Perspectives Podcast

“The Active Ingredient in Fixed Income ETFs”

Transcript, 16 April, 2026

Adam Bass (00:03):
This is MSCI Perspectives. I'm your host, Adam Bass, and today is April 16th, 2026.
(00:11):
ETFs or exchange traded funds have been around since the early '90s. The first active ETF, on the other hand, that's one that is actively managed rather than index-based, would still not be eligible to vote in the United States. In other words, younger than 18 years old. And yet, these young upstarts hold $1.7 trillion in assets under management globally. So it seemed time for us to talk about them and talk about one type in particular, fixed income. Now, that's an asset class that many may not associate with active ETFs, but here, too, interest and availability have grown. We recently had the opportunity to be a fly on the wall as two industry experts talk shop, and I gladly handed the mic over to my colleague, Jarrad Linzie, Global Head of Fixed Income Index Research at MSCI. Here's that conversation.

Jarrad Linzie (01:10):
Hello, everyone. I'm Jarrad Linzie. I'm excited to be stepping in as the guest host for this episode of MSCI Perspectives. I'm not sure it's the best decision by my colleague, Adam, but I think we'll figure it out. Joining me today is Jim Jackson, Chief Investment Officer at Victory Income Investors. Jim, great having you. How you doing today?

Jim Jackson (01:34):
It is great to be here and I'm doing fine. Thank you, Jared.

Jarrad Linzie (01:38):
So I was thinking about how to kick this off, and fixed income isn't always known for being the most exciting topic, especially when you compare it to the high octane world of equities. But we'll do our best to keep this engaging. And if not, guess what? We'll just blame it on duration. So the focus today's conversation will really be around ETFs, and primarily around fixed income and the evolution of that. And Jim, I'm happy to have you here because I'm sure you're going to have a lot of insight to provide in regards to the topic itself. And I'll start with a two-part question. And just to level set a little bit, the fixed income ETF market has grown significantly over the past decade, we all know that. We're looking at somewhere around two and a half trillion in AUM globally, which is probably about six times larger than it was 10 years ago.
(02:34):
And if you look at the pathway forward and just extrapolate a little bit over the last five years, by 2030, you're probably looking at a fixed income ETF market that's at six trillion. So you're effectively almost doubling in size as well. And so given that backdrop, how has this evolved? What's the demand? Where are we going here? And do you see active starting to go further than maybe on the index side of things? And then I would also want to hone in on the active space as well. I have a couple of new analysts on my team named Claude and ChatGPT, and it's basically illustrated to me that the amount of active ETFs 10 years ago were probably in a realm of like 2%. Now you fast-forward, it's probably

somewhere a little bit more than 20%. But again, it'd be good to get a bit more insight on what's fueling this respective demand.

Jim Jackson (03:38):
Well, Jarrad, that feels like more than a two-part question. So we'll start with the demand for ETFs. We have seen the demand for fixed income ETFs grow substantially. And I think one of the best indicators of that we've seen is in 2022 when you saw interest rates increase really at the fastest rate we've seen in a long time, you still saw net flows into ETFs on the fixed income side. Whereas on the mutual fund side, you saw outflows from that product. To me, that's a great indicator of just the secular growth that we're seeing in the ETF space. I think there's a few reasons for that. One is the cost is typically lower than for a fund. Second, the ease of executing, meaning that you can trade it at any point through today, you can set limit orders. It just provides a lot more optionality to invest in those.
(04:43):
And then I think it provides for a simple structure of the overall portfolio, where if your stock funds or if you're investing in the equity market through ETFs, doing it on the fixed income side is just a simpler way to do it rather than mixing and matching. The ETF space on the equity side really has been dominated by index-based products. We've seen that on the fixed side, but that is changing. We've seen that change quite a bit over the last several years.

Jarrad Linzie (05:20):
I know we're not here to talk about equities, but since you touched on it a little bit, because fixed income is still predominantly active, more holistically, even though from what we've seen in the market as well, it's still predominantly active despite a large portion of any active strategy is beta-driven. In the equity space, it's primarily passive, but do you see more and more active strategies being produced on the back of it, which is more like [inaudible 00:05:55].

Jim Jackson (05:55):
Short answer is yes, we do. I don't have a view. I don't know the scale of it. Just from noticing products being offered or being launched, you're seeing a lot more active equity products being launched as well as a large amount of active fixed income products being launched.

Jarrad Linzie (06:16):
Flipping to that, because the next question is always going to be around the investor base, the buyer base of these type of funds in itself. And you can always argue that institutional has always played a large role in order to establish the overall ecosystem in itself, but we're starting to see a bit more retail. And do you see as much as that? And I'm just keen to get your thoughts on how important is it that we have more of the retail base looking at this stuff?

Jim Jackson (06:50):
I think it's very important that they are. If you think back on the institutional side, just to give you an example, say an insurer has a large amount of funds come in, an insurer will typically invest those assets on their own. They have a large credit team. They're looking to underwrite the bonds and put the bonds in the strategy that they're going to put them in. Well, the large beta-based ETFs can serve as a holdover for that. So that's been a part of the demand on the institutional space. Now, as we move to the retail space, what we're seeing is obviously demand for passive fixed income products, but we're seeing a large amount of demand for active fixed income products.
(07:35):

So a lot of retail buyers, particularly on the wealth side, that historically had used active fixed income mutual funds, they are comfortable with active funds. That's what they prefer for their clients generally. And when they're allocating now, we're seeing a lot of that money instead of going into funds, going into active fixed income ETFs. So I think the introduction or the increase in active fund offerings in fixed income in the ETF format has really been a response to demand on the retail side.

Jarrad Linzie (08:14):
And I would almost want to double click a little bit on the mutual fund versus ETF business, because you alluded to it a little bit at the beginning where it's more cost-effective to be on the ETF side, but obviously there's going to be some benefits on the mutual fund side. I'm sure you, as well as a lot of your peers in the market, are struggling with the balancing act of both. How do you not cannibalize your mutual fund business that will naturally have higher fees, but at the same time, make sure that you adapt to your client base on the ETF side and adhere to them as well?

Jim Jackson (08:54):
I think that in a lot of cases, there are different buyers. So if you're in a mutual fund space, where you will see a fund and not an ETF is in someone's 401k, for example. That will be a mutual fund where every two weeks money's putting in, the coupon payments off of those funds are being reinvested back into the fund without any sort of action taken. So I think there's always going to be a market for a mutual fund type product. What we're generally not seeing in any meaningful way, at least with just within our client base, are people selling out of mutual funds to buy the ETFs. A lot of what we're seeing in the ETF space is winning new clients that are moving maybe from passive ETFs or moving from other active funds that are moving to an active ETF. We're just not seeing a lot of our existing client base rotate from mutual funds to ETFs. That doesn't mean it's not happening in other parts of the industry. It's simply not something we're seeing a lot of with our client base.

Jarrad Linzie (10:03):
And maybe like you just said, it's new money coming into the space as well, because from some of our discussions with asset owners, we're seeing an increased allocation to index type funds. Now, interesting enough, and index type funds, meaning ETFs as opposed to just your pure SMAs, but index type funds, and then even more of an allocation toward active as well. So they're going in and say, "All right, well, we have this overall allocation toward fixed income in the mutual fund space, but now we want to, especially when we think about new money coming into the ecosystem, we want to allocate more toward X, Y, and Z." So I totally understand and I get your point about maybe there isn't a shift as opposed to new money coming in into the space as well.

Jim Jackson (10:50):
Well, and actually what we've seen since rates moved up in 2022 is we've seen the resumption across the industry of positive net flows in fixed income to both mutual funds and ETFs. So just because one is gaining share relative to one other doesn't mean that they both can't grow and experience positive net flow.

Jarrad Linzie (11:16):
That's the beauty of fixed income, it's big enough, in order to substantiate all of that respective growth. I want to go back a little bit because we started off talking about the overall ETF market. We talk about index a little bit, but obviously the growth of active is really paramount here. You can argue that when we think about just the flows in general, 40% of the new ETF flows are geared toward active as

opposed to index strategies, which is very much eyeopening and interesting at the same time, because then it really means that you can do things outside of just your norm.
(11:57):
But when we think about active, how do you define active and how would you manage a fixed income allocation actively? You can go and have some examples on the rate side or on the credit side, but it'd be good to get a better understanding on your true definition of an active ETF strategy. Because at the moment, I think people are still trying to figure that out. What is active? Is it systematic where it still is rules-based or is it a beta-enhanced product? Is that active? Or is it someone really looking at it more holistically and being able to be a good stock picker and manage certain risk?

Jim Jackson (12:40):
Well, I think it could be all three of the examples that you laid out. I could just tell you how we think about it. So I'd say for us, there are probably four components of how we view active. I'd say the first is that an active strategy's intent is to outperform a benchmark. So if we're managing a Core or Core Plus bond strategy, they're typically looking to outperform the Agg or some other type of product similar to that.
(13:14):
Second, I think an active strategy in fixed income will allocate across various asset types, so whether it's corporates, treasuries, agency, MBS, those types of asset classes, based on how they are trading and pricing risk relative to one another. Whereas a passive strategy will allocate typically across those asset classes based on who has issued the most debt within the rules of the index.
(13:44):
The third way that we think defines active management is it will select securities and size them based on our underlying credit research. So we have a credit research team that researches every bond that we buy. Our purchase and sell choices are based on that research, but also how we size those holdings as well. In a passive type product, how much of any particular issuer that's held in the index depends on how much has been issued within the rules of the index. And the fourth way is that our active approach will really look to allocate across different credit ratings in a way that's based on both compensation for credit risk and what our fundamental underwriting leads us to choose as far as whether we're holding more single A rated bonds versus AA rated bonds. So that's how we're looking at it.
(14:45):
I would say that the way that others in the industry will look at it that we don't use on our team is they'll look to make a bet along the curve. So they'll have a view of whether rates go up or rates go down. They will look to at non-dollar debt, other sovereign debt besides US. So different ways that we think are either not reliable ways or ways that we don't have confidence that the risk can be fully underwritten to add an active component in those areas.

Jarrad Linzie (15:22):
And I guess, especially from the credit side, it's one thing to be a good stock picker, use a lot of the fundamental data and make sure you have a bit of insight and transparency, as well as liquidity. But one of the bigger components of any fixed income portfolio is interest rate risk. It'd be great to hone in on your thoughts on interest rate risk just a bit.

Jim Jackson (15:49):
Sure. We have pretty firm views on this on our team. We believe that there are precisely zero members in the interest rate risk forecasting Hall of Fame. No one is there. And we have the benefit that the data backs that up. So all of our strategies look to deliver to our clients an interest rate risk consistent with our interest rate risk target. Most of the time that is holding the level of interest rate risk very

close to the benchmark, simply because we think that's not a reliable way for us to use active management to generate returns in excess of a passive benchmark.

Jarrad Linzie (16:35):
Yeah, that's fair. And I do think that there's going to be a level of scrutiny on just your traditional benchmarks as it stands today. I've been in the industry of creating benchmarks for nearly three decades, and obviously the benchmarks that are in existence today are legacy. And some of those criteria are only looking at, well, all of them are typically looking at debt issuance effectively, but there's other mechanics that we could also embed to have a smarter type of benchmark in itself. So look for us at MSCI to create a index 2.0 when we think about overall fixed income. But the idea is to make things continuously transparent, liquid, to strengthen the ecosystem. Because some of the pain points, when you think about some of these broader benchmarks is that, well, it's not really executable. You have 30,000 bonds in an index, could you really execute on all of them? How much basis risk am I taking because my fund starting is only a hundred million dollars and I need to replicate exactly X, Y, and Z? So look for that.
(17:44):
And as we look for enhancements to the asset class, especially when we think about ETFs, what do you think are some interesting things that you're starting to see in terms of new product development? Because traditionally it's always been around, all right, well, US treasuries, we're going to do global govies or we're going to do investment grade credit, high yield credit. But now you're starting to see really more interesting things where it's more systematic strategies that are being launched or it's more like a sector rotation type of strategies. I think there's a bit more innovation, and maybe it's taking cues from the equity space at the same time and maybe even starting to think about, well, a combination of equities and fixed income from an issuer perspective. Like for example, have Apple on the equity side and Apple on all their fixed income debt and combine that.
(18:39):
But I'm keen to get your thoughts on where do you think that's going to go? And then as a second part, and this is more of a curveball type of question, Jim: the whole idea of tokenization, it's something that everyone is really honing in on and trying to at least form up a task force, but keen to get your thoughts overall.

Jim Jackson (19:03):
So it's an excellent curveball question, Jarrad. So I'll save that till the end. I'd say as far as product innovation that we've seen or that we're starting to see, the systematic approach on the fixed income side, that's been discussed for at least a decade. And I think that the challenge has been... And we haven't seen anything that's particularly attractive to us. And I think the biggest challenge in fixed income relative to stocks is that you have to be able to execute on those trades. Sometimes you might not be able to find the bonds, sometimes you might not be able to find them on parts of the curve where you want to be, or the cost to implement might be higher. And I think a big part of that is simply that the return drivers in fixed income are different than in stocks. In stocks, you're typically relying on just a handful of names to drive the total return of any sort of index.
(20:08):
In fixed income, it's much more driven by the incremental, over time anyway, the incremental yield that you can generate. So if you look over really long periods of time, the drivers of fixed income are pretty clear as long as you don't make an interest rate bet. So if your duration of your portfolio is five, and you're keeping it a five, as you extend the time period, really the primary driver of returns over time is the income that you generate. And then the dispersion of returns across different types of bonds is much lower. So the value of the systematic approach, looking to identify mispriced securities is much

less an, I'm not convinced that it overwhelms the cost to implement. As far as other things that we're seeing as far as product launches, or at least product discussions, and I think this is really driven by the client base, is how do you introduce private credit products within an ETF?
(21:15):
Now, there's certain rules within an ETF that limit the exposure that you can have for those. I say that has been a difficult challenge and the market is still figuring out how they can combine those two types of asset classes into one product. Also, I think some of the challenges that we're seeing in private credit now might actually reduce the demand to create that type of product as well. The last thing that I think actually has some benefit for clients is fixed income asset managers creating model portfolios out of their underlying ETFs. So fixed income is really objective driven. What do you want to accomplish with your fixed income holdings? Do you want to generate income? Do you want to keep credit and interest rate risk low, preserve the capital that you have? So given those goals, how you construct a fixed income portfolio can differ quite a bit.
(22:16):
So we think there's space in the market for the creation of model portfolios to achieve client goals. And also we see, too, is that from a client base, there's a lot of misunderstandings and uncertainty regarding how I should build a fixed income portfolio either for yourself or for your client. So I think that creating portfolios that help a client achieve certain portfolio goals probably goes a long way to what really we all should be striving to do is to provide the right solution to the right client at the right time.

Jarrad Linzie (22:53):
Yeah, no, I totally agree with that, Jim. And interesting enough, we've been having a lot of discussions around wealth and retirees. And typically when they come to fixed income, they're like, "Oh, well, we want income. Let's just go to high yield and call it a day." But in reality, if you're a retiree, do you really want to have default risk within your income portfolio? So we've designed some strategies that really hone in on your triple Bs and double Bs as an example, and then being able to tilt the income portion of that so that you maximize it, but you really limit the amount of default risk, which doesn't make sense for individuals that are retiring and looking to actually use that as income.

Jim Jackson (23:39):
Sure. When you look at starting yield compared to the annualized return over time, the dispersion of those returns in high yield is much higher than you see on the IG side where it's a very, very tight fit between starting yield and annualized return over time.

Jarrad Linzie (23:59):
Well, Jim, thank you for the discussion. It's been very engaging. We should definitely have a follow-up on the private credit space, because I do think that there is an evolution, and we are even working on, at MSCI, of how to create more transparency with private credit. Because it comes up, I would say more than a few times a week for me that's dedicated in the public space. Whether you speak to consultants, asset owners, my contractor effectively is like, "Oh, well, I want private credit." Because all they think about is the added juice in regards to it. Now, obviously there's liquidity concerns etc when we think about private credit, but it is appealing to a lot of asset managers as well as the retail space. So we should double click on that.

Jim Jackson (24:51):
I would be happy to do that. I think there's a trade-off between public and private credit that the last 10 years may have indicated that that trade-off did not exist, but I'm a firm believer in that you need to get

paid for credit risk and you need to get paid for illiquidity. And I think we're finding some of that out, at least in the last few months.

Jarrad Linzie (25:15):
Oh, yeah. Oh, yeah. Excellent. Well, thanks again and looking forward to the ongoing engagement.

Jim Jackson (25:22):
Great. Thanks, Jarrad.

Adam Bass (25:24):
That's all for this episode. Our thanks to Jim and Jarrad for their insights, and of course, to Jarrad for returning my microphone in excellent condition. For more about fixed income indexes and the role they can play for those developing ETFs and other investments, visit msci.com. We also invite you to subscribe, like, or leave a comment on whichever podcast platform you're listening on. It's always great to hear from you. Until next time, I'm your host, Adam Bass, and this is MSEI Perspectives. Thanks for listening.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit **www.msci.com**.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the “Information”) is the property of MSCI Inc. or its subsidiaries (collectively, “MSCI”), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the “Information Providers”) and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or redisseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. The calculation of indexes and index returns may deviate from the stated methodology. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, provided that applicable products or services from MSCI ESG Research may constitute investment advice. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. MSCI ESG and climate ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc. MSCI ESG Indexes, Analytics and Real Estate are products of MSCI Inc. that utilize information from MSCI ESG Research LLC. MSCI Indexes are administered by MSCI Limited (UK).

Please note that the issuers mentioned in MSCI ESG Research materials sometimes have commercial relationships with MSCI ESG Research and/or MSCI Inc. (collectively, "MSCI") and that these relationships create potential conflicts of interest. In some cases, the issuers or their affiliates purchase research or other products or services from one or more MSCI affiliates. In other cases, MSCI ESG Research rates financial products such as mutual funds or ETFs that are managed by MSCI's clients or their affiliates, or are based on MSCI Inc. Indexes. In addition, constituents in MSCI Inc. equity indexes include companies that subscribe to MSCI products or services. In some cases, MSCI clients pay fees based in whole or part on the assets they manage. MSCI ESG Research has taken a number of steps to mitigate potential conflicts of interest and safeguard the integrity and independence of its research and ratings. More information about these conflict mitigation measures is available in our Form ADV, available at https://adviserinfo.sec.gov/firm/summary/169222.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P Global Market Intelligence. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and S&P Global Market Intelligence.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data.

Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at https://www.msci.com/privacy-pledge.