



Investment Perspectives

The Case for Multi-Sector Credit

Credit markets offer an opportunity to potentially diversify and amplify portfolio alpha.

Founded in 1929, Lord Abbett has a long-standing legacy in U.S. fixed income and pioneered multi-sector bond investing in 1971 with the launch of the Bond Debenture Fund—one of the first to combine credit sectors like high yield and convertibles. This innovation positioned the firm as a leader with deep expertise that endures today. As we mark 55 years of multi-sector credit investing, we examine the factors supporting a constructive backdrop for credit and highlight historical trends that create attractive opportunities for an active approach that seeks to generate better alpha.

Returns across fixed income sectors can vary significantly from year to year, depending on the macro environment (see Figure 1). In fact, over the past decade, calendar-year performance has shown that no single sector has led or lagged consistently. This variability highlights the importance of diversification and active management, as sector leadership rotates with changing market dynamics. A multi-sector approach allows managers to adapt to these shifts and allocate across credit segments to potentially capture opportunities and mitigate risks as conditions evolve.

Figure 1. Leadership Has Rotated Across Fixed Income Sectors

U.S. fixed income representative index sector calendar year returns, 2015–2025

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Range of returns by year (Highest – Lowest)										
5.98	16.09	12.15	4.28	18.62	43.44	8.66	17.65	9.56	10.56	12.08
1.51	17.13	13.70	1.77	23.15	46.22	6.34	-1.06	13.46	11.14	17.98
MBS	High Yield	Convertibles	ABS	Convertibles	Convertibles	Convertibles	Lev Loans	High Yield	Convertibles	Convertibles
1.25	10.43	7.50	1.14	14.54	10.99	5.96	-4.30	13.04	8.95	8.62
ABS	Convertibles	High Yield	Lev. Loans	Corporates	TIPS	TIPS	ABS	Lev. Loans	Lev. Loans	High Yield
0.84	9.88	6.42	0.99	14.32	9.89	5.20	-11.19	12.87	8.19	8.58
Treasury	Lev. Loans	Corporates	MBS	High Yield	Corporates	Lev. Loans	High Yield	Convertibles	High Yield	MBS
0.55	6.11	4.25	0.86	8.72	8.00	5.28	-11.81	8.52	5.02	7.77
Aggregate	Corporates	Lev. Loans	Treasury	Aggregate	Treasury	High Yield	MBS	Corporates	ABS	Corporates
-0.38	4.68	3.54	0.15	8.43	7.51	-0.34	-11.85	5.54	2.13	7.30
Lev. Loans	TIPS	Aggregate	Convertibles	TIPS	Aggregate	ABS	TIPS	ABS	Corporates	Aggregate
-0.68	2.65	3.01	0.01	8.17	7.11	-1.04	-12.46	5.53	1.84	7.01
Corporates	Aggregate	TIPS	Aggregate	Lev. Loans	High Yield	Corporates	Treasury	Aggregate	TIPS	TIPS
-1.44	2.03	2.47	-1.26	6.86	4.52	-1.04	-13.01	5.05	1.25	6.32
TIPS	ABS	MBS	TIPS	Treasury	ABS	MBS	Aggregate	MBS	Aggregate	Treasury
-2.99	1.67	2.31	-2.08	6.35	3.87	-1.54	-15.76	3.90	1.20	5.93
Convertibles	MBS	Treasury	High Yield	MBS	MBS	Aggregate	Corporates	Treasury	MBS	ABS
-4.47	1.04	1.55	-2.51	4.53	2.78	-2.32	-18.71	3.90	0.58	5.90
High Yield	Treasury	ABS	Corporates	ABS	Lev. Loans	Treasury	Convertibles	TIPS	Treasury	Lev. Loans

Source: Bloomberg, ICE Data Indices, LLC, and Morningstar. Data as of December 31, 2025. Index sector returns shown are in percent and include Bloomberg indexes as follows: US Aggregate Bond Index, US MBS Fixed Rate Index, US Corporate Investment Grade Index, US Corporate High Yield Index, US Treasury Index, US TIPS Index, and ABS Index. Morningstar LSTA U.S. Leveraged Loan Index used for leveraged loans. ICE BofA All U.S. Convertibles Index used for convertibles. MBS=mortgage-backed security. TIPS=Treasury inflation protection securities. ABS=asset-backed security. **Past performance is not a reliable indicator or guarantee of future results.** Current performance may be higher or lower than the performance data quoted. This historical table is an illustration of the most commonly used indexes that are representative of various sectors of the bond market and does not depict or predict the performance of any specific portfolio managed by Lord Abbett or any particular investment. Please note not all sectors are represented nor is this an asset allocation recommendation. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.



The multi-sector asset class has experienced substantial growth over the past decade, driven by investor demand for diversified credit exposure and flexible strategies. This expansion, shown in Figure 2, highlights the increasing preference among investors for strategies that can dynamically allocate across sectors to capture opportunities and manage risk. Specifically, since interest rates quickly rose in 2022, multi-sector fixed income assets have risen sharply. This reflects the attractive yields offered in credit sectors as well as the historical benefits the investment option has generated for fixed income allocations.

Figure 2. Multi-Sector Fixed Income Assets Have Soared

Morningstar multi-sector category assets, December 31, 2014-December 31, 2025



Source: Morningstar. Data as of December 31, 2025. Most recent data available. The Morningstar Multi-Sector Bond Category consists of funds that seek income by diversifying across multiple fixed-income sectors. These funds typically allocate their portfolios among a mix of U.S. government obligations, U.S. corporate bonds, foreign bonds, and U.S. high-yield debt securities. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. **Past performance is not a reliable indicator or guarantee of future results.** Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

A History of Enhanced Returns and Diversification of Rate Volatility

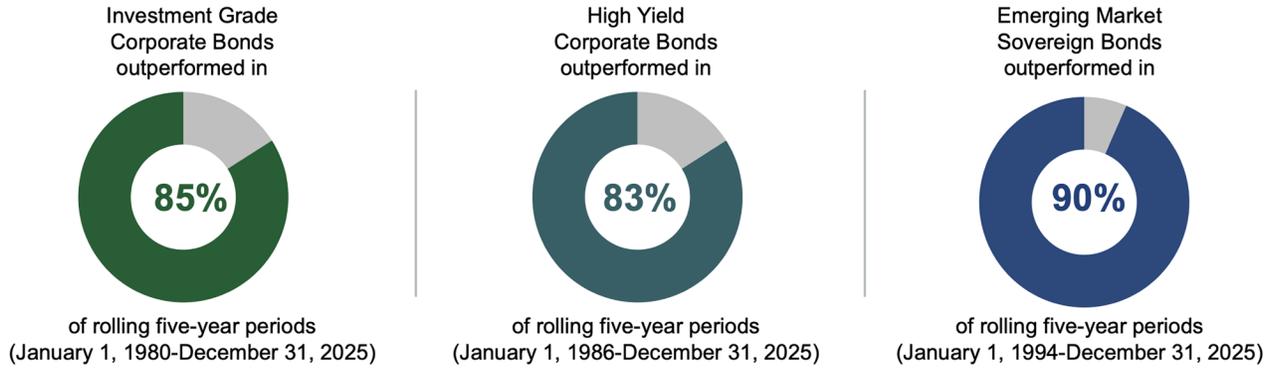
Multi-sector fixed income can also offer the potential for higher returns given its increased flexibility. Over longer time periods, credit-sensitive sectors such as investment-grade corporates, high yield bonds, and emerging market sovereign debt have delivered higher returns than the Bloomberg U.S. Aggregate Bond Index (Agg).

Figure 3 shows the percentage of five-year rolling periods in which each credit sector outperformed the Agg. This historical data highlights the value of maintaining a long-term perspective and credit's persistent ability to enhance returns relative to core benchmarks.



Figure 3. Credit Sectors Have Frequently Outperformed the Agg

Proportion of five-year rolling periods where each credit sector outperformed the Bloomberg US Aggregate Index within each indicated time period.



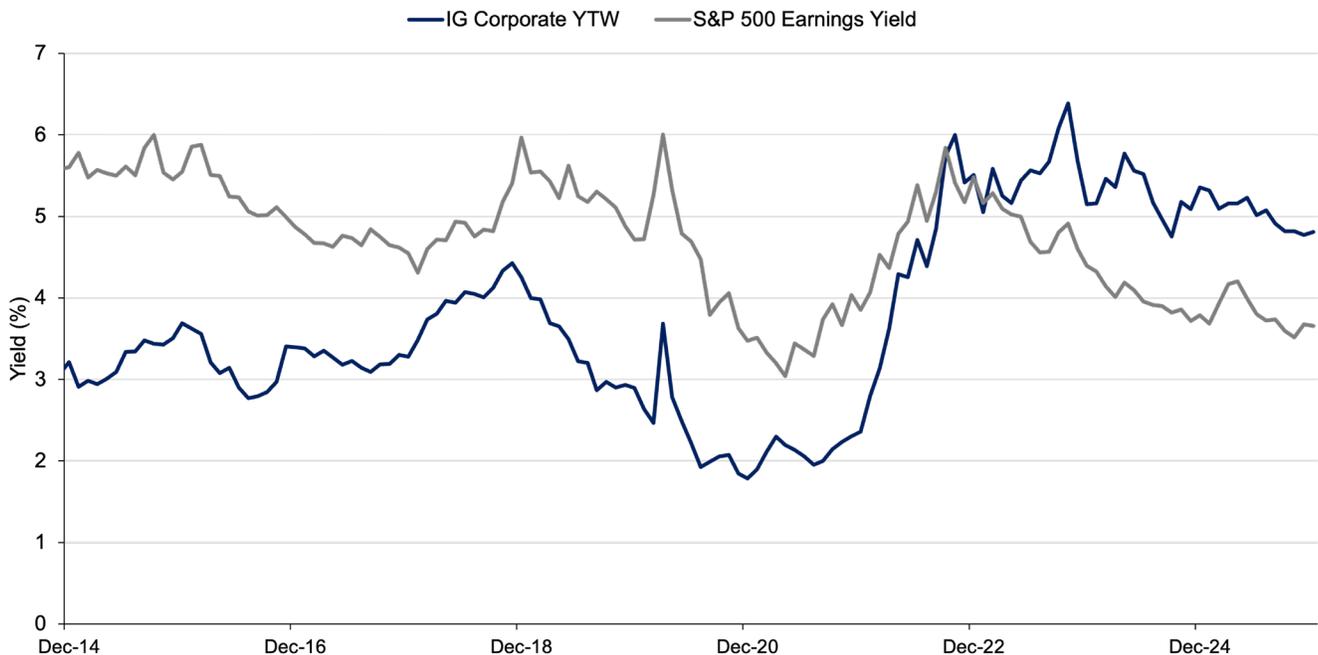
Source: Bloomberg, ICE Data Indices, LLC and Morningstar, Inc. Data as of December 31, 2025. Most recent data available. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. **Past performance is not a reliable indicator or guarantee of future results.** Investment grade corporate bonds= Bloomberg Corporate Bond Index. High yield corporate bonds=ICE BofA U.S. High Yield Index. Emerging market sovereign bonds=JP Morgan Emerging Market Bond Index Global Diversified (GD). Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

The role of credit in portfolio allocations isn't just about diversification. After all, it should also be about creating opportunities for income and attractive returns.

For the first time in decades, starting yields in fixed income are compelling on both an absolute and relative basis. Figure 4 shows the yield-to-worst (YTW) on the U.S. corporate credit index alongside the current earnings yield of the S&P 500® Index.

Figure 4. Historically Attractive Corporate Bond Yields

ICE BofA U.S. Corporate Bond Index YTW and the S&P 500 Index current earnings yield, December 31, 2014–December 31, 2025



Source: Bloomberg and ICE Data Indices LLC. Data as of December 31, 2025. **Past performance is not a reliable indicator or guarantee of future results.** IG=investment grade. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

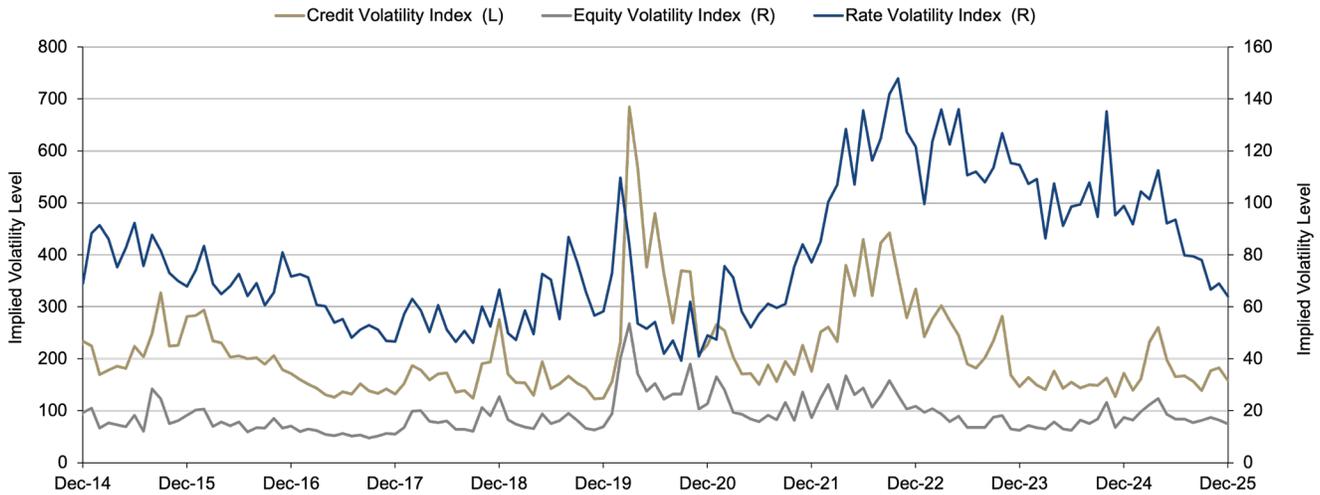


A Positive Landscape for a Large and Diverse Asset Class

Easing monetary conditions and a supportive economic backdrop of slowing inflation, positive real gross domestic product (GDP) growth, and steady labor markets suggest a constructive environment for risk assets. Yet, despite this healthy backdrop, interest-rate volatility expectations continue to run high, even as volatility in corporate credit and equities has normalized. Figure 5 shows the subdued level of expected volatility for risk assets contrasting sharply with persistently elevated expectations for rate volatility—a dynamic that we think warrants a closer look at credit’s role in fixed income allocations.

Figure 5. Rate Volatility Remains Elevated Relative to History

Expected volatility for credit, equity, and rates, as represented by the Three-Month High Yield VIX, VIX, and MOVE Indexes, respectively, December 31, 2014–December 31, 2025



Source: Bloomberg. Data as of December 31, 2025. The ICE BofA MOVE Index measures U.S. bond market volatility by tracking a representative basket of over the counter (OTC) options on U.S. interest-rate swaps. The index tracks implied normal yield volatility of a yield-curve weighted basket of at-the-money one-month options on the two-year, five-year, 10-year, and 30-year constant maturity interest-rate swaps. The VIX Index is the Chicago Board Option Exchange’s (CBOE) Volatility Index that tracks the stock market’s expectation of volatility over the coming 30 days based on S&P 500 index options. The CBOE Three-Month High Yield Volatility Index measures the expectation of high yield bond volatility over the coming three months. **Past performance is not a reliable indicator or guarantee of future results.** The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

This perspective also aligns closely with our investment philosophy: Forecasting interest rate movements is inherently difficult, while credit markets offer an expansive opportunity set and multiple independent levers for skilled multi-sector managers to add value.

Summing Up

The multi-sector asset class has experienced substantial growth over the past decade, driven by investor demand for flexible strategies.

In today’s environment, where interest-rate volatility remains elevated despite a constructive economic backdrop, credit may offer meaningful advantages for fixed income allocations. Combined with attractive starting yields and the prospect for higher long-term returns, credit-sensitive sectors within a multi-sector approach offer a dynamic landscape for experienced managers to add value. Skilled credit managers can leverage deep research, sector rotation, and security selection to help capitalize on opportunities and manage risk across changing market conditions. For investors seeking income, return potential, and resilience, a multi-sector credit approach may serve as an important component of a well-constructed portfolio.



Glossary & Index Definitions

Alpha is a measure of the excess return of an investment relative to a benchmark index, adjusted for risk.

A **basis point** is one one-hundredth of a percentage point.

The **earnings yield** on the S&P 500® Index is a valuation metric that shows how much earnings the index generates for each dollar of its market price. It is simply the inverse of the price-to-earnings (P/E) ratio.

Gross Domestic Product (GDP) is the total market value of all final goods and services produced within a country during a specific period, typically a quarter or a year. Real GDP is an inflation-adjusted measure of a country's total economic output.

Idiosyncratic risk refers to the company-specific or issuer-specific risks that affect the performance of a particular security independently of broader market or macroeconomic factors.

An **index** represents the performance of a group of assets, such as stocks or bonds, often used as a benchmark for investment performance. Examples include the S&P 500 Index or the Dow Jones Industrial Average.

Rate risk, or interest rate risk refers to the risk that changes in interest rates will affect the value of fixed-income securities.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value. Yield-to-worst refers to the lesser of a bond's (a) yield-to-maturity or (b) the lowest yield-to-call calculated on each scheduled call date.

The **Bloomberg Aggregate Bond Index** represents SEC-registered, taxable, U.S. dollar-denominated, investment-grade, fixed-rate bonds. It includes U.S. government and corporate bonds, mortgage-backed pass-through securities, and asset-backed securities.

The **Bloomberg Asset-Backed Security (ABS) Index** is the asset-backed securities component of the Bloomberg US Aggregate Index. It includes subsectors such as credit and charge cards, auto loans, and utility receivables.

The **Bloomberg US Corporate Bond Index** includes all publicly issued, fixed-rate, nonconvertible, investment-grade corporate debt. Securities include both U.S.-issued and Brady bonds, with quality and maturity criteria applied for inclusion.

The **Bloomberg US Corporate High Yield Index** covers fixed-rate, non-investment-grade (high yield) corporate debt. It excludes emerging-market sovereign issuers but includes U.S., Canadian, and other global corporate issues that are SEC-registered. Eligible bonds include original-issue zero coupon bonds, step-up coupons, 144A securities, and payment-in-kind (PIKs).

The **Bloomberg Mortgage-Backed Security (MBS) Index** covers the agency mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index aggregates individual MBS pools into generic groupings.

The **Bloomberg US Treasury Index** tracks public obligations of the U.S. Treasury with at least one year remaining to maturity. It represents the Treasury bond component of the broader US Aggregate, organized by maturity buckets (e.g., 2-year, 10-year).

The **Bloomberg US Treasury Inflation-Protection Security (TIPS) Index** represents U.S. Treasury Inflation-Protected Securities, which adjust principal based on changes in the Consumer Price Index (CPI).

The **ICE BofA All U.S. Convertibles Index** represents the full universe of publicly issued U.S. dollar-denominated convertible securities of U.S. companies. It is widely used as the primary benchmark for the U.S. convertible bond market.

The **ICE BofA U.S. High Yield Index** tracks the performance of U.S. dollar-denominated, fixed-rate, below-investment-grade corporate debt publicly issued in the U.S. domestic market with at least 18 months remaining to final maturity at issuance and at least one year remaining to maturity at each index rebalancing date.

The **J.P. Morgan Emerging Market Bond Index Global Diversified (EMBI Global Diversified)** is a market-capitalization-weighted index that tracks total returns of U.S. dollar-denominated sovereign and quasi-sovereign bonds issued by emerging-market countries.

The **Morningstar LSTA U.S. Leveraged Loan Index** is a market-value-weighted benchmark designed to measure the performance of the U.S. leveraged loan market. It mirrors the investable universe of U.S. dollar-denominated leveraged loans, capturing the price, yield, and return behavior of broadly syndicated bank loans.

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