

FIXED INCOME PERSPECTIVE

FROM TRADING ALPHA TO ORIGINATION ALPHA

Why the expanding investment universe changes how alpha is generated

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The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

RETHINKING ALPHA



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Key takeaways

- ▶ Alpha sources are structurally shifting. Trading alpha faces increased competition amid growing information efficiency and structurally tighter spreads, while technological forces are enabling a wider opportunity set outside of traditional benchmarks for origination alpha.
- ▶ Origination alters the return mix, not just returns. By locking in wider spreads or lower valuations, origination can tilt portfolios toward durable income and compounding, potentially improving outcome reliability.
- ▶ Portfolios and governance must evolve. The blurring of boundaries between traded and originated assets requires integrated portfolio construction, stronger governance, and technology-enabled sourcing to help align investments more precisely with client outcomes.

Why the expanding investment universe changes how alpha is generated

Capital markets are expanding beyond traditional benchmarks as tokenization and artificial intelligence (AI) unlock vast new investable opportunities. The democratization of finance means that alpha generation is broadening out from trading mispriced securities toward originating assets.

The universe is expanding

In credit, roughly 2,500 investment-grade issuers and 1,500 high-yield issuers make up the benchmark universe.¹ But the total volume of non-governmental borrowing and lending globally is multiples larger. Asset-backed finance, equipment lending, legal credit, trade finance, infrastructure debt, franchise financing, residential mortgages, etc – an estimated US\$35 trillion addressable market in the US alone, much of which is investment grade in nature, that has historically sat on bank balance sheets or beyond the reach of institutional capital.² Private credit has been useful in waking up investors to the scale of the investable universe, but it is just one expression of the democratization of finance.

Bigger forces are at work:

Tokenization records ownership on distributed ledgers, making assets that were previously difficult to track, value, or transfer suddenly accessible. Loans, leases, receivables, and equity stakes that have never appeared on an institutional investor's screen can now be structured, recorded, and managed on modern infrastructure. We are looking at an expansion from thousands of benchmark-eligible issuers to potentially hundreds of thousands of investable borrowers and companies. Tokenization is distinct from cryptocurrencies because, while it may use blockchain technology, it represents real world assets that exist outside the blockchain, operates in a stronger governance framework and is not seeking to be decentralized money.

Artificial intelligence makes this expansion practical. Hundreds of thousands of potential investments are unworkable without technology to screen them. AI-driven analysis can assess cash flow profiles, flag risk factors, and prioritize opportunities at a scale no human team can match alone. It does not replace judgment on final investment decisions, but it makes evaluating a dramatically larger opportunity set economically viable.

Together, these technologies are dissolving the old boundaries that separated listed from unlisted, benchmark from non-benchmark, traded from originated. The result is not a niche development. It is a structural expansion of the investable universe that will reshape how returns are generated across both equity and credit markets for decades to come.

Why this changes how alpha works

This expansion matters because it changes the fundamental economics of generating excess returns. To see why, it helps to distinguish between two forms of alpha.

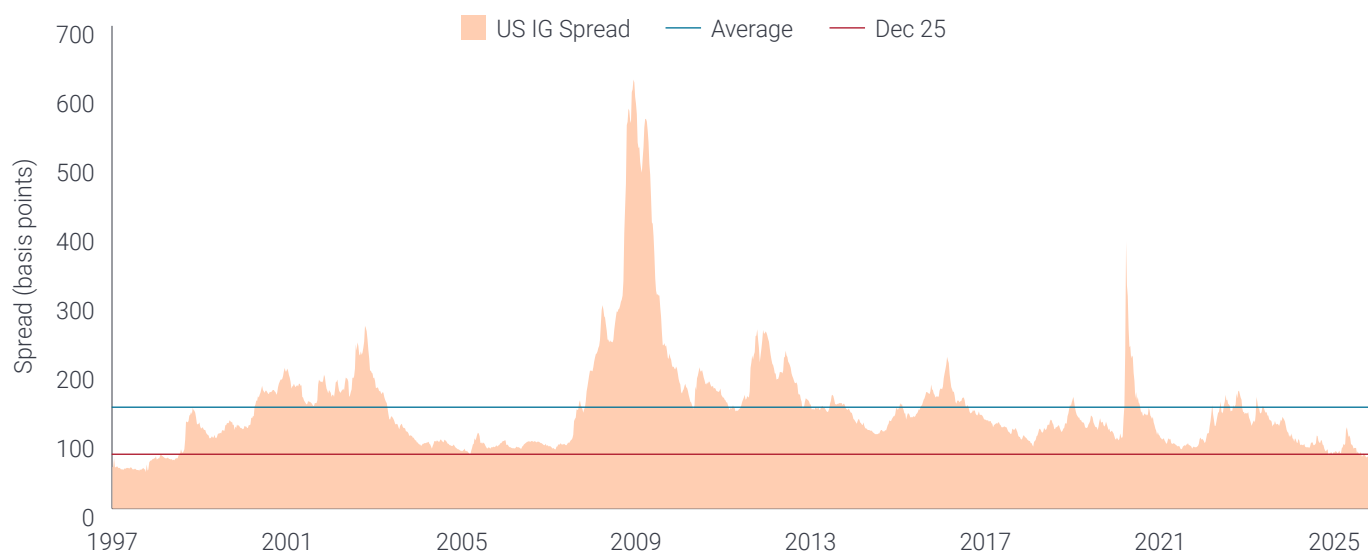
Trading alpha is excess return generated through price appreciation relative to the universe an asset sits in. In credit, it means buying a bond that tightens more than its peers; in equities, it means owning a stock that re-rates faster than its sector. Trading alpha is generated in secondary markets by identifying mispricings, typically temporary ones, and acting on them before others do.

Trading alpha is real and will remain valuable. But in a world where information is ubiquitous and can be processed at extraordinary speed, the structural tailwinds for trading alpha are weakening. Investment-grade spreads ended 2025 at 79 basis points, the tightest since 1998, with passive vehicles now representing more than 37% of the market.^{3,4} The room for mispricing in a widely-covered, continuously-priced, increasingly-indexed universe is narrowing. An active manager working this investment grade universe today, with spreads at such tight levels, might capture around 30 basis points of excess spread through security selection. That remains meaningful, but the ceiling is visible and, if anything, getting lower as the market becomes more efficient.

There is an important nuance. The same technologies that will further compress trading alpha – AI-driven screening, real-time analytics, natural language processing of filings and earnings calls – ought to create an advantage for early adopters. Firms that deploy these tools ahead of the market will, for a period, have an opportunity to identify mispricings faster and act on them more decisively than competitors. This temporary edge should favor managers investing in technology today, even as the long-term structural ceiling continues to lower for the market. Further, trading alpha will never reach zero; areas such as concessions for new issues will likely always exist. While it will become more challenging, there remains room for nimble and contrarian managers to consistently deliver.

Exhibit 1: Investment grade corporate spreads near record tight

US IG corporate spreads (Govt OAS)



Source: Bloomberg, ICE BofA US Corporate Index, option-adjusted spread over government (Govt OAS), 31 December 1996 to 31 December 2025. IG = investment grade. One basis point equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Origination alpha is excess return generated by acquiring or investing in assets at a lower cost – a wider spread, a lower multiple – than where the broader universe values comparable risk. Rather than trading existing assets more skillfully than competitors, origination alpha comes from sourcing new investments that enter a portfolio on better terms than are available in the secondary market.

The critical insight is that origination alpha is hard to capture when the opportunity set is small, and much easier when it is large. In a universe of 4,000 issuers that are widely followed and continuously priced, the chances of finding a genuinely mispriced asset are slim. In a universe of hundreds of thousands of borrowers and companies, many of whom have idiosyncratic financing needs and limited access to institutional capital, the opportunities are abundant.

An analogy

The simplest way to understand the difference might be a housing market analogy. Trading alpha is buying an existing house in a neighborhood and hoping it appreciates faster than the houses around it. It is possible, but it requires an edge – better information, better timing, better renovation instincts – and it gets progressively harder as the neighborhood becomes well-known and efficiently priced. In a world where AI can value every existing house in real time, sustaining that edge becomes harder still.

Origination alpha is building your own house, on your own terms, pretty much anywhere. You choose the location, the design, the cost basis. You are not competing with other buyers for the same property in a bidding war. The expanding universe of investable assets, enabled by tokenization and AI, is essentially opening up vast new land for construction. The builders who get there first, with the right tools and the right infrastructure, can build better houses, offer them cheaper than existing houses on the street (enabling better returns/owner's equivalent yield for the property buyer) and produce them in volume. It could create a 'golden age' for investing.

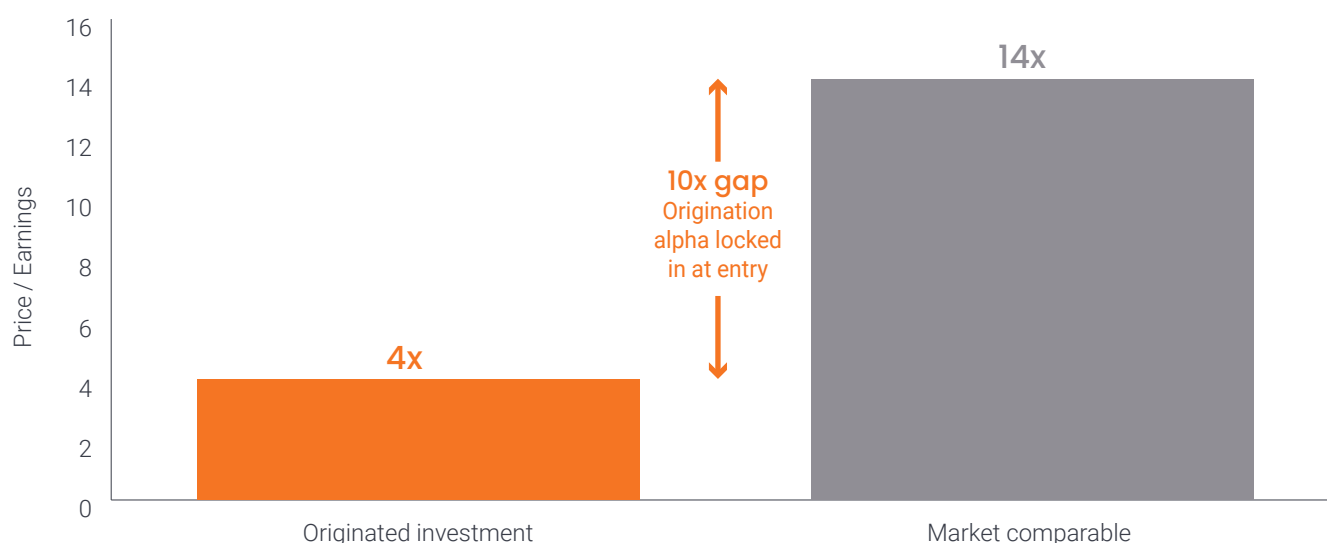
Origination alpha: Mathematical examples

Consider two scenarios.

In equities: a manager sources an investment in a company valued at 4x price-to-earnings, in a market where comparable firms trade at 14x. That 10-multiple gap is origination alpha locked in at the point of entry. A trading-only manager working the same sector would need to generate extraordinary outperformance, sustained over years, to match the return embedded in that valuation differential.

Exhibit 2: Origination alpha: Locking in value at entry

Earnings multiple at time of purchase

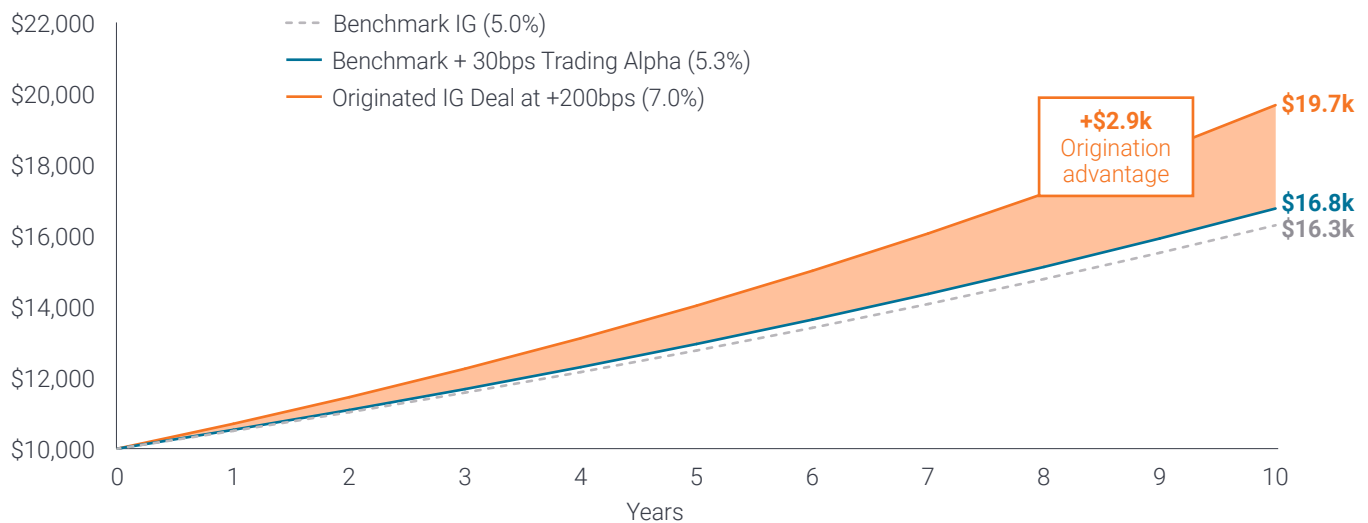


Source: Janus Henderson Investors. For illustrative purposes only. Not indicative of actual investment opportunities.

In credit: a manager originates an investment-grade deal at 200 basis points wider than where comparable risk trades in the benchmark universe. On a ten-year, buy-and-hold basis with prepayment protection, the compounding effect of that excess yield is likely to surpass the more typical gains that a secondary market trading desk can generate over the same period. And that assumes trading gains remain as achievable as they have been in recent years – an assumption that deserves scrutiny as spreads sit near historical tights and passive ownership grows.

Exhibit 3: The compounding power of origination alpha

Growth of \$10,000 invested over 10 years



Source: Janus Henderson Investors. IG = investment grade. For illustrative purposes only. Not indicative of actual investment opportunities.

The spread premium in originated assets exists for identifiable reasons. Borrowers with idiosyncratic needs pay for bespoke structuring and certainty of execution. Limited investor bases and smaller deal sizes create an access premium. Information asymmetry – less frequent disclosure, fewer credit ratings, limited third-party coverage – rewards investors willing to do the due diligence. And the retreat of banks from mid-market lending, driven by balance sheet constraints and regulation, continues to open gaps that non-bank capital can fill on attractive terms.

These are not temporary dislocations. They are structural features of an expanding market.

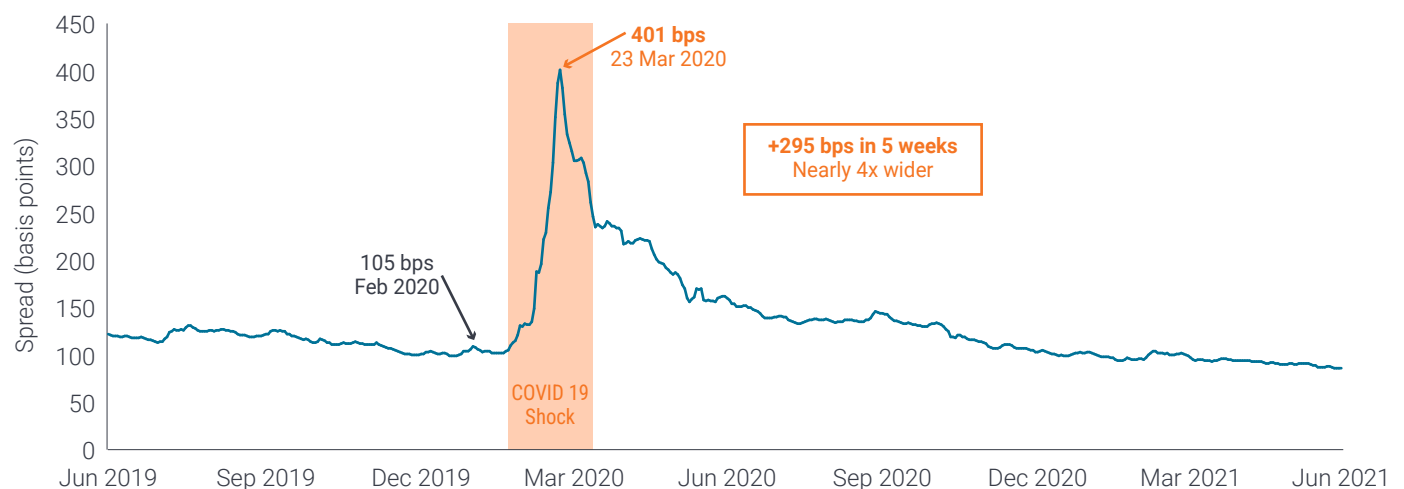
Ultimately, the closer alignment of borrower and lender should be good for both sides. For example, originators are not about to replace incumbent credit card companies and leave the customer paying an 18% APR while bondholders receive a 6% yield. We think the equilibrium is a world where the average consumer pays a lower cost to borrow but clients receive a larger proportion of that in terms of yield.

New infrastructure reshapes liquidity

One of the most important consequences of tokenization is the way it redefines liquidity itself. The old assumption – that listed assets are liquid and unlisted assets are not – has always been an oversimplification. Plenty of listed bonds and small-cap equities trade by appointment; during stress periods, bid-ask spreads on supposedly liquid instruments can blow out and trading volumes can evaporate. An asset is liquid until it is not.

Exhibit 4: An asset is liquid, until it is not

US IG corporate spread



Source: Bloomberg, ICE BofA US Corporate Index, option-adjusted spread over government (Govt OAS), 30 June 2019 to 30 June 2021. IG = investment grade. One basis point equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Tokenized assets, by contrast, can settle instantaneously, trade around the clock, and clear without the friction of legacy settlement systems. As this infrastructure matures, the liquidity characteristics of originated investments will improve substantially, compressing the liquidity premium that investors have historically demanded. But the origination premium – the excess yield earned at the point of sourcing – will persist, because it reflects structuring value, direct borrower access, and the willingness to do work that secondary market participants cannot replicate. The premium is not compensation for illiquidity. It is compensation for capability.

Another potentially positive aspect of this democratization of finance is capital should flow to where it is needed. When there are unlimited total companies, capital can flow to more places, potentially mitigating capital flowing to overleveraged parts of industry (e.g. the dot com bubble or software more recently). Frictionless capital could, therefore, lead to a more stable financial system.

Implications for portfolios

Benchmark boundaries are blurring. An originated loan that is subsequently tokenized and traded on a digital platform sits outside any traditional index. As more assets exist in this space between conventional categories, the old approach of governing allocations in separate silos – different teams, benchmarks, and oversight structures – will need to evolve. Investors who can evaluate opportunities across the full spectrum of traded and originated assets will have a wider, more efficient toolkit.

Income generation becomes a larger share of total return. For portfolios with multi-year horizons, locking in 200 to 300 basis points of excess yield through origination compounds substantially. This does not replace trading alpha, but it rebalances the portfolio toward dependable income, which aligns well with outcome-oriented investors focused on retirement funding, liability matching, or stable distributions.

Client outcomes can be more precisely targeted. As the investable universe expands, the ability to match specific client return requirements with specific sourced opportunities improves. Rather than fitting clients into pre-packaged strategies benchmarked to an index, managers with origination capabilities can work backwards from a client's desired outcome and source the investments to deliver it.

Governance needs to keep pace. As origination scales, investment committees, credit processes, and operational frameworks need to be purpose-built. Firms with dedicated governance structures that integrate compliance, legal, and operations from day one are better positioned to scale responsibly and earn institutional confidence.

'Both/And' not 'Either/Or'

The most effective portfolio of the future combines both forms of alpha. Buy-and-maintain portfolios incorporating traded and originated assets, designed around client outcomes, delivering dependable income as the core allocation. And concentrated alpha strategies exploiting dislocations through active trading, security selection, and tactical positioning. Both matter. The sources of return are broadening, and investors who position across trading alpha and origination alpha should capture a wider share of available opportunity.

At Janus Henderson, we are building for exactly this. As a firm we are: investing in origination capabilities; establishing governance through a dedicated investment committee; building technology infrastructure from scratch to avoid the incumbency trap; and making venture investments in tokenization startups that could become the operational backbone of capital markets within a decade. We are simultaneously investing in our traded-market capabilities, where track records over decades speak for themselves. The goal is not to choose sides. It is to offer the full spectrum for clients.

This industry will look fundamentally different in five to ten years. The convergence of traded and originated markets, enabled by tokenization and AI, is not a forecast. It is already happening. Origination alpha is the concept at its centre. The question for institutional investors is whether they are positioned for the market that is emerging, or anchored to the one that is receding.

¹Source: Bloomberg, ticker counts for ICE BofA Global Corporate Index and ICE BofA Global High Yield Index, as of 31 March 2026.

²Source: Janus Henderson Investors, McKinsey analysis, 31 December 2025. There is no guarantee that past trends will continue or forecasts will be realized.

³Source: Bloomberg, ICE BofA US Corporate Index, weekly datapoints, as of 31 December 2025.

⁴Source: Investment Company Institute (ICI), Total net assets of long-term mutual funds and ETFs in the US, index funds as a percentage of total active and index funds, 28 February 2026.

About the Author

Alex Veroude is the Head of Fixed Income at Janus Henderson Investors, overseeing more than \$175 billion in fixed income assets (as of 31 December 2025). He chairs the firm's Private Credit Investment Committee and has spent almost 30 years in global credit markets.

Definitions

ICE BofA Global Corporate Index tracks the performance of investment grade corporate debt publicly issued in the major domestic and eurobond markets.

ICE BofA Global High Yield Index tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets.

ICE BofA US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market.

Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

Credit spread is the difference in yield between two debt securities with a different credit quality but the same maturity.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

High-yield or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.

Investment-grade securities: A security typically issued by governments or companies perceived to have a relatively low risk of defaulting on their payments. The higher quality of these bonds is reflected in their higher credit ratings when compared with bonds thought to have a higher risk of default, such as high-yield bonds.

Origination alpha: Excess return generated by acquiring or investing in assets at a lower cost than where the broader universe values comparable risk. Origination alpha comes from sourcing new investments that enter a portfolio on better terms than are available in the secondary market.

Private credit: Loans and debt financing provided by non-bank lenders to businesses, typically outside of public markets.

Trading alpha: Excess return generated through price appreciation relative to the universe an asset sits in. Trading alpha is generated in secondary markets by identifying mispricings, typically temporary ones, and acting on them before others do.

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