

Beyond the Bloomberg Aggregate: Rethinking the Fixed-Income Playbook

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If the bond market were the NBA, the Bloomberg U.S. Aggregate Bond Index (the “AGG”) would be your classic old-school center: reliable, predictable, and camped out in the paint. But in a game now dominated by perimeter play, relying on your big man alone is a one-dimensional strategy.

Originally designed to track the U.S. investment-grade bond market, the AGG has shifted over the years. Today, U.S. Treasuries make up nearly half the index, with mortgage-backed securities (MBS) and investment-grade corporates comprising most of the rest. But what’s missing? Entire sectors: High yield bonds, bank loans, non-agency MBS, and asset-backed securities (ABS), to name a few.

Fixed Income Investment Universe

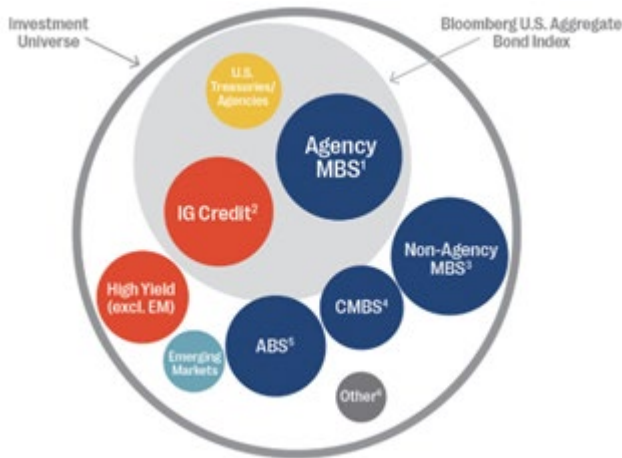


Diagram not to scale and intended only to illustrate potential areas of investment. 1) Agency Mortgage-Backed Securities 2) Investment-Grade Credit 3) Non-Agency Mortgage-Backed Securities 4) Commercial Mortgage-Backed Securities 5) Asset-Backed Securities 6) Other may include preferred shares, convertible bonds, municipal bonds, and other types of debt instruments permitted under the prospectus. Image source: [TCW](#)

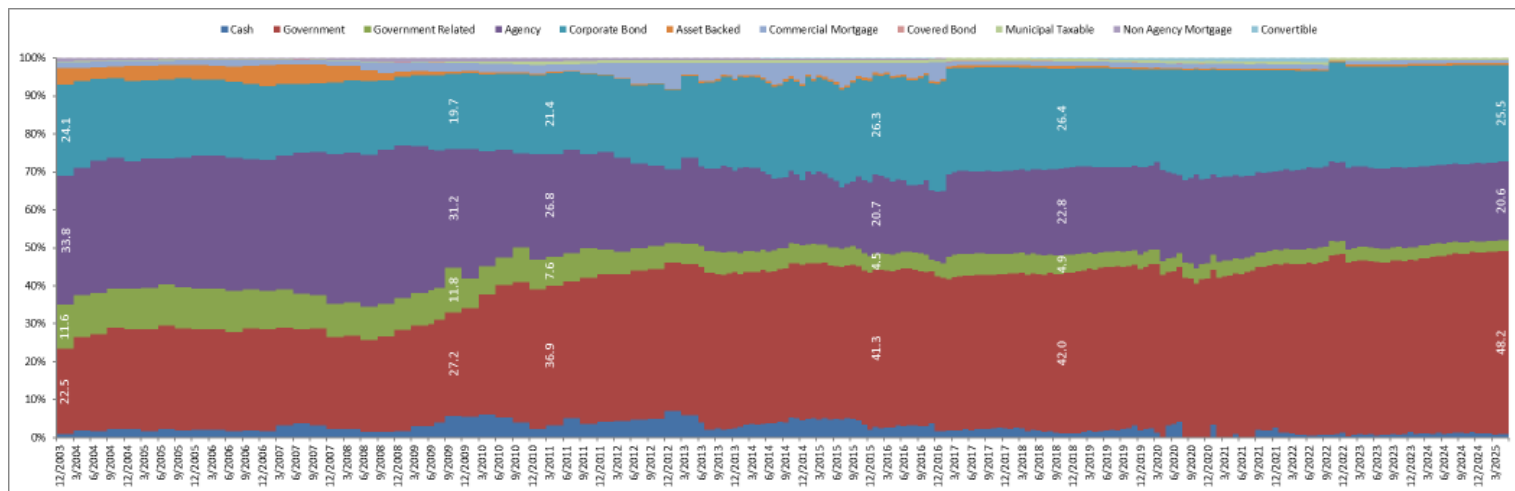
A decade ago, NBA teams attempted about 22.4 three-pointers per game in 2015. Last season that number rose to **37.6 per game**, a nearly 68% increase. But the change is even more dramatic when you zoom out across eras. In the early 1980s, teams averaged only 2.8 three-point attempts per game, hitting roughly 29% of them. By the 1999-2000 season, that climbed to 13.7 attempts per game, with a 35% success rate. Fast-forward to 2019-20, and teams were firing off over 34 attempts per game, making around 36%. Zooming in on elite teams: the Boston Celtics averaged 48.2 threes per game in 2024-25, while Steph Curry alone attempted 11.2 per game, totaling nearly 800 threes this season.

But while the NBA evolved to embrace the three-point revolution, the AGG has remained stuck in an outdated system. Despite totaling **\$29 trillion**, the AGG represents less than half the U.S. fixed income universe. Its strict **inclusion criteria**: U.S. dollar-denominated, investment-grade, fixed-rate, publicly registered, and meeting size thresholds exclude a vast range of securities including floating-rate notes, tax-exempt bonds, private credit, commercial real estate loans,

CLOs, and more.

These exclusions limit investors' access to yield, diversification, and potential alpha. Meanwhile, surging government debt has dramatically reshaped the index. In the early 2000s, Treasuries made up about 23% of the AGG, today, they account for over 48%, making the index more rate-sensitive and less reflective of the broader fixed income universe. And while high yield bonds have grown to over 15% of the overall bond market, they remain entirely excluded.

Exposure for the Bloomberg Aggregate



Source: Morningstar and Kestra Investment Management. Index proxy: Vanguard Total Bond Market Fund (BND). Data as of June 2025.

Constructing a bond portfolio around the AGG today is like sticking to a playbook from the 1990s. It may still work in certain scenarios, but it no longer reflects how the game or the market has evolved. What was once considered “core” no longer captures the full range of risk and return. Much like an NBA team ignoring the three-point line, sticking only to the AGG can mean missing out on high-impact plays that define success today.

The Limits of a One-Dimensional Strategy

In today's NBA where spacing and perimeter shooting dominate, a portfolio tightly aligned with the AGG is like feeding the post on every possession. It worked in the '90s, but maybe not today.

Persistent inflation and volatile interest rates have exposed the weaknesses of a strategy centered on rate-sensitive, low-yielding sectors. The AGG's duration hovers around 6.2 years, with an SEC yield of just 4.4%. In contrast, a diversified multisector bond portfolio, which includes non-core sectors could deliver higher income with comparable duration, striking a balance between yield and risk.

The AGG still belongs in a lineup, it's foundational, but no longer equipped to go all four quarters alone. Investors relying solely on core bonds may be missing out on meaningful sources of return and diversification.

The New Three-Point Era: Non-Core Sectors

Fixed income now demands the same strategic flexibility seen in modern NBA offense. Non-core sectors like high yield, ABS, CMBS, and non-agency MBS are the three-point shooters of fixed income: nimble, resilient, and often high-scoring. They stretch portfolios, enhance resilience across cycles, and can deliver yields that core bonds simply can't match.

What makes them so valuable today? For one, many of these sectors offer spread premiums of 100-300 basis points over Treasuries, with lower duration risk. For example, ABS and CMBS securities can provide 4.5-6.5% yields with durations under 3 years, a far better balance of risk and reward than core bonds locked into longer-term government debt.

In an environment where inflation is sticky and rate cuts are uncertain, non-core sectors give investors a way to play offense and defense at the same time, earning higher income while limiting exposure to interest rate sensitivity or

prolonged volatility.

Much like the rise of three-point shooting changed how teams win championships, these sectors are redefining how portfolios can generate consistent, diversified returns.

Final Buzzer: Time for a More Flexible Game Plan

The AGG still matters, it's a logical starting point and a trusted benchmark. It covers the basics, and keeps portfolios grounded. But much like NBA teams that now build around spacing, shooting, and adaptability, today's fixed income strategies require broader tools, deeper benches, and tactical agility.

Limiting a portfolio to the AGG is like refusing to shoot from deep. It might keep you in the game, but it won't win it.

With inflation proving persistent, interest rates uncertain, and credit conditions diverging across sectors, success in fixed income now depends on the ability to move beyond static playbooks. Diversifying into non-core sectors when done with discipline can unlock higher income, reduce interest rate risk, and improve long-term total return potential.

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