Shape of the Markets

A Better Shape for Bonds | October 2026

PT Asset Management

All data as of 30/09/2026
This report was written by, and is the opinion of,
PT Asset Management.

This year, we have discussed at length how higher yields (or higher income) are just one driver of total return, yet one that makes bonds both more attractive and more defensive. As the math guys and gals, we have drawn numerous examples in attempts to illustrate how much more attractive bonds are today because of these higher yields.

Let's use a commonly held asset in the Fixed Income world, the 10-year US Treasury to illustrate this point. We will be visualizing the go-forward three-year returns.

As of 29/09/2021, the 10-Year US Treasury had the following go-forward return profile:

Three-year Horizon Total Return Analysis (Illustrative Performance)

Date	-300	-150	Unchanged	+150	+300
29/09/2021	4.77%	4.77%	1.97%	-1.16%	-4.20%

The potential return for the Treasury in the rates-down 300 basis points scenario was capped, as we assumed interest rates would not fall below zero, and Treasury rates were less than 3% at the time.

This Shape from 2021 was, of course, before the dramatic rate rise of 2022.

2022 was the "100-year flood" in fixed income: the worst year for bonds in history, and a difficult one to stomach for fixed income investors. Many investors had just ridden a 40-year bull market in bonds, only to see it reverse in about 5 years' time.

However, it is worth the reminder: higher rates come to the detriment of historical returns, but benefit current and future total return potential. Fixed income investors felt the unanticipated pain of 2022's bond market drawdown, but today's higher rates, five years later, offer one of the best investing environments since 2010.

We can see this by comparing the Treasury Shape in 2021 (above) with its Shape in 2026 (below):

Three-year Horizon Total Return Analysis (Illustrative Performance)

Date	-300	-150	Unchanged	+150	+300
30/09/2026	10.70%	8.01%	5.44%	2.97%	0.61%

Sources: PTAM, Bloomberg as of 30/09/2026.

Assumptions: (1) a parallel shift in the yield curve (2) static allocation for 3 years (3) linear rate changes (4) sector specific spreads are held constant across five rate scenarios (5) reinvestment rate consistent with respective sector.

The opportunity set today is *hundreds of basis points improved,* no matter what happens in interest rates!

We know that investors often chase past performance rather than weigh forward-looking potential. Volatility may also cause investors to pause, rather than act. We cannot know whether rates will move up, down, or sideways from here. Nevertheless, with benchmark Treasury rates at multidecade highs, we believe today's entry point is among the best since 2010 and look forward to flows in fixed income reflecting as such, and hopefully, before it's too late.

Sean Dranfield, CEO

Sean is the CEO of PTAM, and responsible for the leadership of PTAM and its growing global mutual fund, active ETF and institutional businesses. He works closely with portfolio managers and clients to align investment goals with evolving market conditions.

Prior to joining PTAM, Sean spent over 16 years at Henderson Global Funds, where he led the development of one of the largest U.S. fund businesses from the ground up. Before Henderson, he worked in business strategy at Booz Allen.

Sean is a frequent voice in financial media, offering insights on networks such as Bloomberg, Schwab, NASDAQ, and CBOE. He holds a Bachelor of Commerce in Finance from Concordia University (Montreal) and is Series 6, 26, and 65 registered.

Glossary

Yield Curve refers to the U.S. Treasury yield curve rates.

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