BBH STRATEGY INSIGHT

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Introducing Systematic Fixed Income

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Systematic investing refers to the application of explicit rules and quantitative methods to portfolio construction and portfolio management. While this approach has long been embedded in equities, until recent years fixed income markets lacked the liquidity, standardization, and data infrastructure required to support it at scale.

Over the past decade, the rapid growth of credit exchange-traded funds (ETFs) and portfolio trading, together with the expansion of electronic plat-

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forms in both Treasuries and corporate bonds, have increased bond market liquidity and reduced transaction costs. Today, approximately 60% of investment-grade corporate bonds and U.S. Treasuries trade electronically.[1] Reduced transaction costs and improved execution certainty have enabled repeatable portfolio implementation. This evolution is sometimes described as the **equitification of credit**, drawing a parallel with the transformation that equities experienced decades ago.

As of 2025, systematic equity strategies accounted for almost 20% of the global equity market, while systematic fixed income strategies accounted for less than 2% of the investable universe.[2] But fixed income is catching up: Systematic credit funds doubled in size in 2023.[3] Moreover, asset managers have increased their commitment to systematic fixed income through organic development and acquisitions. Large institutions are no longer debating whether to adopt this investment style, but how to do it.

Here, we introduce systematic methods and discuss how they offer new vehicles to access familiar asset classes, such as corporate bonds, with effectively no capacity constraints.

The rise of systematic fixed income

In addition to the proliferation of credit ETFs, portfolio trading, and increased electronic trading, there is also a generational element behind the rise of systematic fixed income. Most managers and consultants in the financial industry have been exposed to factor investing early in their studies and careers. To most of them, breaking returns into factors is not just a concept familiar only to financial quants, but standard representations of performance and market movements.

Invesco's annual study of systematic investing has found that in 2024, 88% of managers employed systematic strategies in fixed income, vs. 73% in 2023. Furthermore, 96% of the managers surveyed expressed their willingness to apply systematic strategies.[4] Large asset managers have adopted systematic fixed income through both acquisitions, such as Blackstone's purchase of DCI and Ares' acquisition of BlueCove, and organic development, such as BlackRock's launch of IGEB and HYDB, two systematic corporate bond ETFs launched in 2017 that combined exceed $3 billion in market value.

Demystifying systematic strategies

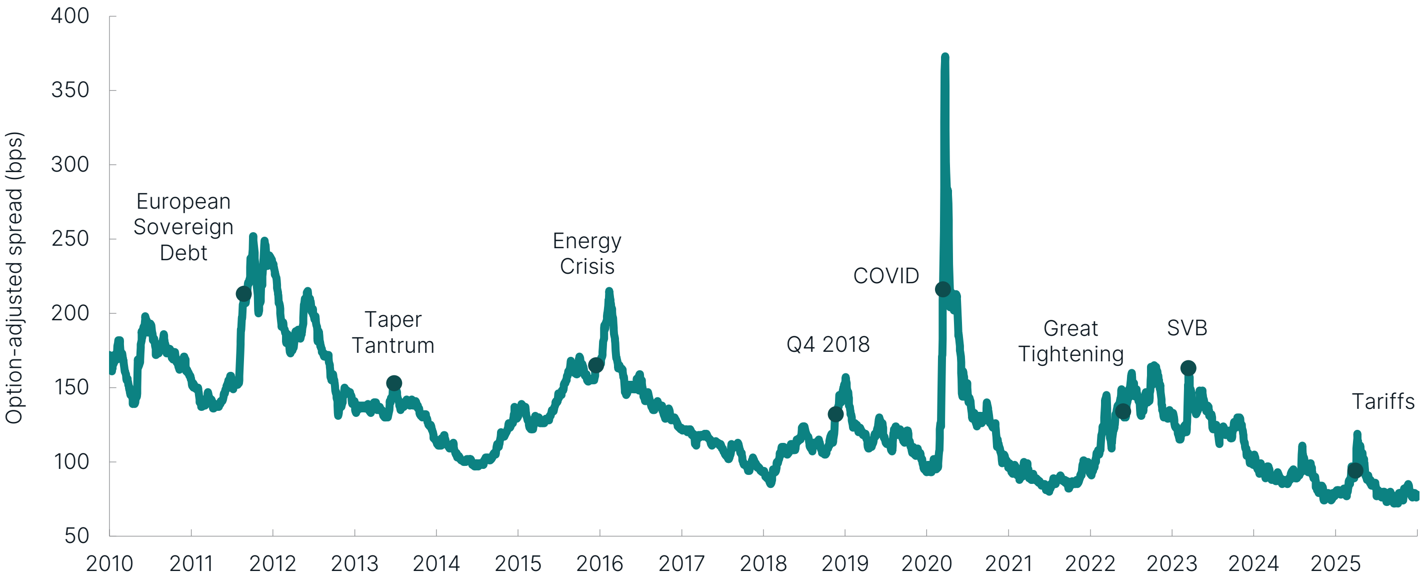
A common misconception is that systematic strategies are "black boxes," or purely factor-beta products. Properly designed systematic strategies are neither. At their core, they are structured expressions of familiar return drivers, such as:

- **Carry:** Income earned as time passes; in corporate bonds, the credit spread is a common proxy
- **Value:** Compensation for bearing credit risk relative to expected default and recovery
- **Momentum:** The empirical tendency of recent excess returns to persist
- **Defensive characteristics:** Exposure to lower-risk issuers and interest-rate profiles

Similarly, yield curve factor exposures – level, slope, and curvature – formalize macroeconomic views that portfolio managers have long incorporated qualita-

[1] Source: Bloomberg as of December 16, 2025.
[2] Source: "The Race to Bring Quant Strategies to Corporate Bond Markets," February 2, 2026. Bloomberg.
[3] Source: "It's PhDs Against MBAs in Credit Investing as Quants Jump In," May 20, 2024. Bloomberg.
[4] Source: Invesco Global Systematic Investing Study, 2023 and 2024.

EXHIBIT I: CREDIT CYCLES 2010-2025



Source: Bloomberg and BBH.
Data shown daily from January 1, 2010 to December 31, 2025.

tively. What systematic frameworks add is not a new perspective, but consistency, scalability, and transparency. Every security is evaluated using the same logic, and every portfolio decision can be traced to an expected return and a constraint. This structure allows the investment process to remain transparent, intuitive, and open to scrutiny. Systematic frameworks formalize judgment, rather than replace it.

Systematic fixed income at BBH

Our systematic strategies are a direct extension of the valuation framework that has been the quantitative element of our investment process for over 15 years, helping us invest throughout multiple credit cycles, as shown in Exhibit I.

In our valuation framework, the credit spread and its mean reversion are important components of a corporate bond's expected excess return over the Treasury rate. Spread widening events present opportunities to find attractive bonds at compelling values. During tight spread environments such as today's, corporate bonds are expensive and attractive opportunities become scarce. Since spreads are subject to short-term fluctuations, we apply a volatility discount to risk-adjust expected excess returns across sectors, ratings, and maturities.

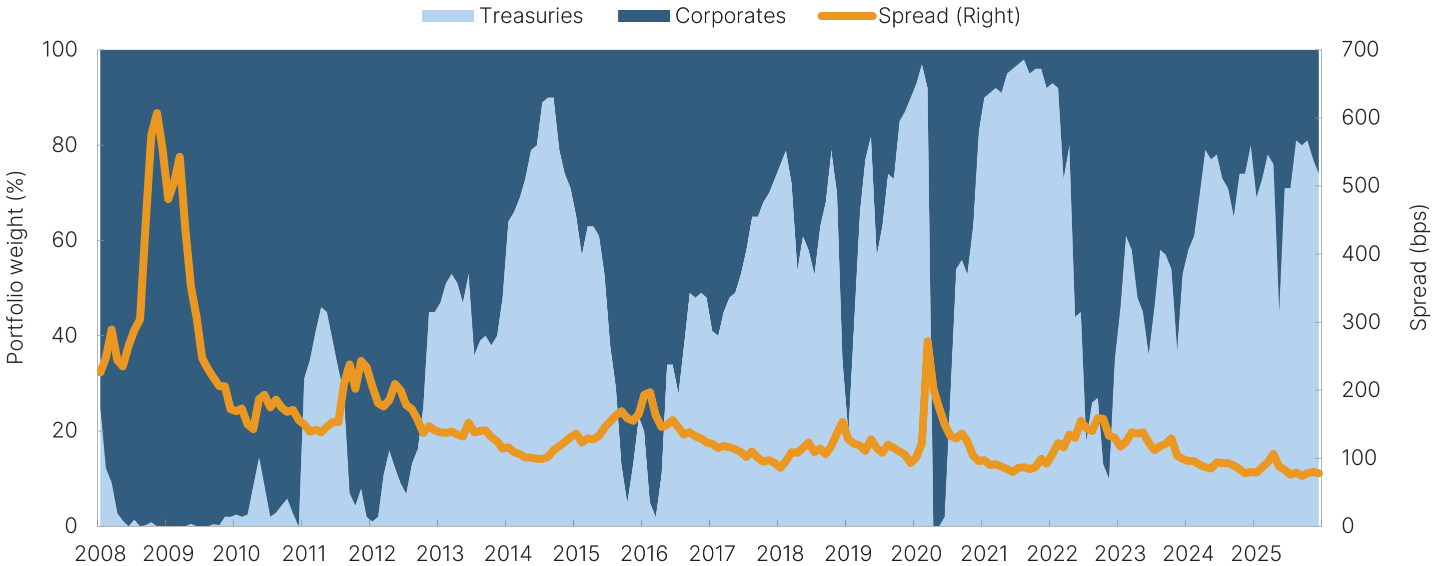
As we combined valuation with portfolio optimization, a systematic process to create and manage portfolios of corporate and Treasury bonds emerged. This process is shown in Exhibit II.

EXHIBIT II: SYSTEMATIC FIXED INCOME IN THREE STEPS

For illustrative purposes only.

– **Prepare universe:** Starting with the investment grade (IG) corporate index, we remove spread outliers, small issuers, and non-U.S. issuers to preserve the most liquid constituents.

EXHIBIT III: GOV-CORP ALLOCATION OVER TIME



Source: Bloomberg and BBH.
Data shown monthly from January 2008 to December 2025.

- **Valuation:** We assign risk-adjusted expected excess returns to each index constituent.
- **Optimization:** This maximizes risk-adjusted expected excess return subject to portfolio structure constraints.

Repeating these three steps over time generates portfolios based on valuation and optimization. To backtest the performance of the resulting portfolios, we created a menu of strategies, from pure corporate to core fixed income strategies. The strategy we found best captures the interplay of valuation and optimization is the "Gov-Corp" strategy. Every month, the optimizer balances the choice between corporate bonds and U.S. Treasuries. As seen in Exhibit III, portfolios are heavy in credit following spread widening events, while large allocations to Treasuries emerge in tight spread regimes. It systematizes investing as a contrarian.

For instance, as spreads tightened in 2019 and into 2020, the Gov-Corp portfolio allocated almost 85% to Treasuries. When spreads widened in March of 2020, the impact on the portfolio was not as large as on its benchmark, and the portfolio had plenty of Treasuries to deploy and invest in attractive corporate bonds. We believe that our systematic strategies can deliver value with portfolios fully invested in corporate bonds, as well as allocating between Treasuries and corporate bonds.

Key takeaways

Fixed income markets are evolving. As data quality and computational power improve, the equitification of credit will intensify. Systematic strategies allow investors to join this process and benefit from transparent, flexible, and consistent investment approaches. These strategies are adaptable and can accommodate a wide range of risk and style preferences. Furthermore, they can be deployed in the most liquid segments of the market and grow with effectively no capacity constraints.

To learn more about systematic fixed income strategies, reach out to the BBH fixed income team or your BBH relationship team.

Opinions, forecasts, and discussions about investment strategies are as of the date of this commentary and are subject to change without notice. References to specific securities, asset classes, and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations.

Risks

Investors should be able to withstand short-term fluctuations in the equity and fixed income markets in return for potentially higher returns over the long term. The value of portfolios changes every day and can be affected by changes in interest rates, general market conditions and other political, social and economic developments.

Brown Brothers Harriman Credit Partners, LLC., a subsidiary of BBH, is the strategy's investment adviser.

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