What a decade of real returns reveals about fixed income

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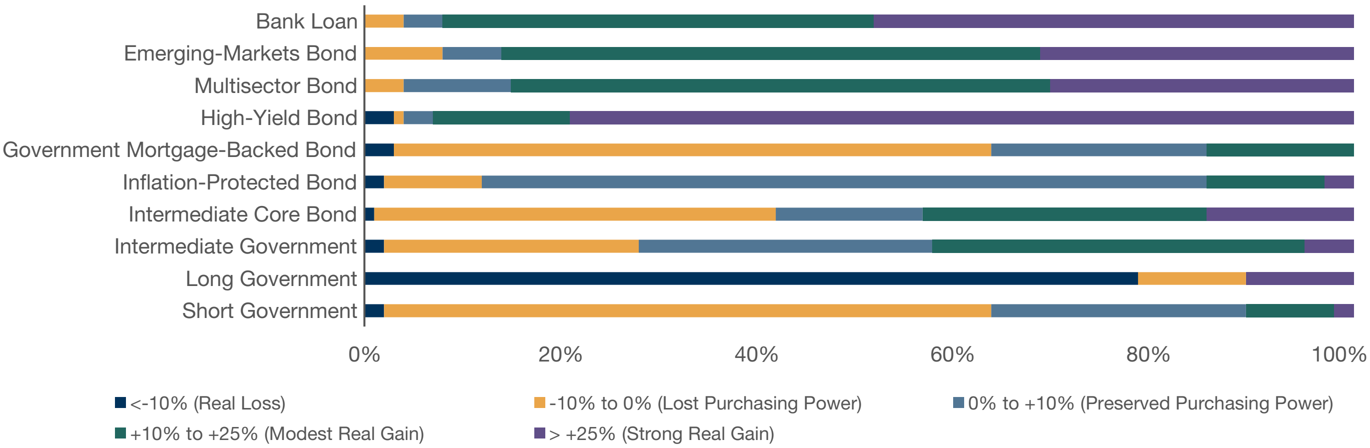
Renewed inflation concerns stemming from the conflict in the Middle East, continued deficit spending, and rapidly shifting Fed rate cut expectations have driven meaningful interest rate volatility in 2026. Through this type of volatility, it's important for investors to reassess how their tradntionally conservative fixed income allocations have truly performed. When adjusting for inflation, many fixed income categories traditionally considered "lower risk" have done the least to help preserve purchasing power.

The chart below illustrates how various fixed income categories have performed over the last 10 years, adjusted for inflation using the Consumer Price Index. Interestingly, roughly 96% of High Yield Bond funds, Bank Loan funds, and Multisector Bond funds preserved purchasing power over the last decade, while 90% of Long Government Bond funds and 42% of Intermediate Core Bond funds lost purchasing power over the same period.

Figure 1. A decade of real returns across fixed income

The Categories commonly perceived as safer showed the weakest inflation-adjusted results



Source: Morningstar Direct. Data as of December 31, 2025. The chart shows the percentage of mutual funds and exchange-traded funds in each US taxable-bond Morningstar Category whose best-performing share class fell into one of five real return buckets over the past 10 years. Past performance is no guarantee of future results, which may vary.

Credit was the differentiator

The data clearly shows that credit exposure drove real returns. Bank loans and high yield bonds were among the strongest performers in real terms, while multisector bond funds also fared well with their flexibility to rotate across credit quality and sectors.

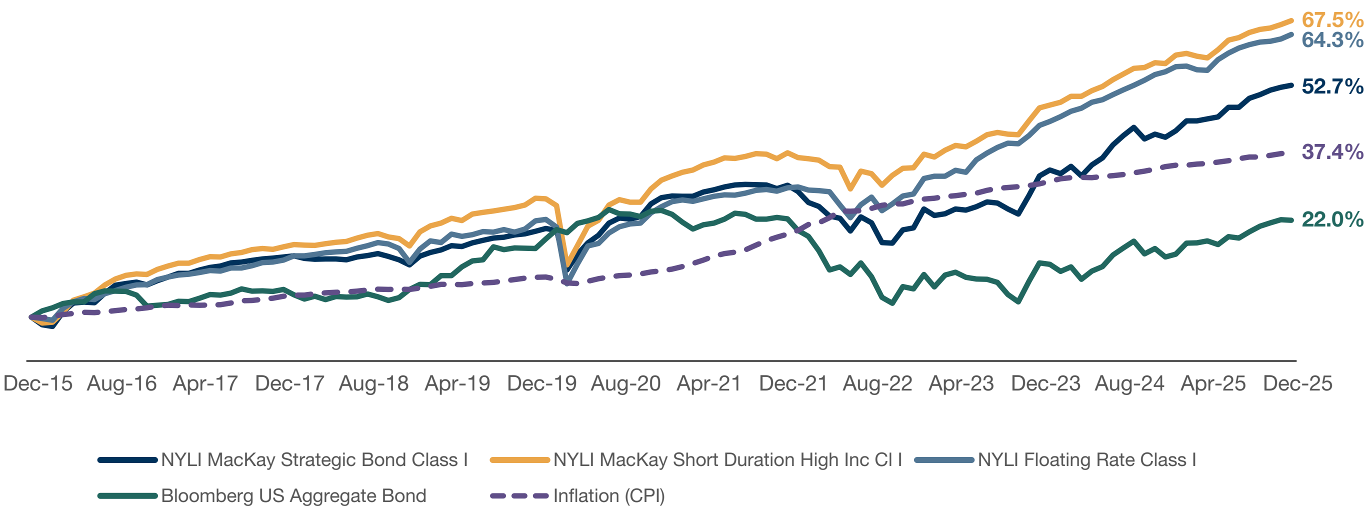
On the other end of the spectrum, long government bonds were the worst performers, along with government mortgage-backed securities, short government funds, and intermediate core bonds. Investors with significant exposure to these categories could potentially benefit from reallocating to actively managed, credit oriented fixed income strategies.

At the fund level

At New York Life Investment Management, many of our fixed income strategies have outpaced inflation over the last decade through a combination of strong yields and a focus on complex and less efficient areas of the bond market, including securitized debt, high yield, bank loans, and emerging market debt.

The chart below illustrates the NYLI MacKay Short Duration High Income Fund (MDHIX), the NYLI Floating Rate Fund (MXFIX) and the NYLI MacKay Strategic Bond Fund (MSDIX) versus the Bloomberg Aggregate Bond Index and inflation, measured with the Consumer Price Index, over the last decade.

Figure 2. Credit-oriented strategies preserved purchasing power. The aggregate bond index did not (total return, last 10 years)



Source: Morningstar Direct. Data from January 1, 2016 through December 31, 2025. Inflation (CPI) source: U.S. Bureau of Labor Statistics via Federal Reserve Bank of St.Louis (FRED), Consumer Price Index for All Urban Consumers. Past performance is no guarantee of future results, which may vary. An investment cannot be made directly in an index.

Click on the Fund tickers MSDIX, MDHIX and MXFIX, which includes the prospectus, investment objectives, performance, risk, and other essential information. Returns represent past performance, which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Visit nylim.com for the most recent month-end performance.

All three NYLI strategies meaningfully outpaced inflation over the last 10 years. At the same time, the Bloomberg Aggregate Bond Index, a proxy for traditional core bond exposure, fell short and ended the decade with diminished purchasing power, even after accounting for both income and price appreciation.

Conclusion

The past decade showed investors that yield and credit exposure have been important drivers of real returns, while traditional “lower risk” fixed income categories have often fallen short when measured against inflation. With interest rate volatility becoming more ubiquitous in today’s market, a credit-oriented approach to fixed income remains a compelling path to preserving and growing purchasing power over time.

INDEX DEFINITIONS:

The **Bloomberg U.S. Aggregate Bond Index** is a broad-based benchmark that measures the performance of the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities, and commercial mortgage-backed securities. Index results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

About Risk: Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk which is the possibility that the bond issuer may fail to pay interest and principal in a timely manner. Investing in below investment grade securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds.

To access the most up-to-date information about a specific fund, simply click on the fund's name. This will take you to a detailed page that includes the prospectus, the fund's investment objectives, its performance history, key risk factors, Morningstar ratings, and other essential details. Read the prospectus caefully before investing.

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