Janus Henderson INVESTORS

JULY 2026

HIGH-CONVICTION VIEWS

The time for short-duration bonds

As a global active asset manager with investment teams spanning asset classes, styles, and geographies, **we view our diversity of perspective as an inherent strength.** Debate across teams rigorously tests assumptions and, in our view, leads to stronger portfolio positioning and better client outcomes.

John P Kerschner
Global Head of Securitized Products

Daniel Siluk
Head of Global Short Duration and Liquidity

Michael Contopoulos
Head of Multi-Asset Macro Investing

Capabilities in focus:

- Collateralized Loan Obligations
- Asset-Backed Securities
- Securitized Income
- Multi-Sector Income
- Short Duration Income
- Multi-Asset Macro Models

HIGH-CONVICTION VIEWS:

The time for short-duration bonds

When insights are shared across investment teams, at times, **a clear consensus emerges.** This report marks the first in a new series highlighting Janus Henderson's high-conviction views – ideas where alignment across our investment teams signals a compelling opportunity.

Recent discussions across our corporate bond, securitized, and macro teams have identified short-duration fixed income as a high-conviction theme. We see a convergence of secular and cyclical forces – alongside supportive market dynamics – creating a favorable backdrop for shorter-duration exposures over the medium term.

High-conviction views reflect a strong belief in the potential for superior risk-adjusted returns. That said, market volatility can lead to periods of underperformance, and shifting economic conditions or external shocks may challenge the underlying thesis. Even so, **our base case remains clear: Short-duration fixed income is a compelling allocation that we believe investors should actively consider.**

In this report, John P Kerschner, Global Head of Securitized Products, Daniel Siluk, Head of Global Short Duration and Liquidity, and Michael Contopoulos, Head of Multi-Asset Macro Investing, make the case for why it's the time for short-duration bonds.

Key takeaways:

- A confluence of demographic and geopolitical forces likely spells the end of the 50-plus-year fixed income bull market, with higher levels of volatility, inflation, and interest rates now becoming the norm.
- The combination of deteriorating fiscal positions among certain developed markets and the inflationary impact of deglobalization will, in our view, exert upward pressure on longer-dated bond yields.
- Investors seeking stable income and lower levels of volatility should prioritize shorter-dated issuance, with allocations across a global opportunity set offering the potential for added diversification against riskier assets.
- With central banks likely having to respond to bouts of accelerating inflation, investors should consider exposure to variable-rate segments such as securitized and private credit.

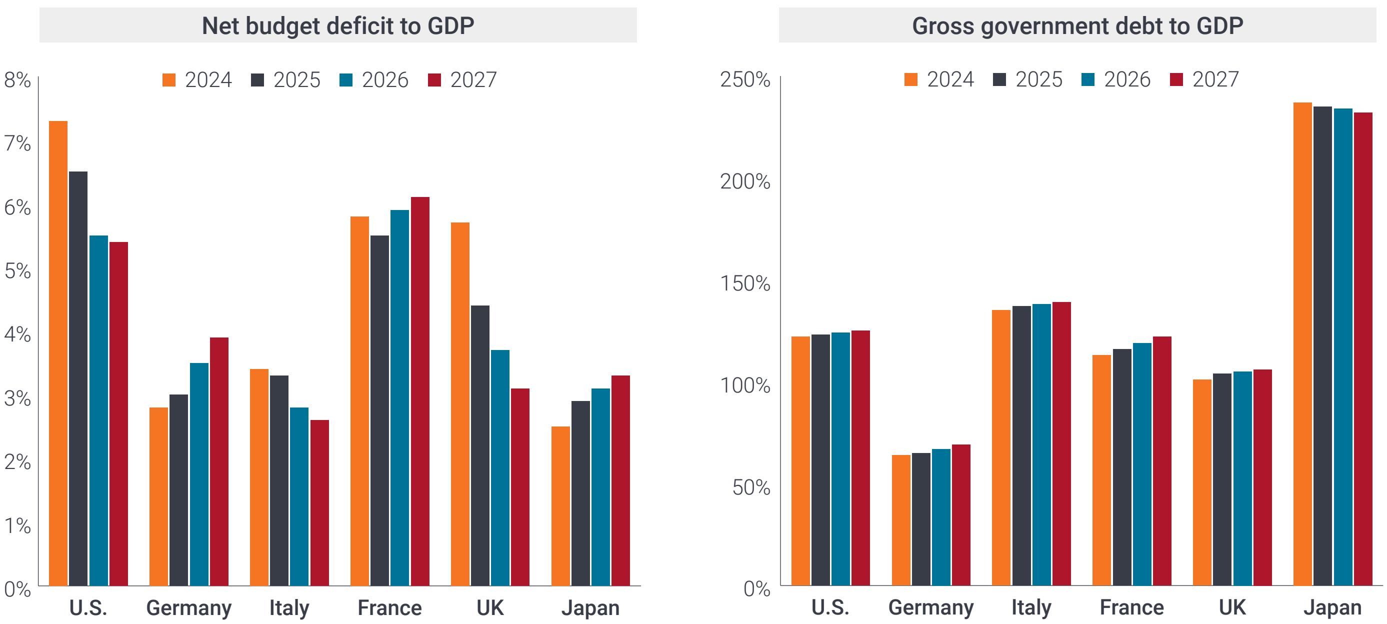
Mega-themes aligning

As an organization, we have identified three mega-themes – **geopolitical realignment and deglobalization, shifting lifestyles and demographics, and a higher cost of capital** – as likely drivers of the global economy, and thus financial markets, over the next decade. Each of these helps inform our high-conviction view on the merits of short-duration fixed income.

Challenging demographics, especially in advanced economies, are likely to accelerate the fiscal imbalances that have been decades in the making. Deglobalization is inherently inflationary, as trade barriers limit competition and prevent production and capital from flowing to what should be their most efficient destination. Together, these forces contribute to a higher cost of capital as investors demand a higher risk premium on sovereign debt to compensate not only for deteriorating fiscal conditions (as shown in Exhibit 1) but also for what is likely to be a regime of higher inflation.

Exhibit 1: Shifting developed market sovereign fiscal positions

Tenuous – and possibly deteriorating – fiscal positions in certain advanced economies present a potentially dangerous combination of increased supply and elevated credit risk that could push sovereign rates into a higher range.



Source: International Monetary Fund, April 2026. Note: 2026 and 2027 are estimates. **There is no guarantee that past trends will continue, or forecasts will be realized.**

Gathering clouds over sovereign yields?

In Europe, the era of austerity is over. While pro-business reforms aimed at catalyzing economic growth would be welcomed by investors, the associated amount of public investment will likely put additional pressure on state coffers as they already face increased outlays due to an aging population. A renewed prioritization on defense spending only exacerbates the region's fiscal outlook.

Similarly, the U.S. government appears on a fiscal trajectory that should sound alarm bells. Impending shortfalls in Social Security and Medicare point to the politically unpalatable scenarios of either cutting benefits or raising taxes. The assumption that the favorable tax treatment in President Trump's landmark 2025 legislative package could pay for itself through economic growth and relatively modest spending reductions is yet to be tested.

Meanwhile, although deglobalization's potential inflationary impact is widely understood, perhaps less appreciated is the risk posed by falling demand for U.S. Treasuries, as foreign entities could have a smaller pool of U.S.-dollar denominated profits to recycle due to newly erected trade barriers. Such a slip in demand, especially during a period of rising sovereign debt, could send yields higher, especially along mid- to longer-dated points of the curve.

Deglobalization, however, is more than a trade or economic phenomenon. Stepping away from the economic and security paradigms that led to an unprecedented period of peace and prosperity, deglobalization is already exhibiting a series of unintended consequences. Without the catalysts of Brexit and the rise of inward-looking populist movements on both sides of the political spectrum, the world, in our view, would likely not have been subjected to a trade war, the reemergence of industrial policy, or the geopolitical gambits of Russia's invasion of Ukraine and the conflict in the Middle East. These disruptive incidents are not random but rather must be viewed as manifestations of a global architecture in flux. And from a market perspective, they are likely persistent sources of higher levels of volatility and inflation.

> "Stepping away from the economic and security paradigms that led to an unprecedented period of peace and prosperity, **deglobalization is already exhibiting a series of unintended consequences."**
>
> **Michael Contopoulos**
> Head of Multi-Asset Macro Investing

The underappreciated role of liquidity

Another factor that causes us to be cautious toward longer-dated securities is liquidity. The level of liquidity in a system, in our view, tends to be an important driver of economic activity and, thus, inflation. While a change in leadership at the Federal Reserve (Fed) has cast light on the size of the U.S. central bank's balance sheet, reducing its US$6.7 trillion in assets is not a foregone conclusion and would likely take years to accomplish. Consequently, we believe excess liquidity will be a part of the U.S. financial system for the foreseeable future.

Messages from the market

The global economy is experiencing a generational shift that likely spells an end to the 50-plus year fixed income bull market. Yields across the curve have reset to higher levels and, while the return of the term premium is welcome, investors must ask whether the incremental yield potentially earned when extending duration sufficiently compensates them for the additional interest rate risk. Given the macro factors delineated above, we don't believe it does.

> "**The global economy is experiencing a generational shift** that likely spells an end to the 50-plus year fixed income bull market."
>
> **Daniel Siluk**
> Head of Global Short-Duration and Liquidity

The prevailing economic and market dynamics that favor short-duration securities should only reinforce the historical tendency, as illustrated in Exhibit 2, for the front end of the curve to generate superior risk-adjusted returns, as measured by Sharpe ratios.

Exhibit 2: Shorter-dated Sharpe ratios are more attractive

Over long time horizons, shorter-dated fixed income securities exhibit higher Sharpe ratios, signifying a more attractive balance between return and incremental level of risk.

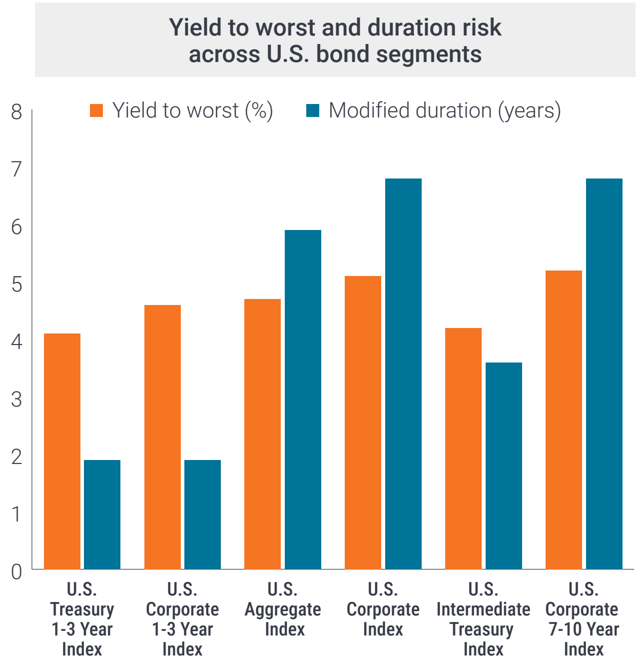
Sharpe Ratio			
1-3 year	**3-5 year**	**5-7 year**	**7-10 year**
0.84	0.73	0.60	0.59

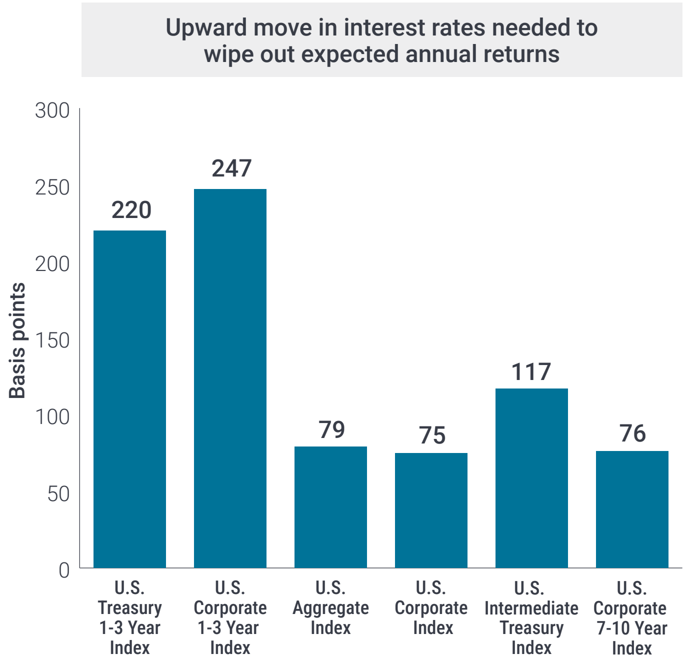
Source: Janus Henderson Investors, as of 30 June 2026. U.S. Treasury segments of the Bloomberg US Aggregate Bond Index by tenor. **Sharpe Ratio** measures risk-adjusted performance using excess returns versus the "risk-free" rate and the volatility of those returns. A higher ratio means better return per unit of risk. **There is no guarantee that past trends will continue, or forecasts will be realized. Past performance does not predict future returns.**

A circumspect approach toward duration is also supported by the narrow difference between corporate bond yields and those of their "risk-free" benchmarks. The absence of a yield cushion exposes investors to what we consider a disproportionate level of duration risk in the event of an uptick in interest rates. As illustrated in Exhibit 3, it would not take a large rise in interest rates to greatly reduce – or eliminate – the expected annual returns of broader aggregate or longer-dated corporate bond indices.

Exhibit 3: Yield and duration risk

The pivot in rate expectations due to the global energy shock served as a reminder that certain segments of the fixed income universe are acutely susceptible to duration risk, with longer-dated corporate credits appearing most vulnerable.





Source: Janus Henderson Investors, as of 29 June 2026. **Yield to worst (YTW)** is the lowest yield a bond can achieve provided the issuer does not default and accounts for any applicable call feature (ie, the issuer can call the bond back at a date specified in advance). At a portfolio level, this statistic represents the weighted average YTW for all the underlying issues. **There is no guarantee that past trends will continue, or forecasts will be realized. Past performance does not predict future returns.**

No time to gamble on duration

With forces lining up for secularly higher interest rates, along with myriad sources of volatility that could lead to acute spikes, we see little reason to participate in the *reach for yield* that dominated much of the post Global Financial Crisis era. For most of that period – and stretching into the pandemic – real yields on shorter-duration securities were low by historical standards, and in certain segments, negative. Now that inflation has fallen from its cyclical peak, positive real yields on front-end bonds represent genuine purchasing power for investors while allowing them to avoid much of the volatility inherent in longer-dated securities.

Many investors may assume that broad exposure to the fixed income universe provides sufficient diversification against both duration and credit risk. But they are likely unaware that only three sectors – Treasuries, corporate credits, and agency mortgages – account for over 90% of the Bloomberg US Aggregate Index (Agg). Furthermore, each of these segments is highly exposed to interest rate risk. This composition, coupled with the Agg's current duration of 5.89 years,* presents a compelling case against broad, passive index exposure for those who recognize the clouds gathering over the back end of global yield curves.

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>
> **John P Kerschner**
> Global Head of Securitized Products

Cyclical factors point toward caution

Early 2026 proved to be a case study in how an inflationary shock could force central banks – especially those whose mandates prioritize price stability – to pivot toward more restrictive policy. While hostilities in the Middle East have largely subsided, persistent tensions mean a permanent ceasefire is far from a foregone conclusion. Should the Strait of Hormuz remain open, it will still take months for the region's energy infrastructure to get fully back online. And even then, energy markets will likely price Middle East hydrocarbons to reflect dramatically changed regional dynamics.

Put plainly, we believe higher energy prices will be around longer than many market doves expect. On top of this, Europe continues to cope with high energy prices on account of the ongoing war in Ukraine.

While regions dependent on energy imports are dealing with supply-driven inflation, monetary policy in the U.S. must compensate for better-than-expected economic growth. The market has abandoned its expectations for a series of rate cuts, and consensus now sees either a stable-for-longer scenario or possibly one or two rate hikes over the next few quarters.

Largely absent from the conversation is whether economic conditions merit significantly tighter monetary policy. We believe such an argument could be made. The transmission mechanism for monetary policy is through the credit channel. And with credit spreads near historic lows and corporate earnings consistently delivering double-digit annual growth over the past few years, companies hardly appear starved for capital.

On a macro level, with the Fed's favored inflation gauge having bottomed in April 2025, the unemployment rate near record lows, and U.S. consumption strong, most versions of the Taylor Rule suggest interest rates should be higher, not lower.

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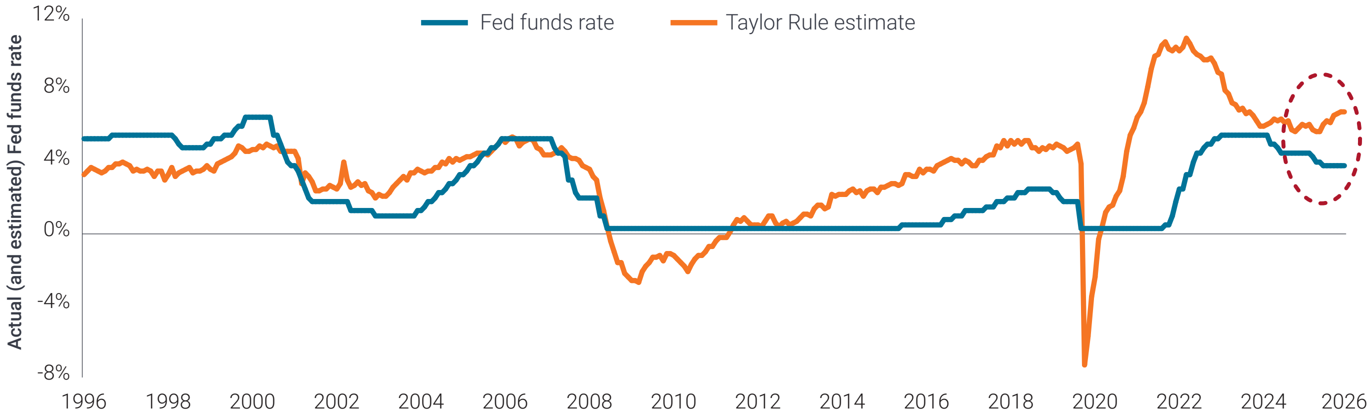
> **Michael Contopoulos**
> Head of Multi-Asset Macro Investing

*Source: Bloomberg, as of 30 June 2026.

Exhibit 4: Stealth dovishness and the risk of policy error

Most versions of the Taylor Rule suggest that – given a resilient U.S. economy and above-target inflation – the federal funds rate should be higher than the current range. If this difference persists, expectations for elevated consumer prices could become entrenched.



Source: Bloomberg, Janus Henderson Investors, as of 30 June 2026. The Taylor Rule is a mathematical model that serves as a guideline for monetary policy, identifying the optimal level of interest rates based on changes in inflation and economic growth. **There is no guarantee that past trends will continue, or forecasts will be realized.**

Investors in U.S. bond markets must also be aware of the emergent phenomenon of artificial intelligence (AI) inflation. The scale of the AI infrastructure buildout commands a nearly unprecedented number of inputs ranging from construction materials and labor to the electricity needed to power data centers. Furthermore, restrictive immigration policy may result in shortages of skilled tradesmen, leading to competition for labor pushing up wage-driven inflation far beyond the data center ecosystem.

While this initiative may not directly impact consumers' wallets, the breadth of its inputs and dispersion across U.S. geographies could be a factor that contributes to the Fed keeping its benchmark rate near its current range. To be determined is the degree to which the productivity gains expected from AI will be disinflationary across the global economy. Should they live up to the most sanguine of expectations, the boost in labor efficiency could serve as a dampener to other secular – and inflationary – forces.

AI may also impact the bond market through the record amount of issuance required to finance the buildout. The combination of increased bond supply coupled with existing issuance ultimately reaching its maturity wall could send yields higher, which would reverberate across the fixed income universe.

Positioning for a new era

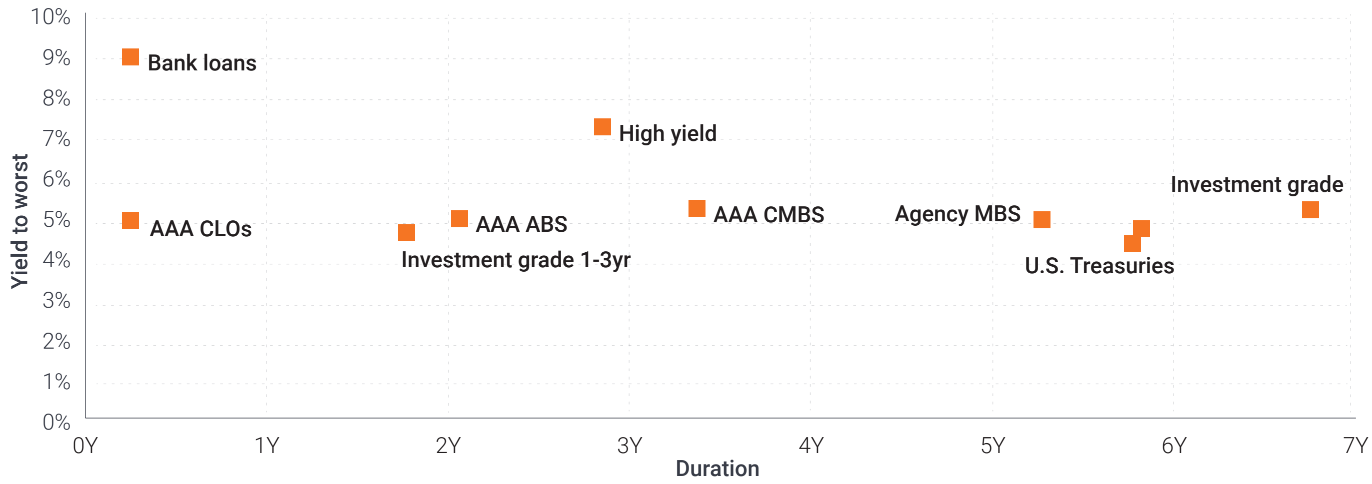
Going forward, we believe investors will continue to rely upon a fixed income allocation to deliver the tenets of capital preservation, consistent income generation, diversification against riskier assets, and low levels of volatility. But when assessing the economic and market environments likely to unfold over the next several years, we believe investors should seriously consider focusing on shorter-duration securities when pursuing these objectives.

Any concerns about how concentration along the front end of the curve may diminish diversification within a bond allocation can be assuaged by recognizing the breadth of securities within this universe. Higher-quality, short-duration corporate credits tend to offer visibility of payment streams and credit quality as they near their maturity dates. Furthermore, the market currently offers an attractive level of roll-down yield as bond prices converge toward par value.

With the prospect for higher policy rates not unfathomable, within shorter-duration assets, the variable rates of securitized credits and private instruments can (as shown in Exhibit 5) provide a buffer to rate increases.

Exhibit 5: Yield to worst and duration of U.S. fixed income segments

A higher interest rate regime has led to many securitized categories offering attractive yields while still having considerably lower duration than Treasuries or corporate credits.



Source: Bloomberg, Janus Henderson Investors, as of 31 May 2026. Bank loans = Bloomberg US Leveraged Loan Index, High yield = Bloomberg US Corporate High Yield Index, AAA CLOs = J.P. Morgan US CLOIE AAA Index, AAA ABS = Bloomberg US Aggregate Asset Backed Securities AAA Index, AAA CMBS = Bloomberg Commercial Mortgage Backed Securities Investment Grade AAA Index, Agency MBS = Bloomberg US MBS Index, Investment grade = Bloomberg US Corporate Index, Investment grade 1-3yr = Bloomberg US Corporate 1-3 Yr Index, US Treasury = Bloomberg US Treasury Index, US Agg = Bloomberg US Aggregate Index. **Past performance does not predict future returns.**

Lastly, even in an era likely to be characterized by higher inflation and higher interest rates, the rules governing economic cycles will remain intact. As we witnessed prior to the Iran conflict, economic trajectories across the world have begun to diverge and central bankers will adjust monetary policy based on local conditions. These asynchronous economic and policy trajectories should enable investors to source duration across geographies, leaning into regions where slowing growth merits potential easing while concentrating credit risk and dialing back duration in countries exhibiting strength.

Again, even when recognizing the uncertainty inherent in financial markets, we believe the reasons delineated above merit our high-conviction view toward short-duration fixed income and demonstrate why investors should consider reallocating toward these assets.

CLIENT PERSPECTIVE

"**Investors and advisors are becoming increasingly aware of what could be a structurally different interest rate regime.** An examination of client portfolios in the U.S. and Europe reveals a notable lowering of duration. Importantly, allocations to shorter-duration bonds are viewed as strategic and longer term rather than as tactical placeholders. Evidence of this is seen in a growing emphasis on attaining the proper composition within shorter-duration allocations. Rather than seeking "cash-plus" exposure to ride out volatility in shorter-dated sovereigns, **investors are increasing allocations to securitized assets and other variable-rate instruments.**

Client conversations indicate the recognition that anchoring a bond allocation's duration to the benchmark will likely be insufficient in this new era. Investors still view bonds as not only ballast within a broader portfolio but also a source of income. Increasingly, they are looking to shorter-duration fixed income segments for these characteristics. This shift in thinking has been made easier due to more attractive rates along the front end of yield curves."

Janus Henderson Portfolio Construction and Strategy Team

Definitions

Asset-backed securities (ABS) are financial securities backed or collateralized by existing assets such as loans, credit card debts, or leases, typically assets that generate income or cash flow over time.

Agency mortgage-backed securities (MBS): A security which is secured (or 'backed') by a collection of mortgages. Investors receive periodic payments derived from the underlying mortgages, similar to the coupon on bonds.

Bank loans: Loans made to corporate borrowers, often floating-rate and commonly associated with leveraged borrowers in below-investment-grade credit markets.

Basis point (bp) equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Collateralized loan obligations (CLOs): A bundle of generally lower quality leveraged loans to companies that are grouped together into a single security, which generates income (debt payments) from the underlying loans.

Commercial mortgage-backed securities (CMBS): Fixed-income securities backed by a pool of commercial mortgage loans.

Credit spread is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers and narrowing indicate improving.

Duration: A measure of a bond's sensitivity to changes in interest rates; longer-duration bonds are typically more sensitive to interest-rate volatility, all else equal.

Fiscal: Relating to government spending, taxation, deficits, and borrowing. In fixed income, fiscal policy can affect growth, inflation, bond supply, and government bond yields.

Maturity wall: A concentration of debt maturities coming due over a defined period, meaning issuers may need to refinance, repay, or restructure a large amount of debt around the same time.

Monetary policy: Policies of a central bank, including setting interest rates and controlling the supply of money, aimed at influencing the level of inflation and growth in an economy. Tightening/hawkish policy refers to central bank activity aimed at curbing inflation and slowing growth by raising interest rates and reducing the supply of money. Easing/dovish policy typically describes a policy stance leaning toward easier financial conditions or lower rates.

Risk/riskier assets are securities that may be subject to significant price movements, including equities, commodities, property, lower-quality bonds, and some currencies.

Roll down yield: The potential return generated as a bond moves closer to maturity along the yield curve, assuming the curve is unchanged; shorter-dated corporate issuance may benefit from steeper roll down as securities near maturity.

Sovereign debt: Debt issued by governments. Sovereign debt securities are subject to risks related to a country's political, diplomatic, social, and economic circumstances, including the possibility that some issuers may be unable or unwilling to make payments.

Term premium: The extra compensation investors may require to hold longer-term bonds rather than rolling shorter-term bonds.

Volatility measures risk using the dispersion of returns for a given investment.

Yield: Income on a bond over a set period, expressed as a percentage. Real yield is yield adjusted for inflation.

Yield curve: A yield curve plots the yields (interest rate) of bonds with equal credit quality but differing maturity dates.

Yield cushion: A security's yield divided by duration; the yield cushion can help mitigate losses from falling bond prices if yields rise.

Indices

Bloomberg Commercial Mortgage Backed Securities (CMBS) Investment Grade AAA Index measures the Aaa-rated market of US Agency and US Non-Agency conduit and fusion CMBS deals with a minimum current deal size of US$300mn.

Bloomberg US Aggregate Asset-Backed Securities (ABS) AAA Index is a broad-based flagship benchmark that measures the investment grade, US dollar denominated, fixed-rate taxable bond market. The index only includes AAA rated ABS securities.

Bloomberg US Aggregate Bond Index is a broad-based measure of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Bloomberg US Corporate 1-3 Yr Index measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with 1 to 2.9999 years to maturity.

Bloomberg US Corporate 7-10 Years Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 7-9.9999 years to maturity.

Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market.

Bloomberg US Corporate High Yield Index measures the USD-denominated, high yield, fixed-rate corporate bond market.

Bloomberg US Intermediate Treasury Index measures intermediate-maturity U.S. Treasury securities.

Bloomberg US Leveraged Loan Index measures the performance of the U.S. dollar-denominated, high-yield, floating-rate, institutional leveraged loan market.

Bloomberg US MBS Index measures the performance of U.S. fixed-rate agency mortgage-backed pass-through securities.

Bloomberg U.S. Treasury 1-3 Year Index measures U.S. Treasury securities with remaining maturities of 1 to 3 years.

Bloomberg US Treasury Index measures U.S. Treasury securities, representing U.S. government bond market exposure.

J.P. Morgan AAA CLO Index tracks the market for AAA rated U.S.-dollar denominated broadly syndicated arbitrage CLOs.

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Janus Henderson INVESTORS

Past performance does not predict future returns. Investing involves risk, including the possible loss of principal and fluctuation of value.

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

Collateralized Loan Obligations (CLOs) are debt securities issued in different tranches, with varying degrees of risk, and backed by an underlying portfolio consisting primarily of below investment grade corporate loans. The return of principal is not guaranteed, and prices may decline if payments are not made timely or credit strength weakens. CLOs are subject to liquidity risk, interest rate risk, credit risk, call risk and the risk of default of the underlying assets.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

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.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Interest rate movements will affect a fund's share price and yield.

Private credit refers to direct lending or debt financing outside of traditional banking, typically involving non-publicly traded companies, and comes with increased risk including limited liquidity, reliance on the borrower's financial health, and less regulatory oversight compared to traditional bank lending.

Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation and liquidity risk than other fixed-income securities.

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