LORD ABBETT®

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Investment Perspectives

Multi-Sector Fixed Income: Flexibility Is Only the Beginning

Credit markets offer opportunities to capitalize on today's attractive yields, but capturing them may require deep and broad capabilities.

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KEY TAKEAWAYS

- **Why focus on dispersion?** Dispersion can help to create opportunities for investors who have the flexibility to act. Since the global financial crisis (GFC), the average annual gap between the best- and worst-performing fixed-income sectors has exceeded 10%.[1]
- **Headline valuations don't tell the full story.** Fixed income valuations appear historically tight at the headline level, but meaningful dispersion exists at the sector, industry, and issuer level.
- **Dislocations are more common than investors may think.** Cross-sector dislocations have become a recurring feature of fixed income markets, which has created frequent shifts in sector leadership.
- **Flexibility alone is not enough.** This dynamic favors managers that can pair strategic flexibility with deep sector expertise, disciplined risk management, and an operating model built to evaluate opportunities and allocate capital across the multi-sector fixed income landscape.

Multi-sector fixed income strategies can help investors navigate changing markets and pursue relative value across sectors. But flexibility is only as valuable as the experience, research depth, and investment judgment behind it.

That combination has been especially important in 2026, as fixed income markets have navigated AI disruption concerns, the Iran conflict, higher oil prices, renewed inflation pressures, and a sharp rise in U.S. Treasury yields.

Under the Surface: Large Credit Spread Movement Across Sectors

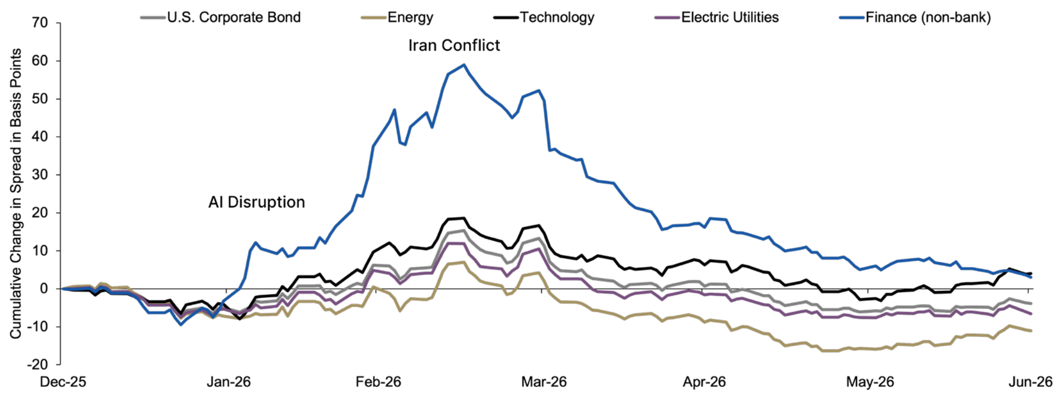
Despite these forces, valuations continue to paint a fairly optimistic picture. Equity markets have risen, and credit spreads have compressed on the year. But beneath the surface, we've seen significant dispersion.

Investment-grade corporate bonds offer a useful example (see Figure 1). While the headline index spread has been relatively range-bound and is tighter year to date through June 30, 2026, industry-level credit spreads have varied widely. Finance company spreads, for instance, widened sharply as AI-related concerns weighed on Business Development Companies (BDCs) given their meaningful software exposure. Electric utilities, by contrast, have been more resilient, supported by demand for the power needed to build and operate AI infrastructure. In that sense, utilities have played a "picks and shovels" role in the AI buildout.

The Iran conflict added another source of dispersion. As concerns over Strait of Hormuz disruptions pushed energy prices higher and renewed inflation concerns, energy-related issuers benefited, while more rate-sensitive sectors remained under pressure from the move higher in long-term U.S. Treasury yields.

Figure 1. Headline Valuation Has Not Told the Full Story

Bloomberg U.S. Corporate Bond Index daily cumulative spread change by sector, January 1, 2026-June 30, 2026



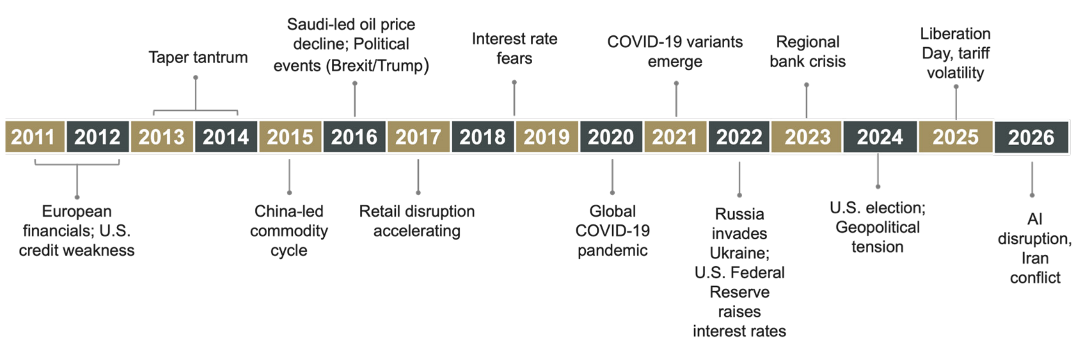
OAS	U.S. Corporate Bond	Energy	Technology	Electric Utilities	Finance (non-bank)
December 31, 2025	77 bps	89 bps	76 bps	84 bps	141 bps
June 30, 2026	74 bps	78 bps	80 bps	77 bps	144 bps
Difference	-3 bps	-11 bps	+4 bps	-7 bps	+3 bps

Source: Bloomberg. Data as of June 30, 2026. Energy, technology, electric utilities, and finance companies (non-bank) are subsets of the Bloomberg U.S. Corporate Bond Index. Option-adjusted spread (OAS) is the yield spread of a bond relative to a benchmark, adjusted for any embedded options. OAS helps investors evaluate the relative value of bonds with features that can affect future cash flows, such as call or prepayment provisions. 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.

Sector Dislocations Have Been Common; Consistent Sector Leadership Has Not

Looking back, many investors remember the "generational" market events most clearly, such as the global financial crisis (GFC) in 2008 and the COVID-19 pandemic in 2020. In reality, market dislocations of varying degrees have been common. While the severity and impetus of market stress change in each episode, the pattern has been consistent since the start of the 2010s into today. It seems like every year brings events in which liquidity is repriced, risk premia shift, and winners and losers emerge beneath the surface (see Figure 2).

Figure 2. Episodes of Post-GFC Market Stress Have Occurred Often



Source: Lord Abbett, as of year-to-date through June 30, 2026.

Although these episodes have occurred almost regularly, sector leadership has rarely repeated itself. Across the fixed income universe—including investment-grade and high yield corporates, bank loans, asset- and mortgage-backed securities, government-related and emerging market credit—sector leadership has rarely persisted from year to year, or from market environment to market environment (see Figure 3). And since the GFC, the average gap between the best- and worst-performing sectors has been over 10% per calendar year.[2]

"The more capabilities you have, the more opportunities you can evaluate—
and the more choices you have about where to take risk."

—Steve Rocco

Figure 3. Performance Across Fixed Income Sectors Has Not Been Consistent

U.S. fixed income representative index sector calendar year returns and year-to-date 2026, 2015–June 30, 2026

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 YTD
Range of Returns by Calendar Year (Highest – Lowest)														
15.45	**16.05**	**5.58**	**5.98**	**16.09**	**8.71**	**6.03**	**10.51**	**8.21**	**8.28**	**16.72**	**9.56**	**8.37**	**8.40**	**3.04**
17.44 EM	7.44 High Yield	7.46 Corporates	1.51 MBS	17.13 High Yield	10.26 EM	1.77 ABS	15.04 EM	10.99 TIPS	5.96 TIPS	-1.06 Lev. Loans	13.46 High Yield	8.95 Lev. Loans	14.30 EM	3.32 EM
15.81 High Yield	6.15 Lev. Loans	7.43 EM	1.25 ABS	10.15 EM	7.5 High Yield	1.14 Lev. Loans	14.54 Corporates	9.89 Corporates	5.40 Lev. Loans	-4.30 ABS	13.04 Lev. Loans	8.19 High Yield	8.58 MBS	1.89 High Yield
9.82 Corporates	-0.27 ABS	6.08 MBS	1.18 EM	9.88 Lev. Loans	6.42 Corporates	0.99 MBS	14.32 High Yield	8.00 Treasury	5.28 High Yield	-11.19 High Yield	11.09 EM	6.54 EM	8.50 High Yield	1.31 Lev. Loans
9.43 Lev. Loans	-1.41 MBS	5.97 Aggregate	0.84 Treasury	6.11 Corporates	4.25 Lev. Loans	0.86 Treasury	8.72 Aggregate	7.51 Aggregate	-0.34 ABS	-11.81 MBS	8.52 Corporates	5.02 ABS	7.77 Corporates	1.15 TIPS
6.98 TIPS	-1.53 Corporates	5.05 Treasury	0.55 Aggregate	4.68 TIPS	3.54 Aggregate	0.01 Aggregate	8.43 TIPS	7.11 High Yield	-1.04 Corporates	-11.85 TIPS	5.54 ABS	2.13 Corporates	7.30 Aggregate	1.02 ABS
4.21 Aggregate	-2.02 Aggregate	3.64 TIPS	-0.38 Lev. Loans	2.65 Aggregate	3.01 TIPS	-1.26 TIPS	8.17 Lev. Loans	5.26 EM	-1.04 MBS	-12.46 Treasury	5.53 Aggregate	1.84 TIPS	7.01 TIPS	0.99 MBS
3.66 ABS	-2.75 Treasury	2.45 High Yield	-0.68 Corporates	2.03 ABS	2.47 MBS	-2.08 High Yield	6.86 Treasury	4.52 ABS	-1.54 Aggregate	-13.01 Aggregate	5.05 MBS	1.25 Aggregate	6.32 Treasury	0.86 Aggregate
2.59 MBS	-5.25 EM	2.06 Lev. Loans	-1.44 TIPS	1.67 MBS	2.31 Treasury	-2.51 Corporates	6.35 MBS	3.87 MBS	-1.80 EM	-15.76 Corporates	3.90 Treasury	1.20 MBS	5.93 ABS	0.62 Corporates
1.99 Treasury	-8.61 TIPS	1.88 ABS	-4.47 High Yield	1.04 Treasury	1.55 ABS	-4.26 EM	4.53 ABS	2.78 Lev. Loans	-2.32 Treasury	-17.78 EM	3.90 TIPS	0.58 Treasury	5.90 Lev. Loans	0.28 Treasury

Average Calendar Year Dispersion of Returns: 10.3%

Source: Bloomberg, ICE Data Indices, LLC, and Morningstar. Data as of June 30, 2026. 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, U.S. 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. JP Morgan EMBI Global Diversified used for Emerging Markets. EM=emerging markets. 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.

What This Means for Investors

Periodic volatility and dispersion can potentially create opportunities for flexible, multi-sector credit strategies. We believe an optimal way to capitalize on opportunities brought on by periodic market volatility and dispersion is through a flexible, multi-sector credit approach. But effective multi-sector investing could require more than the ability to move among sectors. The distinction lies in whether that flexibility can be supported by a platform with the research breadth, sector depth, disciplined risk management, and execution capabilities that could be required to capitalize on investment opportunities across sectors in real time and as the investment environment quickly changes. Lord Abbett's fixed income operating model was built directly around that premise.

"Multi-sector portfolio managers are always broad and sometimes deep.
Sector teams are always deep and often broad."

—Robert Lee

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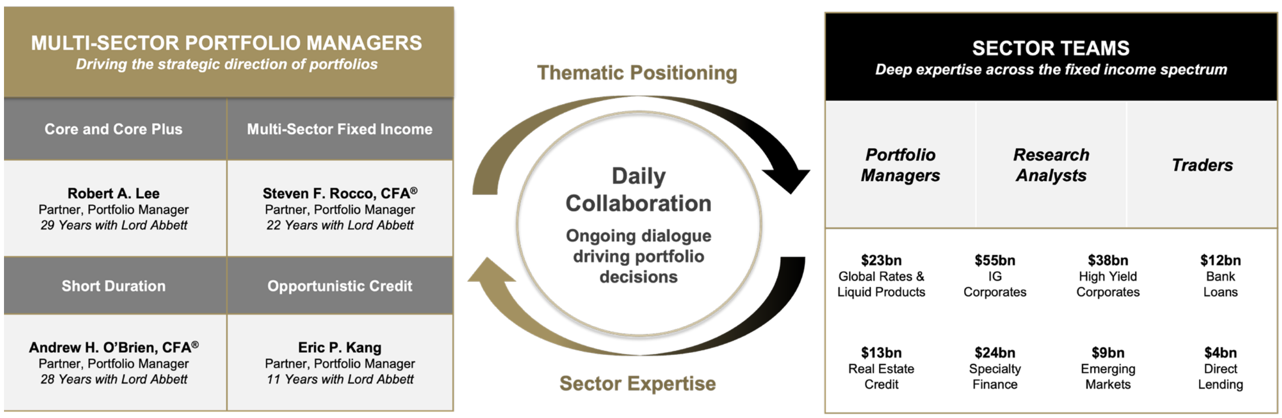
Multi-sector investing is the foundation of how Lord Abbett manages fixed income portfolios. Our integrated investment process is built around deep sector expertise, cross-sector relative value analysis, and active collaboration between multi-sector portfolio managers and sector specialists across the major fixed income segments. Rather than operating in isolated silos, our investment teams evaluate opportunities together across the full fixed income market, allowing portfolio decisions to reflect both specialized sector insight and a broader view of where risk may potentially be best rewarded.

Figure 4. A Multi-Sector Foundation that Spans Fixed Income Investing



99 Investment Professionals With an Average of 16 Years Industry Experience

Source: Lord Abbett. Data as of June 30, 2026.

Experience also matters. Lord Abbett was a pioneer in multi-sector investing. Since 1971, the firm has been building fixed income capabilities across the major sectors and applying them within multi-sector portfolios. That history has allowed us to develop the teams, tools, and infrastructure needed to compare opportunities across and within sectors. It is also reflected in the breadth of our fixed income lineup, with multi-sector solutions spanning the credit quality, maturity, and liquidity spectrum.

Summing Up

For investors evaluating fixed income allocations today, flexibility alone may not be enough. The key question is whether that flexibility is supported by the research depth, risk discipline, and integrated execution needed to use it effectively on behalf of clients. This is the real value of Lord Abbett's multi-sector approach. The goal is not simply to own more sectors. It is to combine sector expertise, valuation discipline, liquidity awareness, and a consistent cross-sector framework so the portfolio can respond when leadership changes and dispersion creates mispriced assets.

Market volatility cannot be eliminated, but investors can choose fixed income allocations designed to use volatility more effectively. In markets where leadership can change quickly, we believe Lord Abbett offers the breadth to see across sectors, the depth to completely understand them, and the process to act when relative value shifts. Ultimately, this helps to position clients' portfolios for opportunities that may not be visible at the headline level.

Listen to the related podcast in this episode of The Investment Conversation.

[1] Source: Bloomberg as of June 30, 2026. **Past performance is not indicative of future results.**

[2] Source: Bloomberg, ICE Data Indices, LLC, and Morningstar. Data as of June 30, 2026. **Past performance is not indicative of future results.**

Glossary & Index Definitions

Asset-Backed Securities (ABS) are fixed-income securities backed by pools of financial assets, such as auto loans, credit card receivables, or equipment leases.

Basis Point (bp) is one one-hundredth of a percentage point (0.01%). Bond yield and credit spread changes are commonly expressed in basis points.

Business Development Company (BDC) is a publicly traded investment company that primarily lends to or invests in private companies. BDCs are regulated under the Investment Company Act of 1940 and are often used by investors to access private credit.

Credit Spread is the additional yield investors require above a comparable U.S. Treasury security to compensate for credit risk.

Cross-Sector Relative Value refers to the process of comparing investment opportunities across different segments of the fixed income market to determine where investors are being most appropriately compensated for risk.

Dispersion refers to differences in returns, valuations, or credit spreads across sectors, industries, or issuers.

Emerging Market (EM) Debt consists of debt securities issued by governments or companies located in emerging-market economies.

Global Financial Crisis (GFC) refers to the worldwide financial crisis of 2007–2009 that significantly disrupted financial markets and the global economy.

High Yield Bonds are below-investment-grade corporate bonds that typically offer higher yields to compensate investors for greater credit risk.

Investment Grade Bonds are bonds rated in one of the four highest rating categories by major credit rating agencies, indicating relatively strong credit quality.

Liquidity refers to the ability to buy or sell a security quickly and at a price close to its fair market value.

Mortgage-Backed Securities (MBS) are fixed-income securities backed by pools of residential or commercial mortgages.

Option-Adjusted Spread (OAS) is a measure of a bond's yield spread relative to a benchmark after adjusting for embedded options, such as call or prepayment features. OAS is commonly used to compare relative value across fixed income sectors.

Treasury Inflation-Protected Securities (TIPS) are U.S. Treasury securities whose principal adjusts with changes in inflation as measured by the Consumer Price Index.

U.S. Treasury Securities are debt obligations issued by the U.S. Department of the Treasury and generally considered to have minimal credit risk. They are commonly used as benchmark securities in fixed income markets.

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 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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