GLOBAL X INSIGHTS

Income Outlook: Market Volatility Sparks Dislocations and Income Opportunities

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Market volatility has dominated the investment landscape in 2025, with both equity and bond markets experiencing significant turbulence. The second quarter proved particularly challenging as the VIX and MOVE indices—gauges of equity and bond volatility, respectively—surged following the Trump administration's tariff announcements. Ongoing uncertainty around U.S. economic indicators, Federal Reserve (Fed) monetary policy, and geopolitical developments has sustained this heightened angst across asset classes.

While such market conditions create considerable uncertainty, they can also generate meaningful dislocations, presenting compelling investment opportunities. In volatile environments, fundamental value often becomes disconnected from market pricing, creating entry points for discerning investors. We examine several of these emerging opportunities and their potential implications for portfolio positioning below, including short-term Treasuries, investment grade corporate bonds, and preferred securities.

Key Takeaways

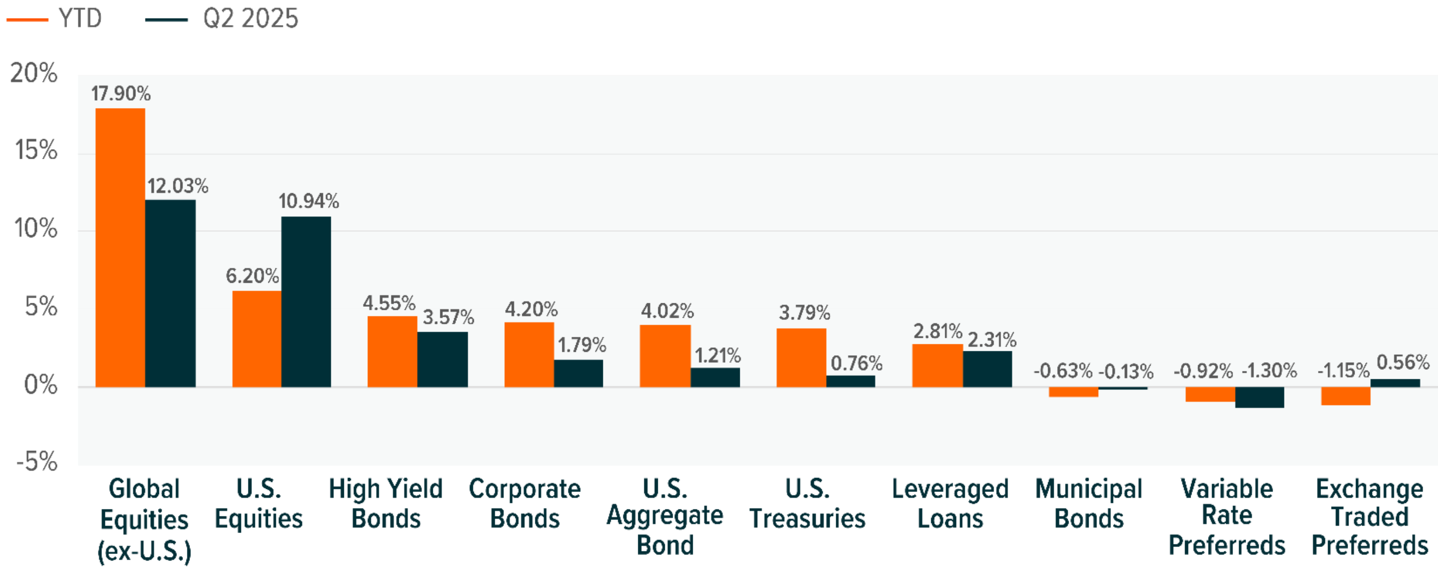
- Short-term U.S. Treasuries can provide a compelling low-risk, potential high-yielding opportunity in today's environment should we continue to see interest rate volatility and an inverted yield curve. U.S. T-Bills can offer stable income generation while positioning investors to benefit from current rate dynamics with lower risk.
- Investment grade corporate bonds offer a balanced risk-return profile that may be particularly suited for portfolios targeting moderate risk exposure. As trade-related uncertainties may disproportionately impact speculative grade issuers, higher-quality corporate issuers can offer relative stability while relative risk premiums are compressed.
- Preferred securities distinguish themselves as potentially tax-advantaged income-producing investments, and with many preferred issues now trading at substantial discounts to par value this might represent a compelling entry point.

High Yield Has Led Through June, but U.S. Treasuries Proved Their Value

High yield bonds have represented the best performing fixed income asset class in 2025 due in part to their higher income levels. However, over the first four months of the year, U.S. Treasuries reigned supreme as investors sought out safety against a volatile backdrop. Indeed, U.S. tariff implications led anxious investors to more vehemently consider fixed income opportunities with defensive characteristics, and they acted as a “safe haven” in March and April, specifically, when credit spreads—the difference in yield between a corporate and government security—significantly widened.

RISK ASSETS EXHIBITED RESILIENCE YEAR TO DATE

Broad Asset Class Total Returns



Past performance is not a guarantee of future results.

Source: Bloomberg LP, as of June 30, 2025. Asset classes represented as follows: Global Equities (ex-US), MSCI ACWI ex USA Net Total Return USD Index; U.S. Treasuries, ICE BofA US Treasury Index; U.S. Aggregate Bond, Bloomberg US Aggregate Index Total Return Value Unhedged USD; Corporate Bonds, ICE BofA US Corporate Index; High Yield Bonds, ICE BofA US High Yield Index; Leveraged Loans, Morningstar LSTA US Leveraged Loan Index TR USD; Variable Rate Preferreds, ICE U.S. Variable Rate Preferred Securities Index; Municipal Bonds, ICE BofA US Municipal Securities Index; Exchange Traded Preferreds, ICE BofA Diversified Core U.S. Preferred Securities Index; U.S. Equities, S&P 500 Total Return Index.

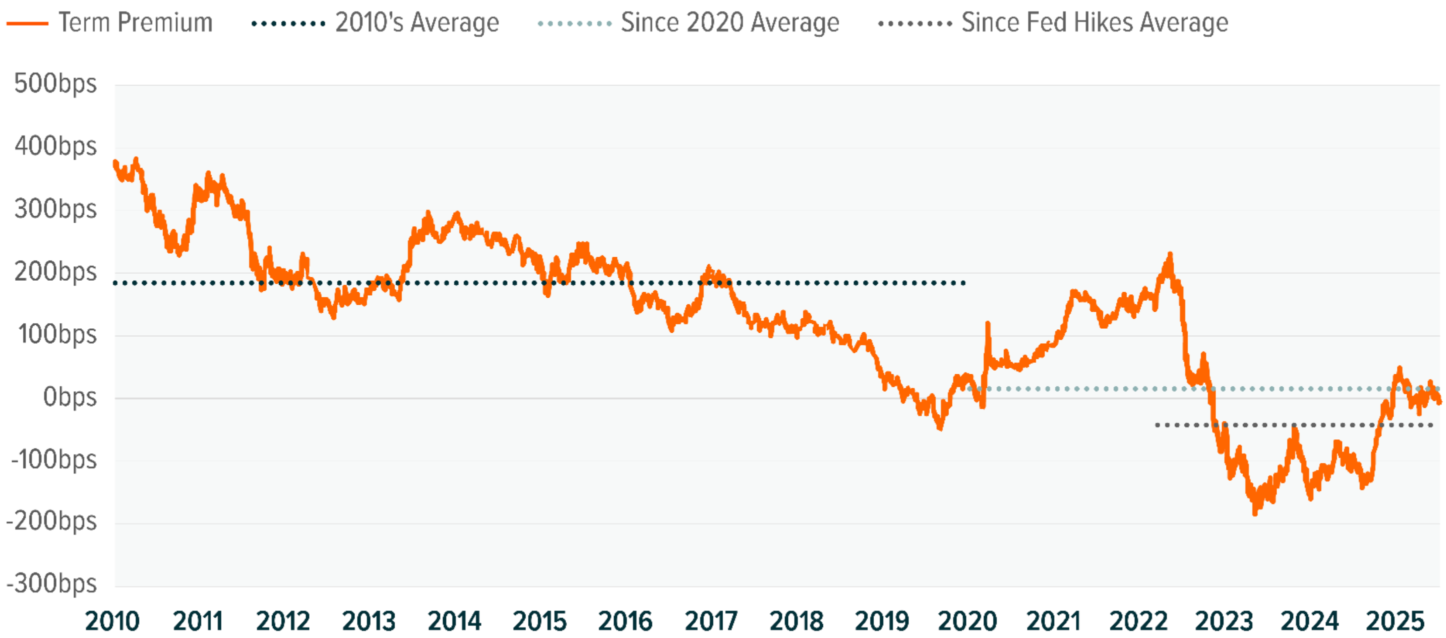
Markets have remained on edge due to uncertainty about tariffs, with trade tensions between the U.S. and China, in particular, inciting wide price fluctuations. Until a recent trade agreement was reached between the two nations, retaliatory measures caused daily whipsaws in the rates market, mirroring volatility in equity markets and undermining much of the potential diversification benefit that fixed income traditionally provides.

Against this backdrop, and with the Fed maintaining its current stance, investors have increasingly turned to ultrashort bond funds that offer minimal duration risk. Year to date through May 31st, Ultrashort Bond and Short-Term Bond funds have collectively accounted for nearly 30% of net flows among the top 10 Open-End and Exchange-Traded Fund categories tracked by Morningstar.[1] With yields at historically elevated levels, these strategies allow investors the potential to capture attractive income while maintaining the flexibility to adapt as trade dynamics continue to evolve.

This preference for ultrashort strategies is supported by current yield curve dynamics. Investors are capitalizing on the negative term premium reflected by the current inversion of the yield curve across certain maturities. As of 6/30/2025, the term premium between the 3-month T-bill and 10-year Treasury bond stood at -6 basis points (bps).[2] For perspective, the average term premium from 2010–2019 was 183 bps.[3] A positive term premium typically compensates investors for extending duration, generally coinciding with pro-growth environments. This negative term premium implies that this compensation is not being provided. From the start of 2020 through June 30, 2025, the average term premium was just 15 bps. Since the Fed began its most recent hiking cycle in March 2022, the average term premium has sat at about -44 bps. With short-term rates near 0% for much of the 2010–2019 period, investors had little incentive to hold cash. However, with the term premium between the 3-month and 10-year tenors inverted, holding short-term T-bills now represents a potentially more attractive way to pursue income with lower risk.

NEGATIVE TERM PREMIUM MAY SHOW FAVORABLE ENVIRONMENT FOR CASH

U.S. Treasury 3-Month and 10-Year Term Premium



Past performance is not a guarantee of future results.
Source: Bloomberg LP, with daily data from January 4, 2010 to June 30, 2025. 3-Month and 10-Year Term Premium represented by the difference in yield to maturity between the 3-month T-bill and 10-year Treasury bond. Since Fed Hikes represents the period: 3/16/2022–6/30/2025.

At an expense ratio of 0.07%, the Global X 1-3 Month T-Bill ETF (CLIP) provides exposure to 1-3 Month T-Bills. We believe a high-quality short-term investment vehicle like CLIP can help to mitigate risk in today's environment while potentially receiving elevated income relative to historical short-term rates.

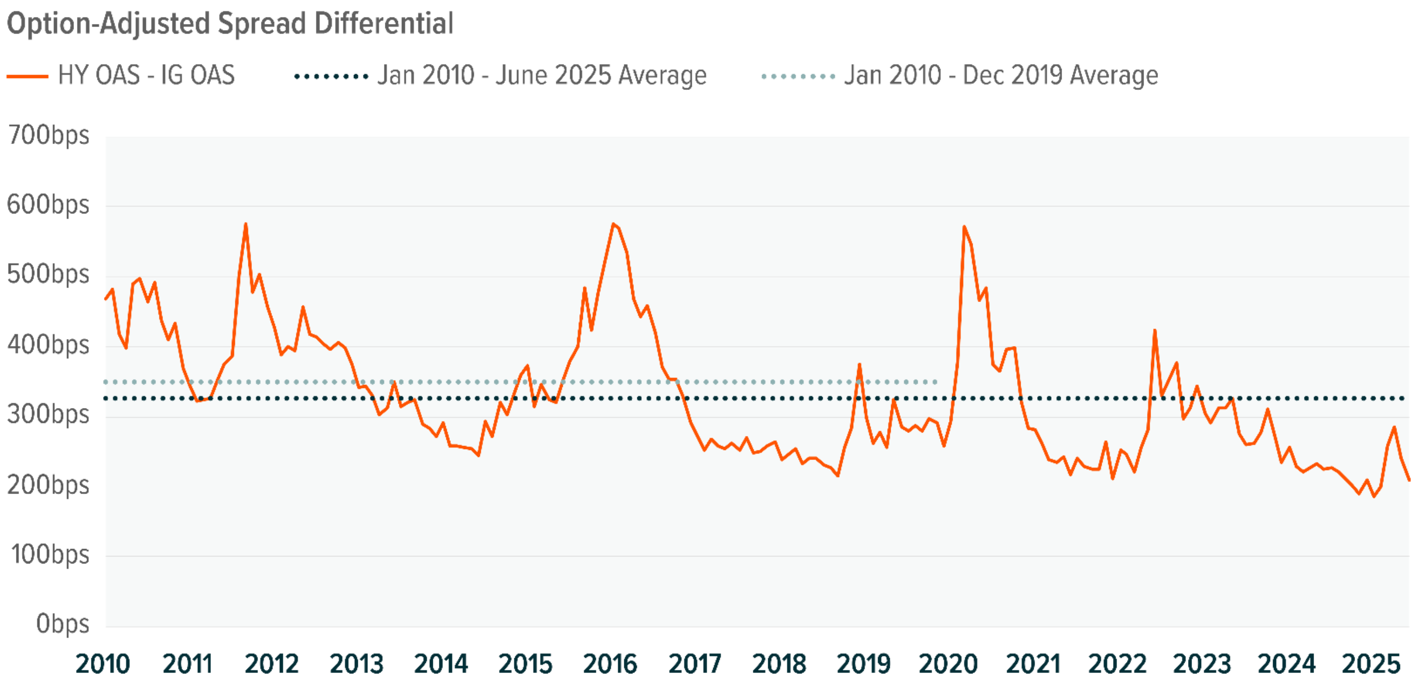
Relative Valuations May Prove Supportive of Investment Grade Corporate Bonds

For investors allocating within credit, investment grade corporate bonds may represent an optimal risk-adjusted opportunity in the current environment. Yields are elevated across the credit spectrum, which might leave investors less inclined to take on incremental credit risk for not much more of a reward.

Spread measures between investment-grade (IG) and high-yield (HY) bonds help rationalize some of this relative value discussion, as they remain narrow relative to historic norms. Since recent highs in 2022—when investors sold riskier assets ahead of the Fed's hiking cycle—credit spreads over U.S. Treasuries have compressed by 247 bps for IG and 291 bps for HY. Though, the current spread of high yield over investment grade of 210 bps sits roughly 139 bps below the 2010-2019 average, suggesting investors aren't getting paid quite as much to take on high-yield credit risk as they had been formerly.

Beyond the argument surrounding spreads, the market volatility that is created by tariff-related uncertainties is another factor worth consideration. Cyclical sectors, in particular, that more typically issue speculative-grade debt, have the potential to experience wide price oscillations as a product of rising import tariff implications. Consumer discretionary companies—the largest sector underweight in IG relative to HY—exemplify this dynamic.[4] And despite underlying fundamentals denoted by consumer confidence and employment remaining favorable, conservative investors may not be inclined to take on this volatility risk.

DIMINISHED VALUE IN LOWER-RATED MARKETS

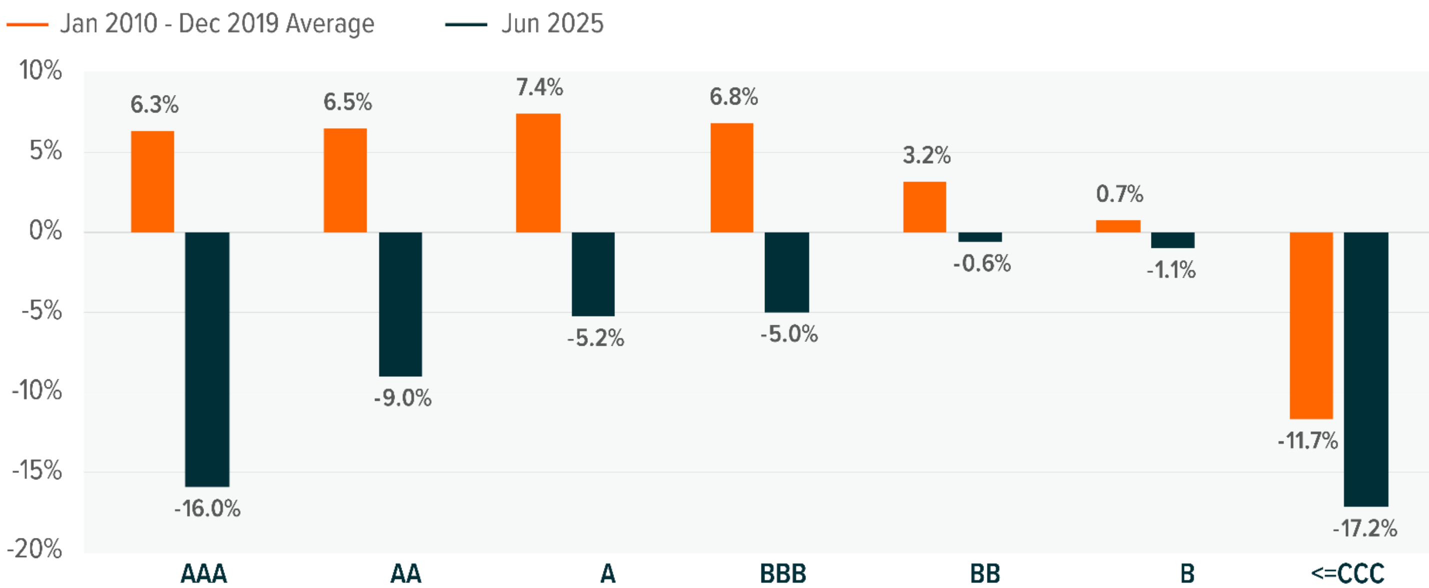


Source: Bloomberg LP, with month-end data from January 31, 2010 to June 30, 2025. OAS differential represents the difference between the option-adjusted spread to government securities between high yield (HY) and investment grade (IG) bonds. High yield represented by the ICE BofA US High Yield Index; Investment grade represented by the ICE BofA US Corporate Index.

Within the context of investment grade corporate bonds, issues seem to be trading at relatively attractive discounts to par. Currently, ranging from 5% to 16%, they would appear significantly undervalued relative to the premiums that were quoted from 2010-2019.[5] Moreover, the spread versus the 2010's ten-year average is wider than that for high yield. To that end, investors today may not need to sacrifice quality for a worthwhile income incentive.

RELATIVELY CHEAP INVESTMENT-GRADE MARKETS MAY PROVIDE VALUE OPPORTUNITY

Premium / Discount to Par by Rating



Source: Bloomberg LP, with month-end data from January 31, 2010 to June 30, 2025. Asset classes represented as follows: AAA, ICE BofA AAA US Corporate Index; AA, ICE BofA AA US Corporate Index; A, ICE BofA Single-A US Corporate Index; BBB, ICE BofA BBB US Corporate Index; BB, ICE BofA BB US High Yield Index; B, ICE BofA Single-B US High Yield Index; <=CCC, ICE BofA CCC & Lower US High Yield Index.

The recently launched Global Investment Grade Corporate Bond ETF (GXIG) may be an attractive way for investors to access the U.S. investment grade bond market. GXIG employs an actively managed strategy at an expense ratio of 0.14%, representing the lowest cost active U.S. investment grade bond ETF in the market.[5] Global X's portfolio management team applies a top-down analysis approach to the investment grade corporate bond market, assisted by a quantitative factor and deep neural network models to screen and evaluate potential opportunities.

Preferred Securities May Offer Tax Advantages and Currently Trade at Significant Discounts to Par

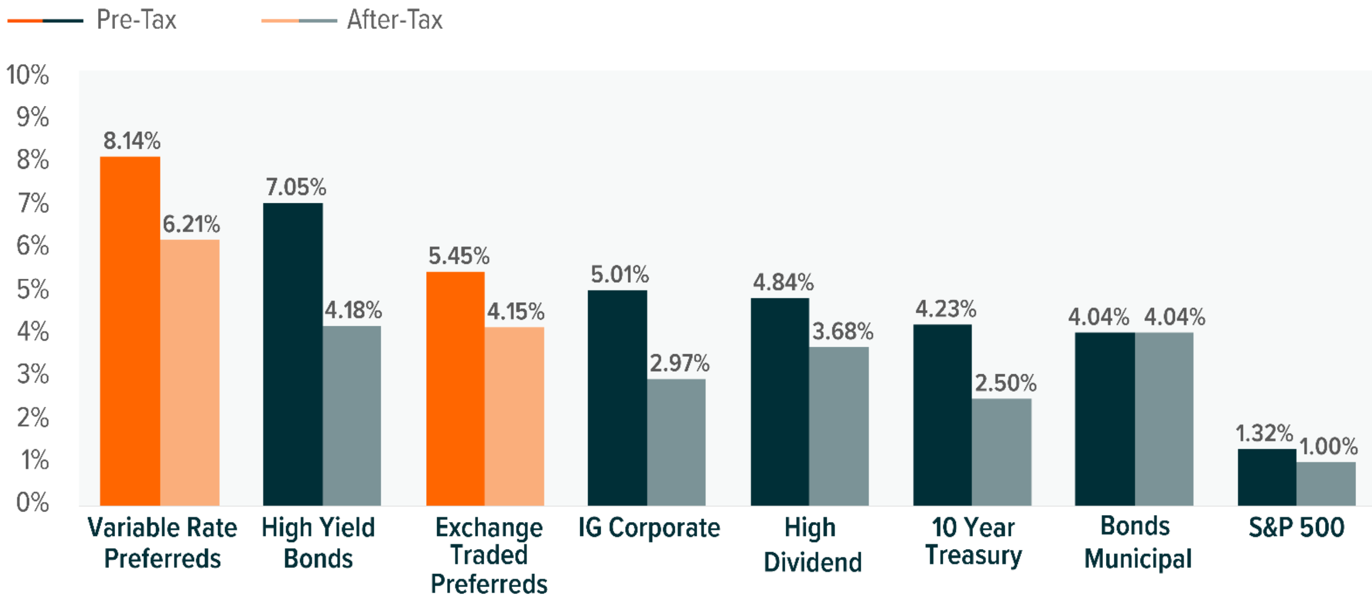
The same market dislocations that have resulted in investment grade corporate bonds trading at significant discounts to par make the case for preferred securities, as well. Characterized as hybrid instruments, preferreds take on features of both equity and debt, but they sit lower on companies' capital structures relative to other forms of debt. Many fixed rate preferreds have been trading at these levels for some time, after the Fed's rate hiking cycle of 2022 led prices to decline. However, they now bear much more generous yields to go along with these significant discounts to par, which may make them a suitable allocation for an income- and growth-oriented portfolio.

The ICE BofA Diversified Core U.S. Preferred Securities index recently showed a 5.5% pre-tax yield to worst, for example.[6] And if we evaluate the implications associated with this yield further, we can glean that these instruments stand out from the perspective of taxation, as well, Preferreds securities often pay distributions in the form of qualified dividend income (QDI), which is taxed at more favorable long-term capital gains rates compared to bonds. Dividends from preferreds are taxed at 0%, 15%, or 20% rates, depending on an investor's income tax bracket. Bond interest, on the other hand, is treated as ordinary income and taxed at an investor's marginal income tax rate, which can be as high as 37%.

The chart below shows pre- and after-tax yields for asset classes as of June 30, 2025. Relative to other areas of the market, variable rate and exchange-traded preferreds currently offer some of the highest pre- and post-tax yields available.

PREFERREDS CAN OFFER SOME OF THE HIGHEST AFTER-TAX YIELDS

Pre- and After-Tax Yields



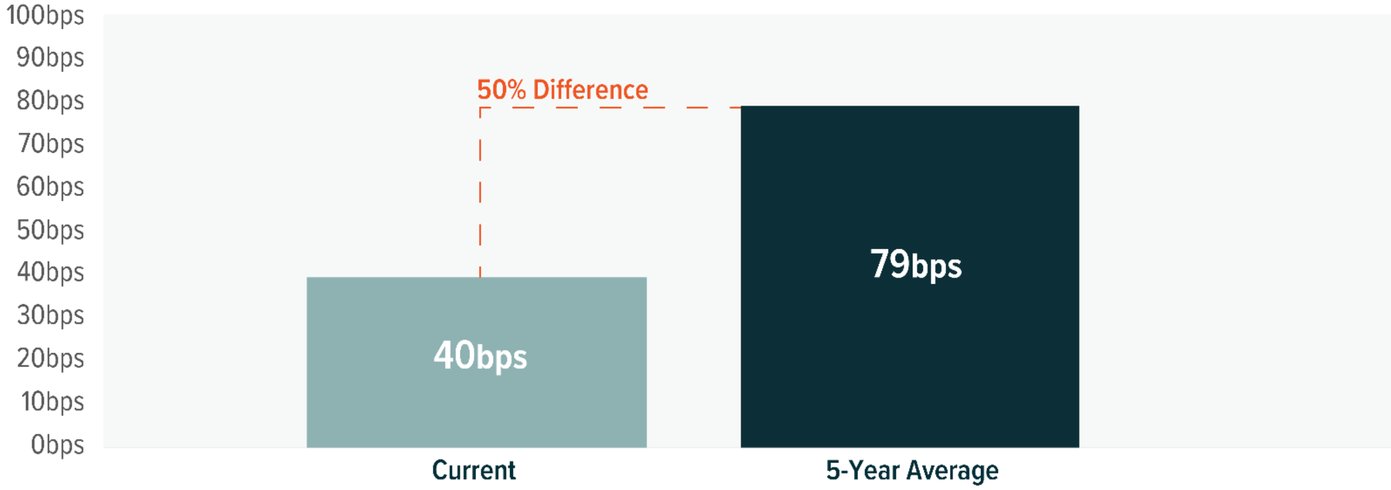
Source: Bloomberg LP, as of June 30, 2025. After-tax calculations apply 37% federal income tax and 3.8% Medicare surtax rates for High Yield Bonds, IG Corporate, and 10-Year Treasury. Long-term capital gains tax of 20% and 3.8% Medicare surtax rates are applied to Preferreds, High Dividend, and S&P 500, which assume QDI-eligibility. Municipal bonds are not subject to federal income tax or Medicare surtax but may be subject to state and local taxes depending on the origin of the bond and purchaser. The tax treatment of dividends and bond interest is subject to change based on federal tax regulations. Asset class representations are as follows: Variable Rate Preferreds, ICE U.S. Variable Rate Preferred Securities Index; High Yield Bonds, ICE BofA US High Yield Index; Exchange Traded Preferreds, ICE BofA Diversified Core U.S. Preferred Securities Index; Municipal Bonds, ICE BofA US Municipal Securities Index; High Dividend, S&P 500 High Dividend Index; IG Corporate, ICE BofA US Corporate Index; 10-Year Treasury, ICE BofA Current 10-Year US Treasury Index. Preferreds, High Yield Bonds, IG Corporate, Municipal Bonds, and 10-Year Treasury all measured by index yield-to-worst. High Dividend and S&P 500 measured by index dividend yield. Actual after-tax impact may vary as QDI-eligibility varies by security and holding period. Past performance is not a guarantee of future results.

Although preferreds are typically issued by investment grade companies, their lower placement in the capital structure, among other factors, is what typically enables them to yield more than their senior debt counterparts, irrespective of having the same underlying issuer fundamentals. In contrast to similarly yielding sectors, high yield bonds carry greater credit risk at the issuer and security level because the companies themselves are speculative grade and more susceptible to the business cycle.

Because prices move inversely to yields, today's elevated yield levels are paired with many fixed income securities trading at steep discounts to par. For preferreds, this presents a potential opportunity as their discount to par stands at approximately 12% versus a 5% average over the last five years.[7]

RELATIVE VALUE CAN BE ACHIEVED BY NAVIGATING THE CAPITAL STRUCTURE

High Yield (BB) Yield to Worst Less Preferreds



Source: Bloomberg LP, with month-end data from July 31, 2020 to June 30, 2025. High yield (BB) represented by the ICE BofA BB US High Yield Index; Preferreds represented by the ICE BofA Diversified Core U.S. Preferred Securities Index.

Furthermore, and akin to our former argument centered around whether or not the credit risk on high yield is worth taking right now, the yield premium of high yield over preferreds is also tighter these days than we have historically seen. In fact, over the past five years, high yield instruments have offered an average yield to worst advantage of about 79 bps over preferreds.[8] Today, however, that spread is closer to 40 bps, a near 50% discount relative to history, indicating less value in high yield, especially when considering the additional credit risk.[9]

The Global X U.S. Preferred ETF (PFFD) can provide investors with benchmark-like exposure to the U.S. preferreds asset class. PFFD's expense ratio of 0.23% is also less than half the competitor average.[10]

Conclusion: Volatility Has Accentuated the Potential Value of Bonds and Preferreds

Volatility can be difficult to digest, but we believe that investors have income options available to help them in this uncertain time. Short-term Treasuries—with their minimal duration and credit risk—offer a potentially stable and attractive current income source given current yield curve dynamics. For investors allocating within credit, investment grade corporates can benefit from relative value opportunities within the credit curve. Finally, preferreds combine elevated potential tax-advantaged income, discounted prices, and relative value opportunities. Taken together, these three assets can offer varying blends of quality, income, and relative risk exposure that may prove attractive should volatility remain intact over the balance of 2025.

Related ETFs

CLIP – Global X 1-3 Month T-Bill ETF

GXIG – Global X Investment Grade Corporate Bond ETF

PFFD – Global X U.S. Preferred ETF

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

Footnotes

1. Morningstar Direct. (n.d.). Asset Flows Function. Data based on Morningstar's U.S. Open-End and Exchange-Traded Fund categories. Monthly data from January 2025 through May 2025 and accessed on July 10, 2025.
2. Bloomberg L.P. (n.d.). U.S. 10-year Treasury bond yield to maturity minus 3-month T-bill yield to maturity. Data as of June 30, 2025.
3. Bloomberg L.P. (n.d.). U.S. 10-year Treasury bond yield to maturity minus 3-month T-bill yield to maturity. Data from January 4, 2010 through December 31, 2019.
4. Bloomberg L.P. (n.d.). PORT function. iShares iBoxx $ Investment Grade Corporate Bond ETF vs. iShares iBoxx $ High Yield Corporate Bond ETF. BICS Level 1 Sector Classifications. Data as of June 30, 2025.

5. Morningstar Direct. (n.d.). Comparing GXIG's expense ratio to the net expense ratio of all ETFs in the Morningstar U.S. Fund Corporate Bond category indicated as "No" for "Index Fund". Data as of June 30, 2025 and accessed on July 24, 2025.
6. Bloomberg L.P. (n.d.). ICE BofA Diversified Core U.S. Preferred Securities Index yield to worst. Data as of June 30, 2025.
7. Bloomberg L.P. (n.d.). ICE BofA Diversified Core U.S. Preferred Securities Index par weighted price. Data from July 31, 2020 through June 30, 2025.
8. Bloomberg L.P. (n.d.). ICE BofA BB US High Yield Index yield to worst minus ICE BofA Diversified Core U.S. Preferred Securities Index yield to worst. Data from July 31, 2020 to June 30, 2025.
9. Ibid.
10. ETF.com. PFFD's expense ratio was 53.0% lower than the competitor average net expense ratio as of 7/1/25, per ETF.com (category: "Fixed Income: U.S. Corporate, Preferred").

Glossary

Cboe Volatility Index® (VIX® Index): Reflects a market estimate of future volatility of the U.S. stock market, based on the weighted average of implied volatilities of the S&P 500**.**
MOVE Index: The MOVE measures U.S. bond market yield volatility by tracking a basket of over the counter options on U.S. interest rate swaps. The basket is comprised of at-the-money one month options on the 2-year, 5-year, 10-year and 30-year constant maturity interest rate swaps.
Duration: Metric of interest rate sensitivity which measures the weighted average number of years it takes to receive all expected cashflows on a fixed-income security.
Duration Risk: The risk of price changes on a bond due to shifts in interest rates.
Option-adjusted spread: The number of basis points that the government curve is shifted in order to match the present value of discounted cash flows to the bond's price. For securities with embedded options, such as call, sink or put features, a log normal short interest rate model is used to evaluate the present value of the securities potential cash flows. In this case, the OAS is equal to the number of basis points that the short interest rate tree must be shifted in order to match discounted cash flows to the bond's price.
Yield to Worst: The yield to the redemption date that produces the lowest result for bonds with embedded options.
Tenor: The time remaining until maturity.
Credit Rating: A forward-looking assessment that evaluates the risk of default and potential financial loss on obligations issued by various entities. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).
Term Premium: The difference in yield to maturity between two points on the yield curve, which in normal market conditions should be positive indicating higher return potential in longer vs. short-dated securities.
Basis Point (bps): One-hundredth of one percent (0.01%); a common unit of percentage measure.
Consumer Discretionary: This sector includes companies that design, manufacture, distribute, or retail consumer discretionary products and services.
ICE BofA Diversified Core U.S. Preferred Securities Index: Tracks the performance of exchange-listed U.S. dollar denominated preferred stock and convertible preferred stock publicly issued by corporations in the U.S. domestic market.
Subordination Premium: The additional yield provided by a lower seniority security in a company's capital structure relative to higher seniority securities.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information is not intended to be individual or personalized investment advice and should not be used for trading purposes. Please consult a financial advisor for more information regarding your situation.

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Investing involves risk, including possible loss of principal. Diversification does not ensure a profit or guarantee against a loss. Fixed income securities are subject to loss of principal during periods of rising interest rates. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. CLIP is not a money market fund and does not seek to maintain a stable net asset value.

GXIG is actively managed, which could increase its transaction costs (thereby lowering its performance) and could increase the amount of taxes you owe by generating short-term gains, which may be taxed at a higher rate. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

GXIG uses a quantitative model and deep neural network (the "DNN" and, together with the quantitative model, the "Models") to implement its investment strategy. The Models may not perform as intended. The information and data used in the Models may be supplied by third parties and therefore may be difficult to verify; inaccurate or incomplete data may limit the effectiveness of the Models. In addition, some of the data the Models use includes historical data, which may not accurately assess future market movements. The Models will analyze securities or securities markets based on certain assumptions concerning the interplay of market factors and may not adequately take into account certain factors and, to the extent the assumptions or the portfolio managers' judgment are incorrect, the Fund may have a lower return than if the Fund were managed using another model or investment strategy. The markets or prices of individual securities may be affected by factors not foreseen in developing the Models. As market dynamics change over time, a Model that was previously successful may become outdated. The Fund is subject to the risk that the DNN was not able to learn from the data as predicted which could result in lower returns than if the Fund were managed using another model or investment strategy. Errors in input data, assumptions, and/or the design of the Models may occur from to time and may not be identified and/or corrected by the Fund's Sub-Adviser for a significant period of time or at all. Successful operation of the Models is reliant on the information technology infrastructure maintained by the Fund's Sub-Adviser; deficiencies in such systems could compromise the operation of the Models and could result in losses to the Fund.

Preferred stock is subject to many of the risks associated with debt securities, including interest rate risk. In addition, preferred stock may not pay a dividend, an issuer may suspend payment of dividends on preferred stock at any time, and in certain situations, an issuer may call or redeem its preferred stock or convert it to common stock. High yielding stocks are often speculative, high-risk investments. These companies can be paying out more than they can support and may reduce their dividends or stop paying dividends at any time, which could have a material adverse effect on the stock price of these companies and the Fund's performance. PFFD and GXIG are non-diversified.

Variable rate securities may have limits on the maximum increases in coupon rates and may lag behind changes in market rates. Performance of companies in the Financials sector may be adversely impacted by many factors, including, among others, government regulations, economic conditions, credit rating downgrades, changes in interest rates, and decreased liquidity in credit markets.

High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments.

U.S. Treasury securities are considered to be of high credit quality and are backed by the full faith and credit of the U.S. government. U.S. Treasury securities, if held to maturity, guarantee a return of principal while no other securities mentioned in this material offer such a guarantee.

Income from municipal bonds may be subject to the alternative minimum tax. Capital gains, if any, are subject to capital gains tax.

A leveraged loan is a type of loan generally made to borrowers who already have high levels of debt and/or a low credit rating. Lenders consider leveraged loans to have an above-average risk that the borrower will be unable to pay back the loan. These loans generally pay higher interest rates to lenders because of the higher level of risk.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Carefully consider the funds' investment objectives, risks, and charges and expenses before investing. This and other information can be found in the fund's full or summary prospectuses, which may be obtained at globalxetfs.com. Please read the prospectus carefully before investing.

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