



# Why Advisors Are Reconsidering Passive Fixed Income in 2026

The consensus on passive fixed income is shifting. Survey data, fund flows, and conversations across the independent advisor community all point in the same direction: a growing number of investment professionals have concluded that index-based bond exposure is no longer sufficient.

Recent survey data from VettaFi found that 88% of financial advisors are either “somewhat likely” or “very likely” to increase their allocation to active fixed income ETFs within the next twelve months.<sup>1</sup> That figure reflects a structural reassessment, not a temporary swing in sentiment. Understanding what is driving it matters for any advisor who still relies primarily on passive vehicles to manage client bond exposure.

FIXED INCOME INSIGHT · Q2 2026
PITON INVESTMENT MANAGEMENT

## The advisor shift away from passive fixed income

What the data says about where active management is headed

### 88%

of financial advisors plan to increase their allocation to active fixed income strategies within the next 12 months

**TOP CHALLENGES CITED BY ADVISORS TODAY**

### 34%

Finding attractive yield without overextending on credit risk

### 31%

Managing duration risk and interest rate volatility

**LIKELIHOOD TO INCREASE ACTIVE FIXED INCOME ALLOCATION**

Very likely	31%
Somewhat likely	57%
Unlikely	12%

Source: VettaFi advisor survey, Q1 2026 · For institutional and advisor use only. Not investment advice.

## The Environment That Made Passive Work

To understand why, it helps to look at what made passive fixed income defensible for nearly a decade. Between 2012 and 2021, the Federal Reserve held rates near historic lows. Credit spreads tightened steadily, and a broad investment-grade bond index provided consistent low-volatility returns with little differentiation across issuers or sectors. In that environment, capturing broad beta was enough. The cost of not being selective was minimal because the market rewarded participation broadly, not precision.

That operating environment no longer exists.

As of the second quarter of 2026, the Federal Reserve's benchmark rate sits at 3.50% to 3.75% following three quarter-point reductions in late 2025.<sup>2</sup> The ten-year Treasury yield has hovered near 4.44%.<sup>3</sup> Energy price volatility tied to geopolitical tension in the Middle East has renewed inflation concerns and added uncertainty to the Federal Reserve's forward policy path.

Investment-grade credit spreads compressed to 71 basis points in late January 2026, the tightest level since 1998, before widening sharply in the first quarter as geopolitical risk accelerated.<sup>4</sup> Risk premium spreads widened significantly in the first quarter of 2026, with high-yield corporate spreads increasing by roughly 40 to 60 basis points and investment-grade spreads widening by about 20 basis points from their tight January lows. This decompression was primarily driven by geopolitical tension and energy-driven inflation fears. The margin for error in passive fixed income has compressed significantly, and the cost of owning the wrong bonds has grown.

## What the Survey Data Reveals

When advisors were asked in the same VettaFi research what represents the greatest challenge in managing fixed income allocations today, 34% cited finding attractive yields without overextending on credit risk. Nearly as many, 31%, pointed to managing duration risk and interest rate volatility.<sup>1</sup>

Neither challenge is one that a passive index fund is designed to address.



## Fixed Income Perspectives

# Why Advisors Are Reconsidering Passive Fixed Income in 2026

An index fund owns what the index holds. It cannot reduce exposure to issuers with elevated refinancing obligations. It cannot shorten portfolio duration in anticipation of rate volatility or extend duration when the yield curve presents a compelling opportunity at longer maturities. The fund simply holds whatever composition its index methodology dictates and rebalances on a predetermined schedule, regardless of conditions.

For advisors whose clients are asking harder questions about their bond portfolio after a volatile start to 2026, that structural limitation is increasingly difficult to defend.

## The Dispersion Problem

There is a second dynamic reinforcing the case for active management that receives less attention than it deserves: dispersion.

Performance across fixed income subsectors and individual issuers is becoming more differentiated, not less. Not all corporate bonds face the same refinancing pressures. Not all sectors carry the same sensitivity to federal policy changes. Not all maturities along the yield curve offer comparable risk-adjusted value. In this kind of environment, broad passive exposure captures the entire distribution of outcomes, including the portions of the market where risk is highest and compensation is inadequate.

At Piton, we have observed this dynamic directly in how we construct and monitor client portfolios. The dispersion across markets and issuers is widening and traditional benchmarks no longer capture the full opportunity set in fixed income.<sup>5</sup> An actively managed portfolio can concentrate exposure in sectors and issuers that present the most favorable risk-reward characteristics while deliberately avoiding those that do not. A passive fund has no such capacity.

## What Active Fixed Income Management Can Do Differently

The practical advantages of a fixed income SMA over a passive fund are worth examining directly.

**Issuer-level selection.** A portfolio manager who identifies a highly leveraged issuer facing an unfavorable debt maturity schedule can simply choose not to own it. The index cannot make that distinction. In a period when a significant volume of corporate debt issued at near-zero rates during 2020/2021 is rolling over at today's materially higher rates, the ability to evaluate individual issuers is a meaningful risk management capability, not a marginal one.

**Duration management.** Rather than accepting whatever effective duration the index dictates, an active manager can position the portfolio's interest rate sensitivity in response to current yield curve conditions. Active management allows those decisions to be made deliberately, with a rationale grounded in current conditions rather than index construction rules.

**Sector rotation.** The 2026 fixed income market is creating differentiated value across segments. Credit quality, geopolitical exposure, policy sensitivity, and refinancing timelines vary considerably across investment-grade corporates, high-yield debt, government bonds, agency mortgage-backed securities, and municipal bonds. An active manager can shift allocations to reflect those differences as they evolve. An index follows its methodology.

**Transparency and customization.** A separately managed account provides each client with full visibility into every bond held in their portfolio. For advisors who need to explain fixed income positioning during periods of market volatility, that transparency supports the client relationship in a way that a fund fact sheet cannot replicate. It also allows for customization around each client's specific guidelines, including credit quality floors, sector restrictions, and duration targets.

## Where Capital Is Moving

Year-to-date fund flows in 2026 confirm that advisors are acting on this shift. Active fixed income ETFs have captured 40% of total year-to-date ETF flows despite representing only 12% of total ETF assets.<sup>6</sup> The message is clear: advisors want professional credit judgment, not index exposure.



# Fixed Income Perspectives

## Why Advisors Are Reconsidering Passive Fixed Income in 2026

The surge in active ETF adoption reflects a real shift in advisor conviction, but the ETF wrapper represents a starting point, not a destination, for clients whose fixed income needs have grown in complexity. An active ETF applies professional management to a pooled vehicle that every investor in the fund shares equally. A fixed income separately managed account takes that same active management philosophy and applies it at the individual client level, with full transparency into every position, tax-loss harvesting capability, customized credit guidelines, and direct access to the portfolio manager making decisions. For advisors whose highest-value clients have specific income needs, tax situations, or risk parameters, the SMA is where the active management argument fully delivers on its promise.

### The Practical Question for Independent RIAs

For advisors relying on a passive bond fund to cover the fixed income allocation of client portfolios, a straightforward review is worth conducting.

- What does that fund currently hold?
- How much exposure does it carry to issuers with elevated refinancing risk?
- What is the effective duration, and does that duration reflect a deliberate position or simply an index default?
- Is the level of credit risk compensation adequate given where spreads are today, relative to where they have been historically?

These are not abstract questions. They are the specific considerations that separate advisors who are actively managing client risk from those who are accepting it by default.

The advisors who add the most value in fixed income over the next 12 to 18 months will not necessarily be the most aggressive or the most defensive. They will be the most intentional, working with a capable partner who provides credit expertise and portfolio infrastructure to act on that intention.

### How Piton Approaches This Environment

Piton Investment Management was built to give independent advisors access to the kind of active, institutional-quality fixed income management that has been available primarily to large asset managers and their direct clients.

Our investment team brings experience from HSBC Private Bank Americas, Annaly Capital Management, and Credit Suisse Asset Management. Our Conservative Total Return and Yield Enhanced separately managed account strategies are designed for precisely the kind of environment we are in today: elevated rates, credit spreads with asymmetric downside risk, and a yield curve that rewards active duration positioning over passive benchmark replication.

When advisors work with Piton, they have direct communication with the portfolio manager. They have full transparency into every position held in their clients' accounts. And they have the ability to customize investment guidelines to reflect each client's specific needs, risk tolerance, and income objectives.

The environment that made passive fixed income sufficient has changed. The advisors who recognize that and respond accordingly will be better positioned to protect their clients and strengthen their practices in the period ahead.

	Active ETF	Fixed Income SMA
Active management	Yes	Yes
Full position transparency	Partial	Complete
Tax-loss harvesting	No	Yes
Customized guidelines per client	No	Yes
State-specific muni optimization	No	Yes
Direct portfolio manager access	No	Yes
Institutional trade execution	Pooled	Individual



**Brian Lockwood** is the Chief Investment Officer of Piton with over 20 years of fixed income portfolio management experience. He has managed fixed income strategies for HSBC, Ramius Capital Group, and DLJ/Credit Suisse Asset Management. He holds the Chartered Financial Analyst® designation.



**Kris Konrad** is a founding partner of Piton with over 20 years of fixed income experience specializing in Agency Mortgage-Backed Securities. He has managed one of the largest levered Agency MBS portfolios, with over \$140 billion in assets at its peak. He previously served as Co-Chief Investment Officer at Annaly.

## About Piton Investment Management

Piton Investment Management is a fixed income asset manager serving financial advisors, RIA firms, family offices, and institutional and individual investors. We specialize in constructing customized separately managed accounts (SMAs) across traditional fixed income and structured notes, drawing on over 90 years of combined industry experience.

Our approach is built on the belief that fixed income portfolios should be tailored to each client's objectives, not adapted from a standard model. Every account is managed with direct oversight, with a focus on generating alpha, managing risk, and maintaining transparency throughout.

### Our Strategies

- **Yield Enhanced** – income-focused portfolios with defined risk parameters
- **Conservative Total Return** – balancing income generation with capital preservation
- **Cash Management** – liquidity-driven, low-risk solutions
- **Tax-Exempt** – municipal bond strategies for tax-sensitive investors

It's not what we do that makes us different. It's how we do it.

### Sources

<sup>1</sup> VettaFi, "How Advisors Are Rewiring Fixed Income Portfolios," ETF Trends and Advisor Perspectives, April 10, 2026. Available at [etftrends.com](https://etftrends.com) and [advisorperspectives.com](https://advisorperspectives.com). Survey data reflects advisor responses on likelihood to increase active fixed income ETF allocations and top fixed income challenges cited.

<sup>2</sup> Board of Governors of the Federal Reserve System. Federal funds target rate, December 2025. The Fed delivered three quarter-point rate cuts in Q4 2025, bringing the target range to 3.50%–3.75%.

<sup>3</sup> Board of Governors of the Federal Reserve System (US), Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity (DGS10), retrieved from FRED, Federal Reserve Bank of St. Louis; [fred.stlouisfed.org/series/DGS10](https://fred.stlouisfed.org/series/DGS10). The 10-year yield weekly average stood at 4.30% at the end of April 2026, as independently reported by Advisor Perspectives / dshort, "10-Year Treasury Yield Long-Term Perspective: April 2026," May 1, 2026, [advisorperspectives.com](https://advisorperspectives.com).

<sup>4</sup> Bloomberg Index Services. ICE BofA US Corporate Index Option-Adjusted Spread (BAMLC0A0CM). Reported by Bloomberg News, January 22, 2026: "US High-Grade Corporate Bond Spreads Hit Fresh Three Decade Low." Confirmed by Morgan Stanley analysts and The DESK, February 2026. Federal Reserve FOMC minutes, January 2026, explicitly noted "historically low credit spreads" as a concern.

<sup>5</sup> The views expressed regarding dispersion and active portfolio construction reflect the independent analysis and professional judgment of Piton Investment Management, based on ongoing monitoring of fixed income market conditions and client portfolio management experience as of Q2 2026.

<sup>6</sup> State Street Investment Management, as reported by ETF Trends, "Active ETF Flows Hit Record Highs in January," February 3, 2026, [etftrends.com](https://etftrends.com): active ETF strategies captured nearly 40% of total ETF flows in January 2026. Corroborated by J.P. Morgan Asset Management, Monthly Active ETF Monitor, March 2026, [am.jpmorgan.com](https://am.jpmorgan.com), which reported approximately 42% of year-to-date ETF flows directed to active strategies, with active ETFs representing 80% of total ETF launches in 2026. These figures reflect demand for active management broadly; the ETF vehicle is the most accessible entry point for many advisors, while a fixed income separately managed account represents the more complete implementation of the same active management principles for high-net-worth clients requiring customization, tax efficiency, and full transparency.

*This analysis is provided for educational purposes only and does not constitute investment advice. Past performance does not guarantee future results. Consult with qualified professionals before making investment decisions.*