HSBC Asset Management

Fixed Income – Looking beyond the familiar

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Income has returned to fixed income, but the best opportunities may not be in the most familiar places. HSBC Asset Management's Andrew Jackson explores where investors can still find relative value without adding duration or credit risk.

Fixed income markets are offering attractive levels of income, but the opportunities are not evenly spread. Investors and their advisers still need to do their groundwork to find a good balance of income, relative value and security, without taking on significant duration risk.

One option is to turn to a part of the market that maybe less familiar to many investors: Securitised Credit.

At its simplest, it turns pools of loans into tradable bonds, with different levels of protection and risk, says Andrew Jackson, Head of Securitised Credit at HSBC Asset Management.

Most of the asset class is floating rate, reducing duration risk, while credit spreads have historically been wider than in corporate bonds. This combination can provide an attractive source of income and bring diversification to an existing fixed income allocation.



Andrew Jackson

Head of Securitised Credit
HSBC Asset Management

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Source: HSBC Asset Management. 30 September 2026

Spread advantage

> It's all about income.
>
> — Andrew Jackson, Head of Securitised Credit, HSBC

As Jackson says, "it's all about income." Most Securitised Credit pays a base rate plus a credit spread, and the latter compares favourably with other parts of fixed income.

While spreads are tight across fixed income, they are not at the same point in their historical ranges: securitised credit is around 60–70% through its post-global financial crisis range, excluding Covid, compared with around the 95th percentile for corporate credit, says Jackson.

Securitised credit has always paid a premium over corporate bonds, reflecting the additional work involved in analysing the underlying loans and how the securities are structured, as well as lower liquidity. But with corporate spreads now much closer to the tight end of their historical range, more of that premium remains in Securitised Credit on a relative basis.

The way Securitised Credit is structured also allows investors to decide how much credit risk they want to take. A pool of loans is divided into different tranches; the senior tranches are protected by those below them, creating a buffer before losses in the underlying loans reach the investor.

This credit enhancement can provide substantial protection higher up the structure, according to Jackson. An investor in a AAA or single-A tranche, for example, can still earn the income available from Securitised Credit while being better insulated against deterioration in the underlying loan pool. Moving further down the structure increases both potential income and risk, giving investors a choice of where they want to sit.

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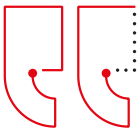
Portfolio implications

What does all this mean when Securitised Credit is put to work in a portfolio?

Its low duration - typically around half a year, and potentially less, according to Jackson - gives Securitised Credit a different return profile from traditional fixed-rate bonds and can make it a useful diversifier within an existing fixed income allocation.

The HSBC team has seen allocations to the asset class grow over the years. Several years ago, investors would typically allocate around 10-20% of their fixed income portfolios to Securitised Credit. Today, Jackson says, that range is more often 20-40%. The reason, according to him, is that adding Securitised Credit can reduce portfolio volatility while increasing the potential for returns.

Where is the trade-off?



> Keep it prime, keep it institutional quality.
>
> — **Andrew Jackson, Head of Securitised Credit, HSBC**

Higher spreads naturally raise the question of what investors are giving up in return.

Liquidity in Securitised Credit can be lower than in corporate bonds, although, according to Jackson, it remains relatively strong in senior AAA and single-A tranches.

There is also more work involved in understanding the loans, the structure and the different parties involved. The complexity is part of what investors are being paid for, and it places greater weight on manager expertise and security selection, says Jackson. His approach is to "keep it prime, keep it institutional quality."

At the same time, unlike in private credit, Securitised Credit turns loan portfolios into publicly traded bonds. Investors therefore have independent pricing, ratings from established agencies and greater transparency around the underlying assets, while retaining more liquidity than they would typically expect in private markets, he says.

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Finding value across the market

The opportunity set within Securitised Credit is broad, and it includes CLOs backed by corporate loans, residential and commercial mortgage-backed securities, and other asset-backed securities. That gives investment managers scope to move between different sectors and geographies as relative value changes, Jackson explains.

HSBC Asset Management's Securitised Credit team reviews the market each month, looking at both credit risk and relative value. At one point, for example, it favoured European CLOs over their US counterparts, where Jackson says similar credit risk came with around 40 basis points of additional return.

The advantage has since narrowed as the credit picture has changed, prompting the team to adjust its positioning. As Jackson puts it, "it's a constant process".

With corporate credit spreads close to the tight end of their historical range, investors may need to look beyond the more familiar parts of the bond market to find better relative value. Securitised Credit offers another source of income and diversification, while carrying little duration risk and the ability to choose how much credit risk to take.

For fixed income investors prepared to look under the bonnet, there is still value to be found.

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Key risks

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- **Interest rate risk:** As interest rates rise debt securities will fall in value. The value of debt is inversely proportional to interest rate movements.
- **Counterparty risk:** The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- **Credit risk:** Issuers of debt securities may fail to meet their regular interest and/or capital repayment obligation. All credit instruments therefore have the potential for default. Higher yielding securities are more likely to default.
- **Default risk:** The issuers of certain bonds could become unwilling or unable to make payments on their bonds.
- **Emerging markets risk:** Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- **Exchange rate risk:** Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations.
- **Investment leverage risk:** Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- **Asset Backed Securities (ABS) risk:** ABS are typically constructed from pools of assets (e.g. mortgages) that individually have an option for early settlement or extension and have potential for default. Cash flow terms of the ABS may change and significantly impact both the value and liquidity of the contract.
- **Derivatives risk:** The value of derivative contracts is dependent upon the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit risk associated with the counterparty or institution facilitating the trade.
- **High yield risk:** Higher yielding debt securities characteristically bear greater credit risk than investment grade and/or government securities.
- **Liquidity risk:** Liquidity is a measure of how easily an investment can be converted to cash without a loss of capital and/or income in the process. The value of assets may be significantly impacted by liquidity risk during adverse markets conditions.
- **Operational risk:** The main risks are related to systems and process failures. Investment processes are overseen by independent risk functions which are subject to independent audit and supervised by regulators.

Further information on the potential risks can be found in the governing documents.

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