The Alts Institute

Credit: The Multi-Asset Investing Advantage

Traditional fixed income strategies constructed during more than a decade of historically low interest rates are under pressure from a tricky combination of inflation, rising rates and economic uncertainty. As investors adjust to these challenges, we believe they should consider adding multi-asset credit strategies to their fixed-income portfolios.

Multi-asset credit strategies may offer important benefits that make them attractive now:

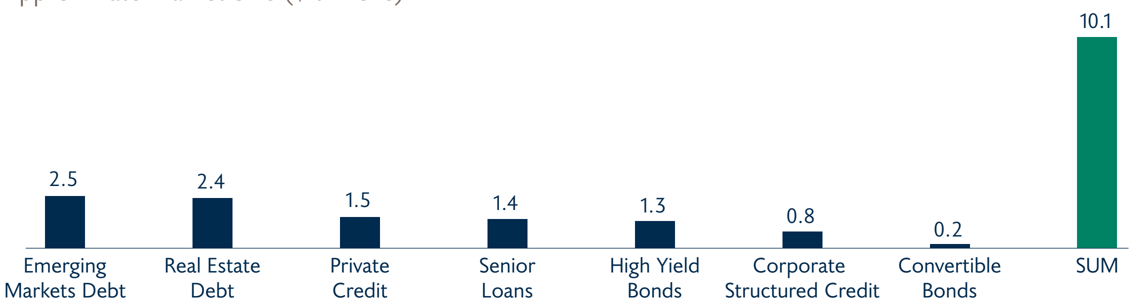
- **Diversification:** They expand portfolios into a more diversified universe of public and private assets.
- **Enhanced return potential:** This approach creates opportunities for skilled active managers to generate potentially higher returns than passive options.
- **Risk mitigation:** These strategies have the potential to protect portfolios during periods of rising rates/inflation and enhance risk-adjusted returns in all market environments.

Expanding the Universe of Investable Assets

Assembling a portfolio of various segments of the fixed-income and credit markets is impractical for most investors to do alone and especially difficult to replicate with a passive, index-tracking approach. As a result, we believe investors are better served by adopting an actively managed multi-asset approach, which can help broaden opportunities for investors and add exposure to private assets and harder-to-access parts of the credit market. **Figure 1** illustrates just how substantially that can widen the opportunity set.

Figure 1: A Global Multi-Asset Approach Helps Maximize the Opportunity Set

Approximate Market Size ($ trillions)



High Yield Bonds represented by ICE BofA Merrill Lynch U.S. High Yield U.S./CAD Issue Constrained Index, Convertible Bonds represented by ICE BofA Yield Alternative U.S. Convertible Index, Senior Loans represented by Credit Suisse Leveraged Loan Index, Emerging Markets Debt represented by J.P. Morgan Corporate Emerging Market Bond High Yield Index, Corporate Structured Credit represented by J.P. Morgan CLO Post-Crisis BB Index, Private Credit market size as reported by Preqin's Global Private Debt Report. Source: ICE BofA, Credit Suisse, J.P. Morgan, Bloomberg, Preqin, data as of September 30, 2024.

Source: SIFMA, J.P. Morgan. Data as of December 21, 2024. U.S. market size represents the total amount of outstanding issuance.

NOTE: DIVERSIFICATION DOES NOT GUARANTEE A PROFIT OR PROTECT AGAINST LOSS.

Portfolio Diversification and Opportunities for Attractive Returns

By investing within this expanded universe of available assets, a multi-asset strategy can add portfolio diversification because various assets tend to perform differently at various stages of the economic cycle, as shown in **Figure 2**. Over time, diversification has enhanced long-term risk-adjusted returns while unlocking opportunities for active managers seeking to outperform passive investments through dynamic asset allocation.

Figure 2: With No Consistent Winner, Multi-Asset Approach Has Historically Enhanced Return Potential

Annual Returns of Credit Indices Ranked in Order of Performance (2013-2024)

- Corporate Structured Credit
- Convertible Bonds
- Private Credit
- Multi-Asset Credit Index Blend
- Global High Yield
- Global Senior Loans
- Emerging Markets Debt
- Real Estate Debt

Rank	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
BEST	14%	15%	6%	22%	18%	8%	14%	23%	13%	6%	25%	23%
	13%	10%	4%	16%	10%	7%	14%	8%	11%	-3%	14%	19%
	13%	6%	1%	16%	10%	2%	13%	7%	10%	-4%	12%	12%
	9%	5%	0%	12%	9%	0%	13%	6%	8%	-4%	12%	11%
	7%	3%	-2%	11%	9%	-1%	11%	6%	3%	-10%	12%	10%
	7%	2%	-2%	8%	8%	-2%	11%	6%	3%	-12%	11%	9%
	4%	2%	-2%	5%	7%	-3%	9%	5%	2%	-16%	10%	9%
WORST	1%	1%	-6%	2%	6%	-3%	7%	-6%	-1%	-16%	-6%	7%

Past performance is no guarantee of future results. For the period January 1, 2013 through December 31, 2024. Reflects the longest full-year time period available for all indexes shown. Multi-Asset Credit Index Blend reflects a custom index blend consisting of 25.0% Private Credit, 18.0% Senior Loans, 16.9% High Yield, 11.3% Real Estate Debt, 11.3% Corporate Structured Credit, 3.8% Emerging Markets Debt, 5.6% European High Yield, 4.5% European Loans, and 3.8% Convertibles; Private Credit reflects Cliffwater Direct Lending Index, High Yield Bonds reflects ICE BofA U.S. High Yield Index, Senior Loans reflects Credit Suisse Leveraged Loan Index, Real Estate Debt reflects Barclays US CMBS 2.0 Baa Index, Corporate Structured Credit reflects J.P. Morgan CLO 2.0 BB Post-Crisis Index, Emerging Markets Debt reflects J.P. Morgan Corporate Broad CEMBI Diversified High Yield Index Level, Convertibles reflects Refinitiv Global Focus Convertible Index; European High Yield reflects ICE BofA Global High Yield European Issuers Non-Financial Excluding Russia Index (HQSC); European Loans reflects Credit Suisse Western European Leveraged Loan Index. High yield bonds represented by the ICE BofA U.S. High Yield Index, U.S. Investment Grade reflects ICE BofA U.S. Corporate Index, U.S. Aggregate Bonds by the Bloomberg U.S. Aggregate Bond Index. An investor cannot invest in an index. Indices do not reflect the impact of transaction costs, management and other investment-entity fees and expenses or the costs associated with raising capital or being a public company, which lower returns. The indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment

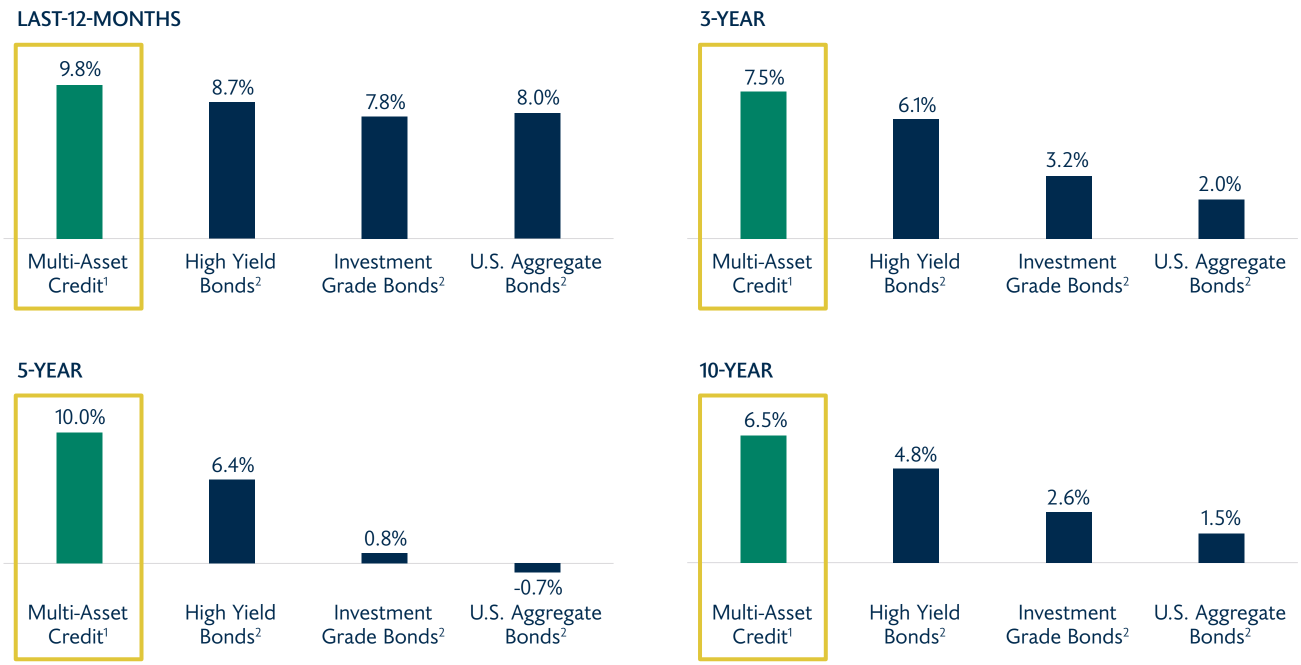
Source: J.P. Morgan, ICE BofA, Credit Suisse, Bloomberg, Morningstar, Cliffwater, Refinitiv, eVestment. Data as of March 31, 2025.

Inflation Protection and Potentially Enhanced Long-Term Performance

Multi-asset credit strategies have outperformed traditional fixed-income strategies (**Figure 3**) over longer historical periods, spanning both periods of high and low inflation. Additionally, multi-asset credit strategies typically shorten overall portfolio duration by incorporating floating-rate assets—an important benefit in high/rising interest rate environments.

Figure 3: The Average Multi-Asset Credit Strategy Has Consistently Outperformed Traditional Bonds

Median Multi-Asset Credit Peer Universe vs. Traditional Bond Indices, 1/3/5/10-Year Total Returns



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Multi-Asset Credit Strategies: Guarding Against Inflation, Enhancing Risk-Adjusted Returns

We believe the current market environment represents an opportune time for investors to consider integrating a multi-asset credit strategy into their fixed-income portfolios. By increasing diversification, multi-asset credit strategies can expand opportunities for investors by moving into harder-to-access areas of the credit market. They can create opportunities for skilled active managers to generate potential outperformance. They can also help protect against inflation and market volatility in the short term and enhance risk-adjusted returns over the long term.[3]

Endnotes

[1] Multi-Asset Credit Index Blend reflects a custom index blend consisting of 25.0% Private Credit, 18.0% Senior Loans, 16.9% High Yield, 11.3% Real Estate Debt, 11.3% Corporate Structured Credit, 3.8% Emerging Markets Debt, 5.6% European High Yield, 4.5% European Loans, and 3.8% Convertibles; Private Credit reflects Cliffwater Direct Lending Index, High Yield Bonds reflects ICE BofA U.S. High Yield Index, Senior Loans reflects Credit Suisse Leveraged Loan Index, Real Estate Debt reflects Barclays US CMBS 2.0 Baa Index, Corporate Structured Credit reflects J.P. Morgan CLO 2.0 BB Post-Crisis Index, Emerging Markets Debt reflects J.P. Morgan Corporate Broad CEMBI Diversified High Yield Index Level, Convertibles reflects Refinitiv Global Focus Convertible Index; European High Yield reflects ICE BofA Global High Yield European Issuers Non-Financial Excluding Russia Index (HQSC); European Loans reflects Credit Suisse Western European Leveraged Loan Index.

[2] High yield bonds represented by the ICE BofA U.S. High Yield Index, U.S. Investment Grade reflects ICE BofA U.S. Corporate Index, U.S. Aggregate Bonds by the Bloomberg U.S. Aggregate Bond Index. An investor cannot invest in an index. Indices do not reflect the impact of transaction costs, management and other investment-entity fees and expenses or the costs associated with raising capital or being a public company, which lower returns.

[3] Risk-adjusted returns as measured by Sharpe ratio. The Sharpe ratio is the measure of risk-adjusted return of a financial portfolio, calculated here by dividing annualized return by annualized standard deviation. A portfolio is superior. As of June 30, 2023, the 10-year annualized Sharpe ratio for Multi-Asset Credit was 0.54, and for High Yield Bonds, Investment Grade Bonds, and Aggregate Bonds it was 0.38, 0.27, and 0.12, respectively. Source: eVestment, Morningstar, Bloomberg, data as of June 30, 2023. Multi-Asset Credit Universe consists of 78 Multi-Asset Credit Fixed Income products for 1, 3, and 5 year, and 28 Multi-Asset Credit Fixed Income products for 10 year (due to available peer set for the time period) reporting total returns in the following vehicles: Separate Account Composite, Representative Accounts, Interval Funds, Institutional Mutual Funds and Retail Mutual Funds. The universe may contain firms or strategies that could be managed differently than the strategies noted herein.

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All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results.

As an asset class, private credit is comprised of a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison to their public equivalents.

Because private credit usually involves lending to below investment grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

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U.S. Aggregate Bonds: The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency).

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