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INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

What's next for bond investors?

September 2026

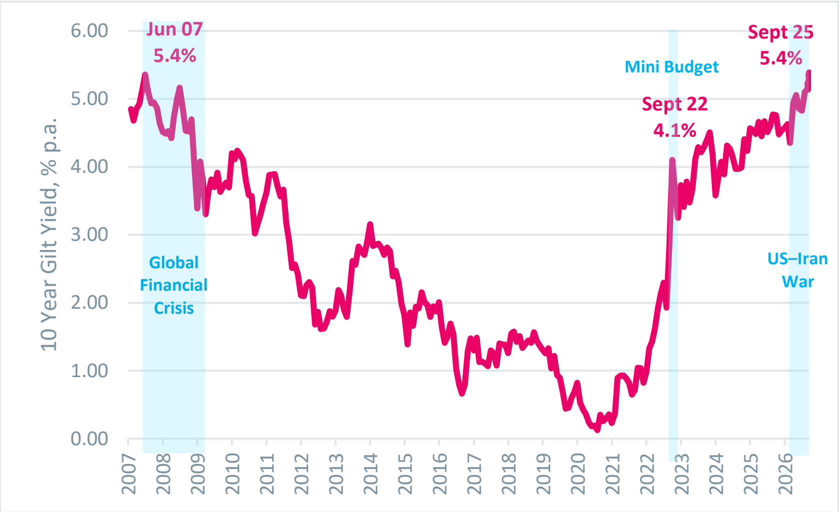
Key takeaways

- Bond yields have risen steadily in recent years (bond prices fall as yields rise). In September, the 10-year gilt yield reached 5.4%, the highest level since 2007, while the 30-year yield reached 5.9%, a level not seen since 1998.
- Although rising yields reduce bond prices in the short term, higher starting yields offer more attractive risk-adjusted returns and provide a greater income cushion against further yield rises.
- We remain well diversified within our bond exposure. This helps provide greater return stability and lower portfolio volatility as correlations with equity returns vary across markets and over time.

Market background

In September, the 10-year gilt yield reached 5.4%, the highest level since 2007, while the 30-year yield reached 5.9%, a level not seen since 1998.

There are several factors behind the recent rise in bond yields. Ongoing tensions in the Middle East have pushed oil and gas prices higher, increasing the risk of renewed inflation later in the year. Combined with resilient economic growth, this has led markets to shift from expecting interest rate cuts from central banks going into 2026, to rate hikes. The European Central Bank and Federal Reserve have already acted, while the Bank of England may soon follow with interest rate increases of their own.



10-year gilt yield. Source: Bank of England

At the same time, the supply of bonds has increased significantly. Developed market governments continue to issue large amounts of debt, while investment spending by artificial intelligence hyperscalers has contributed to substantial bond issuance. This increased supply is meeting weaker demand from some traditional buyers, including defined benefit pension schemes, creating additional upward pressure on yields.

What this means for investors

We expect higher volatility to continue, given the current market backdrop, so maintaining a well-diversified portfolio and a long-term view, looking through short-term noise, is key.

Higher risk-adjusted returns

If bond yields remain higher for longer, this is not necessarily bad news for bond investors, as higher yields offer more attractive risk-adjusted returns. If yields fall, returns will be boosted further because bond prices rise as yields fall. Even if yields rise slightly, returns could still be positive due to the income received from the bond.

Still a source of diversification

Bonds can still provide diversification because their returns do not always move in line with equities. A negative correlation means bond and equity returns tend to move in opposite directions, while a correlation close to zero means there is little or no relationship between them.

In recent years, the correlation has been largely positive (i.e. less supportive of diversification), as bond and equity markets reflect on inflation worries. Going forward we continue to see government bonds playing a key role in portfolio diversification. The high levels of income, alongside the ability to offer protection in economic shocks, should add considerable value. We expect the correlation between government bonds and global equity markets to move around over time and therefore any government bond allocations should be complemented with other bond asset classes.

What are we doing in portfolios

In HRIS portfolios, we remain diversified across our bond exposure. This allows us to benefit in the current higher yield environment while achieving greater return stability and lower portfolio volatility. We summarise our bond exposure in the table below:

Bond asset class	What it is	Why it is a good diversifier
Government Bonds	Loans to UK and overseas governments, which pay interest and return the capital at maturity.	High-quality government bonds can provide resilience during growth related market stresses. Global exposure also diversifies interest-rate and regional risks.
Investment Grade Credit	Loans to financially stronger companies with investment-grade credit ratings. They offer additional income over government bonds.	They combine income and some interest-rate sensitivity, while diversifying exposure across corporate issuers, sectors and regions.
Asset-Backed Securities	Investment-grade, floating-rate bonds backed by pools of assets. These include residential mortgages, corporate loans, car loans and consumer credit.	This provides a diversified source of income beyond government and corporate bonds. Its floating-rate structure means returns are linked more closely to short-term interest rates, with very limited sensitivity to changes in government bond yields.
High Yield	Loans to companies with lower credit ratings. Investors receive a higher yield for accepting greater default risk.	High yield bonds are more return-seeking. Their income and issuer mix can diversify traditional bonds and support returns alongside equities.
Emerging Market Debt	Bonds issued by emerging market governments and companies, issued in either emerging market currencies or US dollars.	This provides exposure to different economies, currencies and return drivers, with higher income potential than developed-market government bonds.
Multi Asset Credit	Actively managed funds that can invest flexibly across several bond and credit markets, including investment grade, high yield and asset-backed securities.	A broad opportunity set lets managers adjust credit quality and risk as conditions change, adding flexibility and diversifying traditional bond exposure. We increased our allocation to this asset class as part of the 2026 strategic review.

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Risk warning

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