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Adapt your bond strategy to geopolitical risk

In uncertain economic and geopolitical times, fixed income investors should look to unconstrained global fixed income strategies to achieve the best returns, according to GSFM CEO Damien McIntyre.

US policy was already the wild card impacting yield curves at the beginning of 2026, and with the action taken by the US and Israel against Iran, and the resulting fallout, this has only intensified, he says.

"The long end of the yield curve has been responding more to policy than it has to fundamentals in recent times.

"In this environment, unconstrained global fixed income strategies offer investors the flexibility to respond to shocks. The benchmark-agnostic nature of the strategy means it can take advantage of market dispersion through a process focused on return outcomes and active risk management, rather than on more narrowly defined benchmark-relative performance.

"Recent market repricing has provided this strategy with the opportunity to recalibrate exposures across interest rates, credit, and currencies to the benefit of investors. The swift repricing from rate cuts to rate hikes across developed and developing markets allows for more duration to be added to the strategy.

"As demonstrated in the past, the value of such strategies is not just in avoiding risk at the cost of future returns, but in having the ability to actively exploit dislocations and market mispricing across the various components that make up the public fixed income market."

McIntyre says a key benefit of an absolute return fixed income approach is being able to identify risk and swiftly take appropriate action to protect the portfolio. Being able to do this early is paramount, he says.

"When things go poorly and investors are trying to exit positions at the same time, it can have negative consequences for the portfolio.

"Because an absolute return fixed income portfolio isn't managed to a benchmark, there are fewer risks that need to be managed to (such as duration or liquidity risk). It provides the investment manager with greater flexibility and greater latitude with respect to asset class participation; securitised assets, corporate bonds, emerging market debt, developed government debt. In short, a lot of opportunity for diversification."

McIntyre says an unconstrained absolute return approach to fixed income is a better approach in the current environment because it:

- Removes the benchmark from the equation
- Can focus on companies/ countries with the least amount of debt
- Can focus on lower duration securities
- Actively select issuers that will add value to the portfolio
- Can embed additional yield for investors
- Actively manages risk exposure irrespective of benchmark positions
- Focuses on positive returns.

"Regardless of the strategy chosen, fixed income remains a cornerstone of a balanced portfolio. The asset class continues to provide stable income through the reliable interest payments and the return of principal. Importantly, fixed income provides portfolio diversification and can be a defensive buffer during equity market turbulence.

"The defining feature of the current cycle is not whether growth persists or falters, inflation rises or falls, or policy tightens or eases. It is that very different outcomes are unfolding at the same time, across sectors, households and regions.

"For fixed income investors, this is not a backdrop that rewards blunt positioning or reliance on historical correlations. Instead, it favours a global, unconstrained approach, one that embraces dispersion, emphasises selectivity and seeks to source risk where it is genuinely compensated," he says.

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