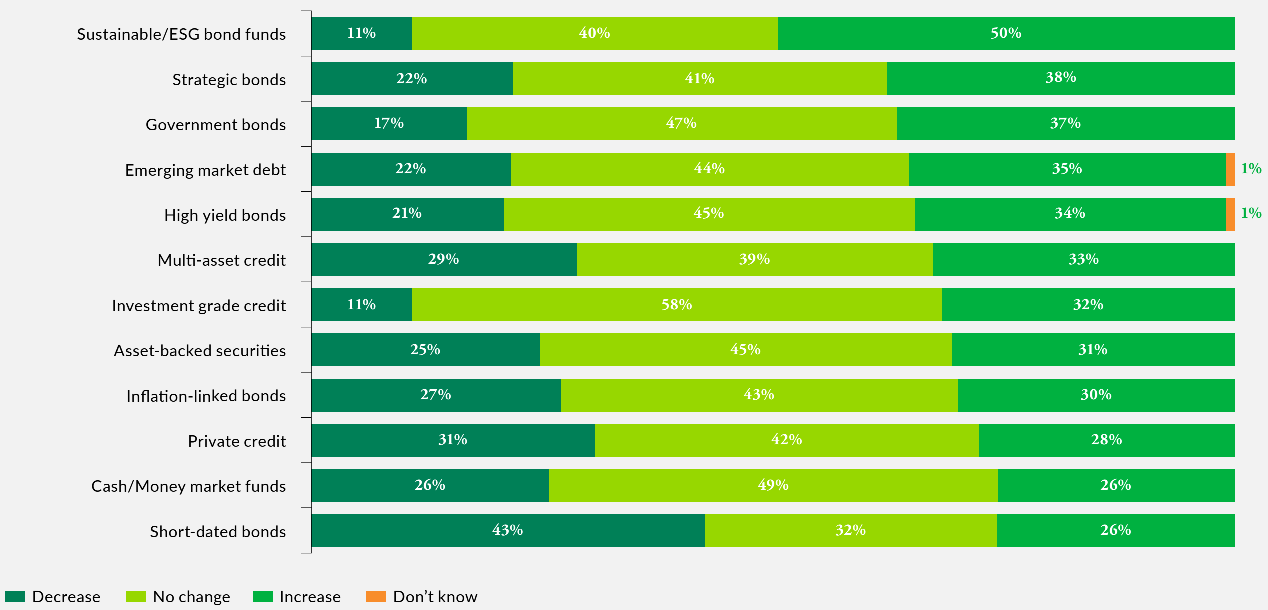
"The 70-odd-basis-point gap between 10-year and 30-year sovereign bonds reflects the risks at the far end of government bond yield curves," notes Becket. Uncertainty around inflation and government competency are dominant concerns. "And, of course, there are big risks around the fact that governments live on top of enormous debt piles across the developed world, but in particular the UK and the US," Becket continues.

Some 76% of our respondents say government deficits and fiscal policy considerations will play a material role in their fixed income allocation decisions this year. Intermediaries feel this sentiment more keenly than asset owners (10 percentage points higher).

"Given the concerns about deficit levels across the G7, it wouldn't surprise me if the long end of government bond yield curves rose," notes Caspar Rock, CIO at Cazenove Capital. "Whether that's a steepening or a broad-based sell-off is a separate question. But either way, it doesn't really encourage investors to extend duration much beyond where it is today. You're just not being adequately compensated to go ultra-long in those bond markets at the moment."

Nevertheless, rather than departing the asset class, investors are seemingly focused on managing the risks. Some 88% plan to hold (57%) or increase (31%) their investments in government bond funds in the next 12 months, while on a three-year view the percentage looking to increase allocations to government bond funds rises even further to 37%.

Chart 8: How do you anticipate your overall allocations changing over the next 3 years with your fixed income fund usage?



Part Three
Investors remain committed to sustainable investing

Despite the US administration's reversal of various ESG and DEI initiatives in the first half of 2025, our data indicates that, overall, institutional investors have not lost sight of the value of sustainable or ESG-focused fixed income funds.

Aside from triggering some outflows from ESG funds,[3] the intense recent ESG backlash has also stunned many companies into silence, at least publicly. Research from The Conference Board shows many companies have been shying away from even using the term in external communications; just 6% of published annual sustainability reports from S&P 100 companies in 2025 have featured the term 'ESG', compared with 25% in 2024 and 40% in 2023.[4] And yet, the study maintains that, internally, "They aren't backing away from their strategies or commitments."

Our research findings reflect this sustained operational focus. Looking ahead, almost 9 in 10 (88%) institutional investors surveyed still expect to see an increase in AUM dedicated to sustainable investment strategies in the next 12-24 months. Out of the fixed income bond funds listed in our research, Sustainable/ESG bond funds are the most likely to see an increased share of institutional investor portfolios over the next 12 months with 43% expecting to allocate more.

What are the driving forces behind these plans? Simply put, investors expect these strategies to deliver better outcomes for their clients.

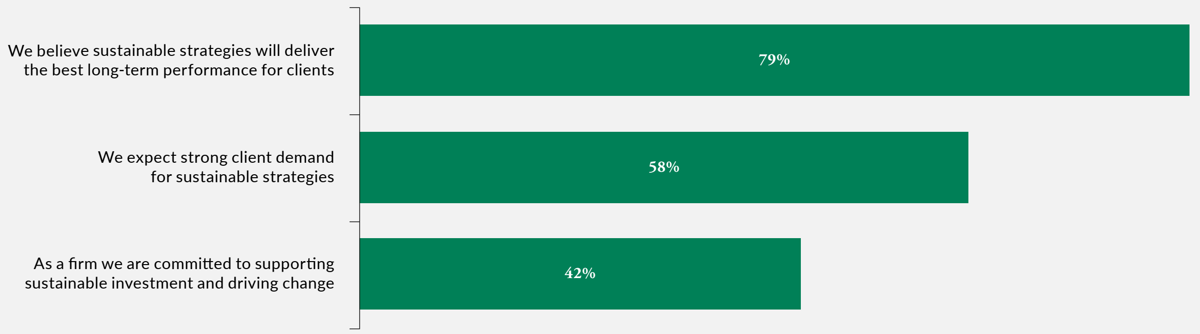
According to our respondents, the primary reason for the forecasted increase in sustainable investment strategies is that they expect these strategies to deliver superior long-term performance for their clients. Also, some 45% of investors surveyed expect Sustainable/ESG bonds to outperform in the next 12 months – the most likely of all the fixed income funds measured in our research to do so. These performance predictions build on momentum from 2024, when annual issuances of Sustainable/ESG bonds reached $1.1 trillion, up 5% from 2023, according to the World Bank Treasury.[5]

Continued strong client demand for sustainable investments will also underpin this expected rise. Reflecting on Cazenove Capital's experience, Rock says: "Sustainable bond portfolios have been part of our DNA for quite some time, and we see growing demand for us to invest sustainably."

Most (92%) of the institutional investors in our base have firm commitments to reducing portfolio emissions. And 7 in 10 have a commitment to reach net zero targets by 2050 or earlier.

[3] https://global.morningstar.com/en-gb/sustainable-investing/investors-turn-away-esg-funds-record-numbers-q1-2025

Chart 9: You indicated you expect your sustainable AUM to increase. What is the biggest driver of this?



Divided reactions

Developments in early 2025 have helped to reveal a split between intermediaries and the asset owners they often support, such as pension funds, insurers and endowments.

Market reports have noted a wider trend of asset managers, especially in the US, going cold on their sustainability activities, at least publicly. For instance, a number of large US asset management firms have recently quit voluntary climate bodies such as the Net Zero Asset Managers initiative.

However, asset owners appear to be maintaining a stronger commitment to green issues. A recent study by the UN-backed Principles for Responsible Investment (PRI) body involving 3,000 PRI signatories found that, in comparison with asset managers, asset owners are 29 percentage points more likely to use climate scenario analysis to assess risk in portfolios. In February, reports emerged of a group of 26 asset owner firms, overseeing $1.5 trillion in funds, urging their asset managers to more actively engage with companies on climate risk or risk withdrawal of funds.[8]

While consensus across the board in our research shows that, moving forwards, institutional investors see value in Sustainable/ESG bond funds, indications of this split in attitude between the two institutional investor groups are indeed present:

- Asset owners are more likely to be planning to hold or increase their Sustainable/ESG fixed income allocations over the next 12 months, a trend which is expected to sustain for the next three years.
- Intermediaries are slightly more likely to be planning to decrease their Sustainable/ESG fixed income allocations over the next 12 months.
- In comparison with intermediaries, asset owners are slightly more likely to expect an uptick in AUM for their Sustainable/ESG strategies in the next 12-24 months.
- Also, asset owners are more likely to have made a commitment to achieve net zero in portfolios by 2050.

As UK asset owners look to intermediaries for support in achieving returns and meeting beneficiary expectations around climate concerns, the perceived alignment of intermediaries' sustainable fixed income frameworks with these goals could become a more significant differentiator in the space.

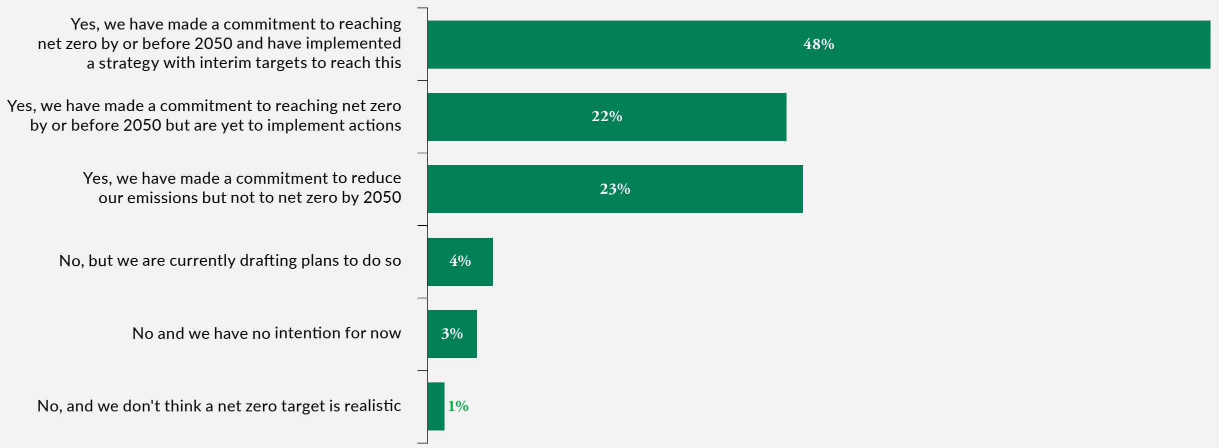
[8] https://www.ft.com/content/0a703624-37ba-4d87-af67-3d7d15caf306

Another split in consensus is apparent with institutional investors using diversified active strategies displaying significantly less ESG enthusiasm than those focused on high-conviction active strategies. Only 38% of the former have made a strong commitment to meeting net zero by or before 2050, compared with 61% of the latter. Those focused on high-conviction strategies are perhaps more likely to place strong bets on certain areas, particularly purpose-driven investments, whereas those opting for a more diversified strategy may be more minded to guard against the shifting narrative in the ESG space.

Also, institutional investors who report becoming more defensively positioned in response to the geopolitical climate in the past 12 months are less likely to expect a significant increase in appetite for sustainable investment strategies. Just 11% of these investors expect their sustainable AUM to increase significantly in the next 12-24 months, versus 37% of investors who haven't changed their long-term investment strategies in response to geopolitical shifts in the past year.

This split is also evident in institutional investors' approach to net zero. Only 38% of those who reported becoming more defensive in response to geopolitics have made a commitment to net zero, compared with 66% of those who reported maintaining their strategy, who arguably may be more willing to tolerate the highs and lows they may face politically.

Chart 10: Has your organisation made a commitment to achieving net zero in your portfolios by 2050 or another date?



Asset class complexities

While, broadly speaking, the institutional investors surveyed see potential in Sustainable/ESG fixed income funds as a growth opportunity for their clients, there are complexities attached to the asset class that are triggering caution in this developing market.

As explained by Drewienkiewicz at Redington: "There are a lot of greenwashing concerns with [the sustainable bond fund space]. There's a lot of flexibility in terms of what funds are used for in many cases. We have a very strong preference for greater transparency, KPIs and standards with this asset class in terms of where money can be spent."

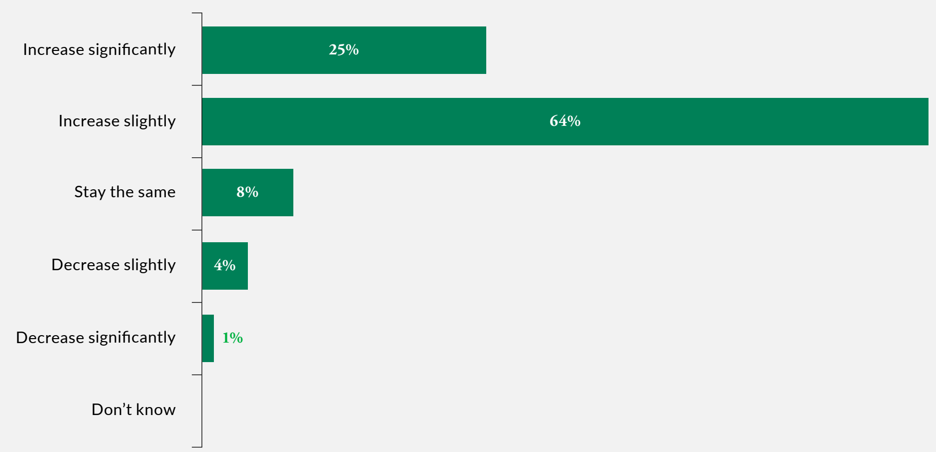
Isio's Jones explains that another complication for investors around ESG is that it is becoming harder to build portfolios that meet sustainable goals. He points to large UK pension schemes with a strong stance on climate, which are reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) guidance as an example of a force narrowing the pool of investible bonds.

"Say one of your TCFD metrics is around temperature alignment. The goal might be temperature increase below 1.5 degrees to 2030. Currently, within the 2.0 to 1.7 degree alignment there is a broad range of companies available to invest into. But near 1.5 there is a tipping point in credit: there's only around 15% of the index that's available. And that's before Trump's rhetoric, fund managers reversing their climate policies, and the big oil companies changing direction. Essentially, the universe for them may shrink massively.

"So, you've got this position where portfolios have been knocking their temperature alignment down and still have complete freedom to build good portfolios. They're going to hit crunch point soon, if not already. However, the universe will hopefully evolve, and the potential pool of 1.5 degree aligned issuers may become more diversified. Therefore, this needs regular monitoring."

Of course, abandoning sustainable investments and strategies carries its own risks. Aside from the opportunity cost of missing out on the returns many investors expect to see from this asset class in the next 12 months, amid heightened public awareness, institutional investors need to be conscious of reputational risk.

Chart 11: In the next 12-24 months, do you expect your assets under management dedicated to sustainable investment strategies to:



Fixed Income Investor Survey 2025

Conclusion

Despite flashpoints of market uncertainty in 2025 to date, investors remain committed to fixed income and are upbeat on its outlook. They expect strong overall performance and are planning to increase allocations accordingly.

Geopolitical disruption, renewed scrutiny of government fiscal positions and sustained demand for ESG investments are among the trends driving investors' allocation decisions for the next 12 months and beyond.

So, optimism is back. But it's far from business as usual. In the current investment climate, 'set and forget' is not a viable strategy. Geopolitical tensions and macroeconomic uncertainty will persist, driving institutional investors to prioritise liquidity and diversification in fixed income – arguably strengthening the case for active management in the asset class.

About the research

In partnership with FT Longitude, in May and June 2025, TwentyFour Asset Management conducted a survey of 200 institutional investors about their use of fixed income funds now and their plans for the future. Investors represented a range of sectors: investment consultancies, wealth/discretionary fund managers, private banks, pension funds, insurance companies, multi-manager/fund of funds, outsourced CIOs, family offices, local authorities, charities, and endowments. The AUM of companies surveyed ranged from £300 million to more than £1 billion, and all organisations make use of fixed income funds in a significant capacity.

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