BlackRock

Investment perspectives
August 2026

Income restored – but stay flexible

The global surge in bond yields has restored income as a core source of portfolio returns. Compelling opportunities exist, but the evolving nature of bond market risk calls for a flexible approach.

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Summary

- **Key takeaway:** Higher global government bond yields have created richer income opportunities across fixed income markets, with the average yield in our strategic portfolio now 5.6% versus 2.3% five years ago. Yet investors need to be selective about the risks they take to earn that income.
- Developed market government bonds have reset structurally higher from the lows reached during the Covid-19 pandemic, reflecting the new macro regime we have described for several years. The AI buildout, the fastest capital spending cycle in history, is unfolding in a world shaped by supply scarcity, where constraints on energy, labor and geopolitics are driving a shift from efficiency to resilience. These pressures on real resources are keeping inflation more persistent and intensifying competition for finite pools of capital.
- Long-term government bonds have been especially exposed to this reset as policy rates and term premium have risen together and, as of late August according to LSEG data, pushed U.S. 30-year yields to a 19-year high above 5% and German 10-year yields to a 15-year high near 3.25%, while Japanese 10-year yields approach 3% for the first time since the mid-1990s. At the same time, investment grade and high yield credit spreads remain relatively tight.
- This yield surge highlights greater duration risk in long-term bonds due to the increased sensitivity of their returns to any shift in interest rates. Bloomberg data show long-term developed market government bonds have lost around 30%-40% of their value since the start of 2021, depending on maturity – and those losses have yet to be recouped.
- When bond yields were low or even negative, returns were shaped by interest rate shifts rather than income. Higher yields have created a broader and more durable income opportunity: our analysis of LSEG data shows over 80% of the global bond universe now yields above 4%. Yet the traditional ballast role that long-term government bonds have played, helping cushion risk asset selloffs, has also weakened. This environment makes selectivity even more important – the yield to maturity in bonds does not always provide the same compensation for risk.
- In our strategic asset allocation, the average yield of the overall portfolio is now 5.6% – more than double what it was five years ago. This is based on our capital market assumptions (for professional investors only). The share of bonds yielding above 4% in that portfolio has jumped to 91%, versus just 2% at the 2021 yield lows. We have also been dynamic with our duration positioning over this period.
- On a strategic horizon of five years or longer, we favor short- to medium-term government bonds while staying underweight broad credit indexes and long-term government bonds. We prefer private market income, including infrastructure, over private market growth assets, focusing on underlying cash flows and risks rather than the asset label. On a tactical horizon of six to 12 months, we favor earning income in shorter-term government bonds and emerging market local currency debt.
- The income opportunity extends beyond fixed income, in our view, including non-traditional sources such as derivative income strategies in equities.

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Global yield surge

The global government bond reset that began after the pandemic has extended in 2026, as the new economic regime shaped by supply keeps playing out. We see this regime as one of intensifying competition for real resources and capital, with AI at its center but not the whole story. The demand for capital began with the fiscal response to the Covid-19 pandemic that created a fragile equilibrium in the interplay of surging government debt, interest rates and inflation. The AI-driven capital spending buildout, the fastest in history, and resource demands for resilience from geopolitical fragmentation (see our 2026 Midyear Global Outlook) only intensify the competition for capital. These pressures keep inflation persistently higher as borrowers increasingly vie for the same pool of savings. This is the flipside of the global savings glut that helped lower interest rates. The result is a higher rate environment: higher policy rates, a higher cost of capital and a higher term premium as investors demand more compensation for holding long-term bonds.

These forces have accelerated this year. The AI investment boom – already historic in scale – has been revised roughly 30% higher over the past six months, leading to ballooning corporate debt issuance: Financing tied to AI infrastructure now accounts for about 14% of investment-grade debt issuance, adding to competition for capital. The prolonged Middle East conflict has reinforced the same scarcity story through higher energy prices and supply chain disruptions. In the U.S., we see scarcity as the primary driver of the rate reset. Uncertainty about the Federal Reserve's reaction function under new Chair Kevin Warsh has added further upward pressure on term premium, in our view.

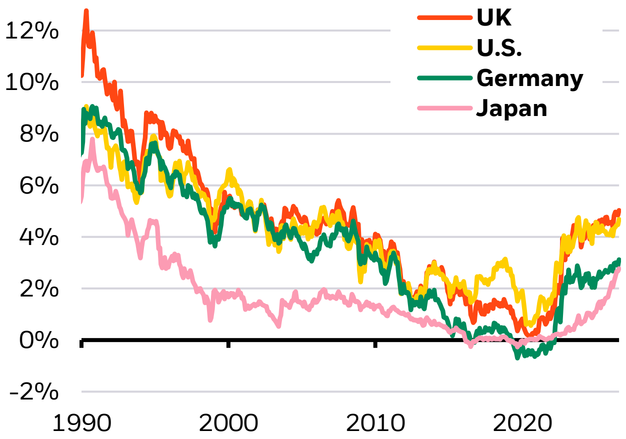
Since the start of 2021, per LSEG data as of late August, U.S. 10- and 30-year Treasury yields have risen over 350 basis points to around 4.7% and 5.3%, respectively, with 30-year yields hitting a 19-year high; German 10-year yields reached a 15-year high near 3.25% and Japanese 10-year yields have neared 3% for the first time since the mid-1990s. See the chart on the left. Depending on the maturity, Bloomberg data show long-term government bonds have lost around 30%-40% of their value since 2021. It underscores how rising interest rates can dent the value of long-term bonds.

Yet this reset has created a larger and more durable income opportunity via higher coupons and yields to maturity. Over 80% of the global bond universe now yields above 4%. See the chart on the right. That means investors can now secure chunky income without necessarily reaching far out the yield curve or credit risk spectrum. But the opportunities from higher yields take different shapes and do not always offer the same compensation for risk. That makes selectivity in securing income even more important. This riskier bond backdrop and the creation of winners and losers by AI among corporates create scope for skilled active investors to leverage heightened dispersion across the fixed income universe.

We are more positive on shorter-term bonds where higher yields offer attractive income with less duration risk. By contrast, higher yields have not been enough to change our cautious view on long-term bonds. Their ballast properties are weakening: Today, supply-driven inflation shocks dominate rather than demand shocks. During the 1990–2019 period, inflation was generally low and stable. When growth weakened or equities sold off, investors expected central banks to cut short-term rates. That meant bond yields fell and prices rose, helping cushion equity losses. That created the negative stock-bond correlation investors came to rely on for portfolio diversification. Today, that relationship is less reliable: sticky inflation leaves less room for policymakers to react to growth shocks, and structural drivers keep long-term yields higher. The correlation between daily U.S. equity and 10-year Treasury returns over the past five years was positive (7%) compared with a negative correlation (-43%) in the decade before the pandemic, according to LSEG data.

The big reset higher

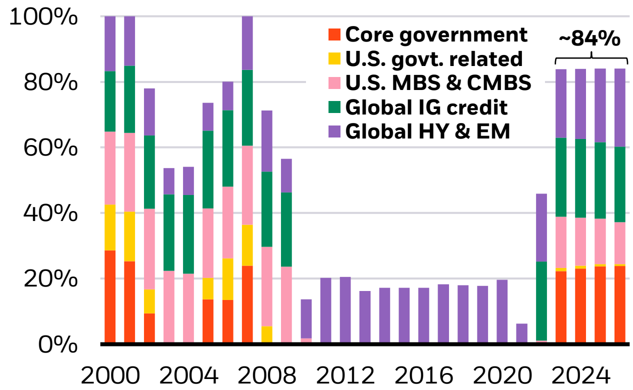
10-year government bond yields, 1990-2026



The figure shown relates to past performance. Past performance is not a reliable indicator of current or future results. Source: BlackRock Investment Institute, with data from LSEG Datastream, August 2026. Note: The chart shows benchmark 10-year government bond yields.

Income back on the table

Share of fixed income assets yielding over 4%, 2000-26



The figure shown relates to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Sources: BlackRock Investment Institute, with data from LSEG Datastream as of July 31, 2026. Notes: The bars show market capitalization weights of assets with an average annual yield over 4% in a select universe that represents about 70% of the Bloomberg Multiverse Bond Index. Core government comprises U.S. Treasuries and euro core government bonds; U.S. government-related comprises agencies and municipals; U.S. MBS & CMBS comprises both securitized sectors; Global HY & EM also includes euro periphery government bonds.

Looking beyond labels

In a world where mega forces drive returns, thematic exposures don't fit neatly in traditional asset-class buckets. Investors need to start with the underlying economic exposures, risks and themes they want to own – core to a total portfolio approach. We think finding the best income opportunities means going granular and looking across markets, reflecting flexibility within and beyond public markets. Higher yields have increased the income on offer. But the source of that income matters: which maturities investors own, which borrowers to lend to and when to accept illiquidity risk.

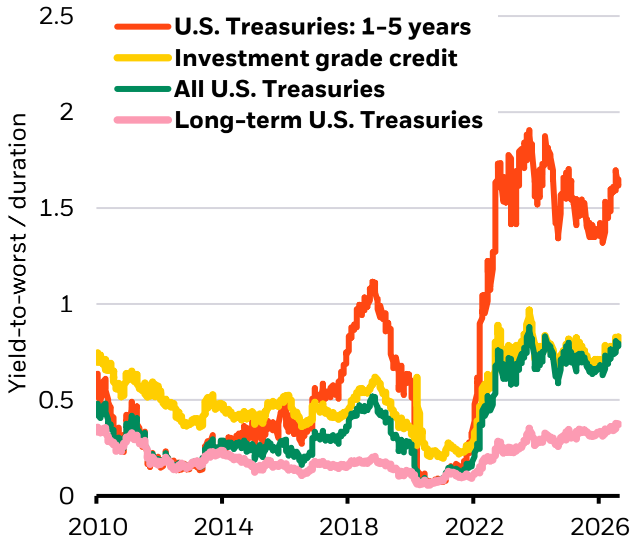
What does this granular approach look like in practice? We favor short- and medium-term Treasuries, which offer a much higher yield relative to duration than long-term Treasuries, as the left chart shows. This means investors can earn solid income without reaching too far out the curve and taking on too much duration risk. We also think there could be upside risk to yields on longer-dated bonds as questions about fiscal sustainability prompt investors to demand more term premium. Strategically, we favor short- to medium-term government bonds while staying underweight broad credit indexes and long-term government bonds. We prefer private market income, including infrastructure, over private market growth assets. On a tactical horizon of six to 12 months, we see opportunities in short- and medium-term government bonds, emerging market local-currency debt and European credit within global high yield.

For our strategic asset allocation over a five-year horizon, the income opportunity has sharply improved. For a U.S. dollar-denominated investor, today's strategic portfolio offers an overall average yield of 5.6% compared with just 2.3% in 2021. Our strategic portfolio has also been dynamic with its duration and inflation-linked exposure: we leaned long duration before the pandemic, when yields were higher, then went sharply negative as yields plunged. We also leaned into inflation-linked bonds during the pandemic, seeing the risk of higher inflation that has played out. And the share of bonds with yields above 4% in our portfolio has jumped to 91% compared with just 2% at the 2021 yield lows.

Investors are increasingly generating income through non-traditional approaches, including derivative strategies. We think tailored option strategies with certain guardrails can provide attractive income alongside equity exposures, without requiring large, persistent tilts toward typically high-income sectors, such as consumer staples and utilities, or toward styles such as value. The growing universe of options and the more volatile macro environment since the pandemic heighten the attraction of such derivative-based strategies compared with the 2010s. The potential for more frequent macro shocks has increased demand for portfolio protection, helping boost implied volatility in some option prices. The widely followed VIX index of one-month S&P 500 implied volatility has held at similar levels in the pre- and post-Covid periods, even with occasional big spikes. Yet not all implied volatilities are the same: some longer-dated options have settled at higher implied volatility levels than pre-pandemic, consistent with a regime shaped by constant macro disruption. Higher implied volatility can help generate greater gross option-selling income. So the current regime may offer investors greater income opportunities from selectively selling options than were typically available in the past – but such strategies are not suitable for all investors.

More yield, less duration

Yield-to-worst per unit of duration for U.S. bond indexes



Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, August 2026. Notes: Yield-to-duration is calculated as index yield-to-worst divided by modified duration. Yield-to-worst is a measure of a bond's expected yield, while modified duration measures its sensitivity to interest-rate changes. The ratio measures how much yield investors receive for each unit of interest-rate risk. A higher ratio indicates more yield per unit of interest-rate sensitivity. The measure does not account for other risks, including credit, liquidity or default risk.

Short and sweet

Our strategic portfolio income drivers

Portfolio characteristic	2026	2021	2019
Average yield	5.6%	2.3%	3.6%
Relative duration (nominal bonds)	-0.5 year	-1.0 year	0.3 year
Relative duration (inflation-linked bonds)	0.2 year	0.8 year	0 year
Share of bonds yielding above 4%	91%	2%	17%

Past performance is not a reliable indicator of current or future results. For illustrative purposes only. Source: BlackRock Investment Institute, August 2026. Notes: Average yield reflects the fixed income assets in the portfolio and does not represent the average yield of the overall portfolio. Duration figures are portfolio-weighted averages. Income assets are shown as a share of the overall portfolio. Figures may not sum due to rounding. Our relative fixed-income allocation views are based on our five-year strategic portfolio in our capital market assumptions (for professional investors only). See the tabs for the assumptions to see details on the underlying indexes represented.

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