

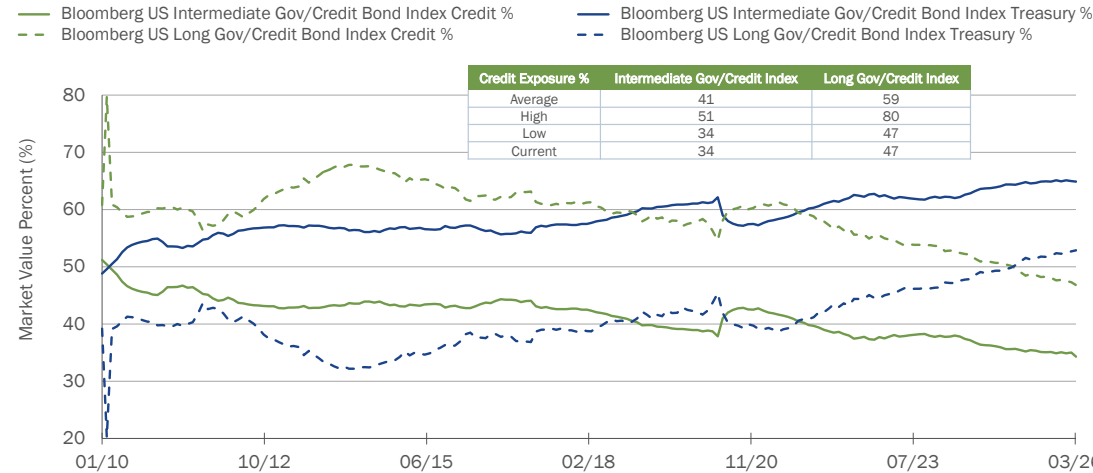
How To Handle Too Much “G” In Government/Credit Indices

Pulling “Gs”

Treasury exposure has increased noticeably in market value weighted fixed income benchmarks like the Bloomberg US Intermediate Government/Credit and Bloomberg US Long Government/Credit Indices. This is largely due to a dramatic rise in U.S. government debt issuance, which climbed from \$7 trillion in 2000 to nearly \$31.4 trillion by first quarter 2026.* The persistent expansion is tied to ongoing efforts to finance large, ever increasing fiscal deficits, resulting in U.S. Treasuries making up a larger portion of these benchmarks compared to corporate credit.

As Treasury issuance has expanded, Gov/Credit benchmarks are now increasingly dominated by government securities. This shift has led to a reduction in corporate credit exposure and the corresponding spread income, as illustrated in Chart 1.

Chart 1



January 31, 2010 – March 31, 2026. The time frame above represents long term economic cycles. Sources: Jennison Associates LLC and Bloomberg®.

Additionally, the reintroduction of 20-year Treasuries, paired with a decline in long-term corporate issuance - from roughly 20% of total credit issuance in 2020-2021 to ~16% by first quarter 2026^ - has further reduced the presence of corporate credit within the Long Gov/Credit benchmark.

- Changing Drivers of Benchmark Returns:** These changes mean that benchmark returns are now more influenced by movements in interest rates and fiscal policy, rather than a balanced mix of rates and credit fundamentals. With diminished corporate exposure, investors may find that income potential is lower and diversification benefits are reduced compared to historical benchmarks.

*Source: U.S. Department of the Treasury. ^Source: Barclays.

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- **Implications for Investors:** As a result, portfolios benchmarked to traditional Gov/Credit indices might not adequately meet investors’ long-term risk, return, and diversification objectives unless the benchmarks are customized to restore a more suitable balance between government and corporate credit exposure.

What To Do About Too Much “G,” And Not Enough “C”

Given the changes in Gov/Credit benchmark composition and the likelihood that these changes will continue, we suggest a customized approach by blending benchmarks with fixed proportions of Treasury and credit exposure.

For example, we selected credit allocations for each benchmark that approximate their historical averages as shown in Chart 1 above: Intermediate: 45% Credit/55% Government and Long: 60% Credit/40% Government.

The characteristics and composition of each blended static benchmark versus the traditional Gov/Credit benchmark are shown in Table 2. The blended static benchmarks provide greater corporate credit exposure and potentially higher spread income than traditional Gov/Credit benchmarks.

Table 2

As of March 31, 2026	Bloomberg US Intermediate Gov/Credit Bond Index	Static 45% Intermediate Credit 55% Intermediate Government Index**	Bloomberg US Long Gov/Credit Bond Index	Static 60% Long Credit 40% Long Government Index^^
Yield to Worst (%)	4.20	4.29	5.35	5.48
OAS (bps)	26	34	50	64
Effective Duration (yrs)	3.74	3.79	13.20	12.96
Convexity	0.20	0.20	2.56	2.49
Average Quality	AA2/AA3	AA3/A1	AA3/A1	AA3/A1
% of Market Value				
Government	65.8	55.0	53.4	40.0
Credit	34.2	45.0	46.6	60.0
Financial Institutions	11.5	15.1	7.0	9.0
Industrial	15.3	20.1	29.0	37.4
Utility	2.4	3.1	5.9	7.6
Non-Corporate	5.1	6.7	4.7	6.0
Total	100.0	100.0	100.0	100.0

**Static 45% Intermediate Credit 55% Intermediate Government Index is comprised of 45% Bloomberg US Intermediate Credit Bond Index and 55% Bloomberg US Intermediate Government Bond Index. ^^Static 60% Long Credit 40% Long Government Index is comprised of 60% Bloomberg US Long Credit Bond Index and 40% Bloomberg US Long Government Bond Index. Average Quality based on the conservative average of Moody’s, S&P, and Fitch expressed in Moody’s nomenclature. Sources: Jennison Associates LLC and Bloomberg®.

We also analyzed the return profile of each static blended benchmark.

- **Performance:** Over the analyzed period, the static blended benchmarks have demonstrated outperformance relative to traditional Gov/Credit benchmarks.
- **Risk Metrics:** Risk measures for these static benchmarks are comparable to, or more favorable than, those of standard Gov/Credit benchmarks, helping address both return potential and diversification concerns resulting from the increased dominance of government securities.

Table 3

3/31/2010 –3/31/2026	Bloomberg US Intermediate Gov/Credit Bond Index	Static 45% Intermediate Credit 55% Intermediate Government Index**	Bloomberg US Long Gov/Credit Bond Index	Static 60% Long Credit 40% Long Government Index^^
Total Return	2.50	2.62	3.87	3.96
Maximum Monthly Return	2.67	2.78	9.89	9.98
Minimum Monthly Return	(2.67)	(2.75)	(9.30)	(9.33)
Average Monthly Return	0.21	0.22	0.36	0.37
Standard Deviation	2.99	3.06	10.53	10.50
Maximum Drawdown	11.32	11.51	37.24	36.70
Average Drawdown	1.14	1.17	6.84	6.78

**Static 45% Intermediate Credit 55% Intermediate Government Index is comprised of 45% Bloomberg US Intermediate Credit Bond Index and 55% Bloomberg US Intermediate Government Bond Index. ^^Static 60% Long Credit 40% Long Government Index is comprised of 60% Bloomberg US Long Credit Bond Index and 40% Bloomberg US Long Government Bond Index. Past performance is not indicative of future results. Periods over one year are annualized. Sources: Jennison Associates LLC, Bloomberg® and eVestment. The above illustration was not sponsored, endorsed or prepared by eVestment.

Balance Restored

- To address ongoing shifts in Gov/Credit benchmark composition, a strategic blending of Treasury and credit exposure represents one potential customized solution.
- Static benchmarks also allow for tactical asset allocation decisions based on valuations as opposed to issuance.
- This approach aims to enhance corporate credit exposure and diversify sources of income, while maintaining risk at levels comparable to traditional benchmarks.
- Since 3/31/2010, these blended benchmarks have delivered improved returns with balanced risk profiles.

Jennison Fixed Income is dedicated to collaborating with clients to formulate customized strategies designed to support long-term performance amid changing market environments.

End Notes

Sources:

Jennison Associates LLC

eVestment

Moody's Investor Services, Inc.

Fitch

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All data provided is as of 3/31/2026 unless otherwise noted.

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Market Definitions:

Average Drawdown – the mean of all peak-to-trough declines that have occurred over a given timeframe

Convexity – a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields.

Duration – a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

Effective Duration – a duration calculation for bonds that have embedded options. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change and is, therefore, a measure of risk.

Maximum Drawdown – the largest observed decline in the value of an investment from its peak to its subsequent lowest point (trough) that occurred over a given timeframe.

Option Adjusted Spread (OAS) – the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option.

Standard Deviation – a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance.

Yield – a general term that relates to the return on the capital you invest in a bond.

Yield to Worst (YTW) – a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting.

Benchmark Definitions:

Bloomberg US Credit Bond Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government.

Bloomberg US Intermediate Credit Bond Index includes securities in the intermediate maturity range of the US Credit Bond Index.

Bloomberg US Long Credit Bond Index includes securities in the long maturity range of the US Credit Bond Index.

Bloomberg US Government Bond Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government).

Bloomberg US Intermediate Government Bond Index includes securities in the intermediate maturity range of the US Government Bond Index.

Bloomberg US Long Government Bond Index includes securities in the long maturity range of the US Government Bond Index.

Bloomberg US Government/Credit Bond Index includes securities in the Government and Credit Indices. The US Government Bond Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The US Credit Bond Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg US Intermediate Government/Credit Bond Index includes securities in the intermediate maturity range of the US Government/Credit Bond Index.

Bloomberg US Long Government/Credit Bond Index includes securities in the long maturity range of the US Government/Credit Bond Index.

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