PUTTING CASH TO WORK WITH BOND ETFS

iShares by BlackRock

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount they originally invested.

Are bonds the opportunity you can't afford to miss right now?

Inflation indicators are starting to cool, several central banks have already cut rates – but bond yields are still higher than they've been in a decade.

Early movers started their shift back to bonds last year, propelling global bond ETF inflows to a record $333 billion in 2023.[1] But many investors are still significantly underweight bonds, with an average EMEA allocation of just 25%.[2] There's still a long way to go.

Markets tend to price in the future before it happens. So, with the bond market regaining momentum, should you be jumping back in now?

Why Bonds? Why Now?

There are several good reasons to consider bonds right now. Inflation is way down from its peak, and despite an uneven descent with the occasional bounce upwards, it no longer feels untameable.

Falling inflation means the world's major central banks have probably reached the end of their aggressive rate-hiking—a cycle that made cash king for a time. Central banks will inevitably take us back to a less restrictive monetary environment when they can, while the European Central Bank, the Bank of England and the Federal Reserve, have all started cutting rates already.

Setting aside the exact timing of future rate cuts, the bottom line is this: current bond yields offer potential opportunity to get in ahead of change. Yields tend to fall alongside or ahead of rate cuts – but volatile data have kept them higher than we might expect. So, while rates are clearly trending downwards, inflation's uneven descent has provided a potentially attractive entry point for bond investors.

Ready to rethink your portfolio?

Over the past few years, market volatility drove many investors to the safety of cash and cash-like investments.

As interest rates rose rapidly in 2022 and 2023, cash seemed like a smart play. T-Bill yields soared to around 5.25%, and Euro Short-Term Rates neared 4%.[3] UK savers could easily find rates above 5%.

The flows showed clear evidence of a flight to safety: over $1 trillion poured into money market funds worldwide in 2023. By year-end, assets in these funds had hit $9.2 trillion, up 19% from the previous year.[4]

While cash has become an asset class on its own, it plays a different role in portfolios to bonds. Bonds have long played two key roles in a balanced portfolio: generating income and offering diversifications against other riskier assets. And with cash yields falling already, that income and diversification power is looking more attractive.

> **'BONDS HAVE LONG PLAYED TWO KEY ROLES IN A BALANCED PORTFOLIO: GENERATING INCOME AND OFFERING DIVERSIFICATIONS AGAINST OTHER RISKIER ASSETS.'**

Sources: 1- BlackRock Global Business Intelligence, as of 31 Dec 2023. 2- GBI iShares for ETFs, as of 31 Jan 2024. Closed ended funds excluded. 3- Bloomberg, based on Bloomberg Barclays US Treasury Bill Index and EURIBOR 1 month, as of 29 Feb 2024. 4- Simfund for US money market funds; Broadridge for non-US money market funds, both as of 31 Dec 2023

MKTGM1024E/S-3997575-1/3

How to Get Back Into Bonds

One of the most effective ways could be with a bond ETF. These funds offer a versatile and efficient way to gain exposure to everything the bond market has to offer, from broad-based exposures to much more targeted ones.

Bond ETFs have become the go-to strategy for investors. As of July 2023, they had over $2 trillion in assets – and we believe that could triple to $6 trillion by 2030.[5]

Why? Because these ETFs offer a cost-effective combination of precision, liquidity, and transparency.

Bond ETFs Are Hard to Beat

Whether deploying cash or rebalancing your portfolio, bond ETFs offer several key advantages:

- **Efficiency and Liquidity:** They let you buy and sell portfolios of thousands of bonds with a single trade, making them a powerful tool for managing fixed income exposure in a portfolio. And they often trade at a fraction of the cost of individual bonds.
- **Diversification and Customisation:** With over 2300 bond ETFs on offer, you have more choices than ever.[6] Whether you're looking invest in sovereign bonds, corporate bonds, or emerging market debt, there *will* be an ETF for you. You can build a broad portfolio with aggregate bond ETFs or customise your exposure across sectors, maturities, and credit ratings.
- **Innovation:** Bond ETFs are constantly evolving. Take iBonds ETFs, for example. They trade like a stock, diversify like a fund, and mature like an individual bond. They are a unique way to lock in yields in your portfolio.
- **Advanced Portfolio Construction:** Newer bond ETFs are also slicing the fixed income market more precisely, allowing for highly customisable portfolios. Hitherto institutional-only strategies are now accessible to everyone, enabling many more investors to build portfolios capable of weathering various market conditions.

Bottom Line

Bond ETFs offer a powerful toolkit to navigate the new market regime. The bond market has undergone a dizzying transformation in recent years—buffeted by high global inflation and aggressive central bank tightening.

There may be a case for moving off the sidelines and back into bonds. The high-yield environment presents an opportunity to lock in income levels.

Bond ETFs offer a powerful toolkit to navigate the new market regime. Whether you're looking to deploy cash or rebalance your portfolio, bond ETFs offer the flexibility, and efficiency needed to achieve your investment goals.

'WHETHER YOU'RE LOOKING TO DEPLOY CASH OR REBALANCE YOUR PORTFOLIO, BOND ETFS OFFER THE FLEXIBILITY, AND EFFICIENCY NEEDED TO ACHIEVE YOUR INVESTMENT GOALS.'

Sources: 5- From proprietary research. BlackRock projections as of 31 March 2024. Subject to change. The figures are for illustrative purposes only and there is no guarantee the projections will come to pass. 6- BlackRock Global Business Intelligence, total number of bond ETFs globally is 2,392, as of 31 March 2024

This document is marketing material. Before investing please read the Prospectus and the PRIIPs KID available on www.ishares.com/it, which contain a summary of investors' rights.

Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time and depend on personal individual circumstances.

Regulatory Information

This material is for distribution to Professional Clients (as defined by the Financial Conduct Authority or MiFID Rules) only and should not be relied upon by any other persons.

This document is marketing material.

In the UK and Non-European Economic Area (EEA) countries: this is issued by BlackRock Advisors (UK) Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL, Tel: +44 (0)20 7743 3000. Registered in England and Wales No. 00796793. For your protection, calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

In the European Economic Area (EEA): this is issued by BlackRock (Netherlands) B.V. is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded.

In Italy: For information on investor rights and how to raise complaints please go to https://www.blackrock.com/corporate/compliance/investor-right available in Italian.

For investors in Switzerland

This document is marketing material.
This document shall be exclusively made available to, and directed at, qualified investors as defined in Article 10 (3) of the CISA of 23 June 2006, as amended, at the exclusion of qualified investors with an opting-out pursuant to Art. 5 (1) of the Swiss Federal Act on Financial Services ("FinSA").
For information on art. 8 / 9 Financial Services Act (FinSA) and on your client segmentation under art. 4 FinSA, please see the following website: www.blackrock.com/finsa.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.