When the income does the heavy lifting

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For all the talk of turmoil in bond markets, yields have barely moved. With high-quality paper paying mid-single digits, investors don't need to do anything clever to beat the bank or inflation, explains David Roberts.

For much of this year, the word "volatile" has been used frequently to describe conditions in bond markets. Gilts were declared a basket case. US Treasuries lurched around. Headlines screamed of a fresh crisis most weeks. And yet, when the dust settled, the yield on core government bonds is almost exactly where it began.

This is important for investors to understand. Because while the commentary fixated on the drama, bonds have quietly got on with their job: paying income.

Consider what a holder of core US Treasuries earned. Ten-year yields have barely moved in the past year – ending May 2026 just two basis points wider than where they were 12 months previously. Capital values, in other words, were broadly flat. This means an investor who started with a yield just above 4% pocketed a similar return – all of it from income.

Investors have been able to eke out stable, inflation-beating returns that required no forecasting skill, market timing or luck. The income has simply accrued.

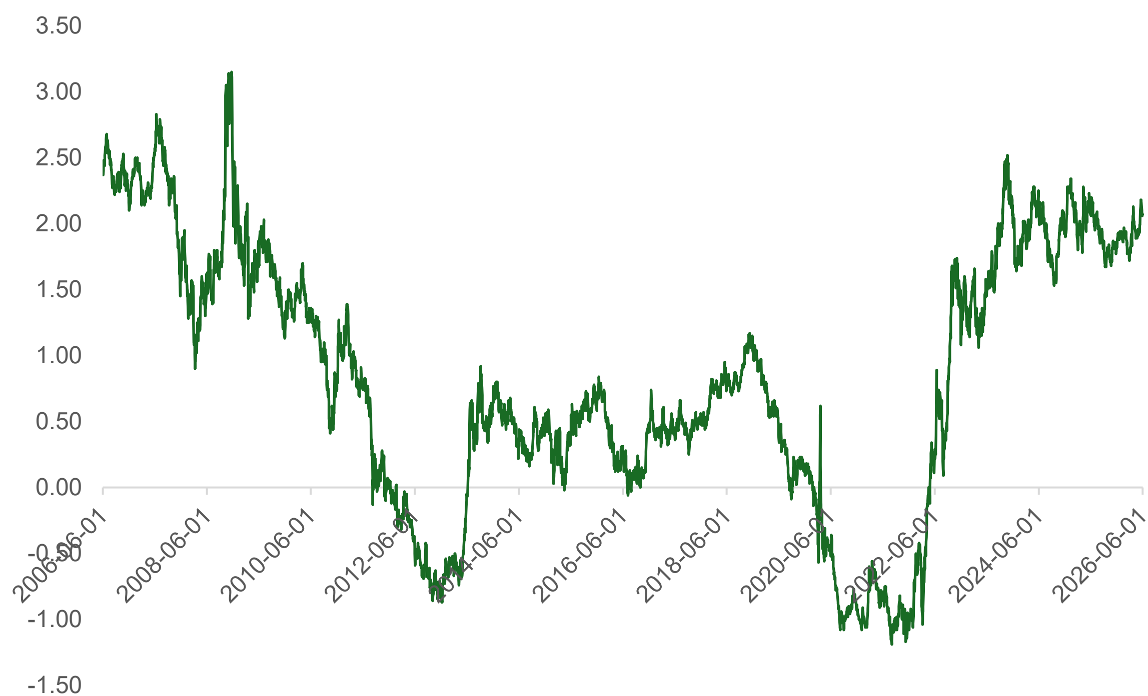
Welcome back to the old normal

In essence, we have returned to what we call the old normal. Not the negative or near-zero yields of the quantitative-easing era, when bonds offered safety and little else, and certainly not the double-digit

yields of the 1980s. Somewhere sensible in between: core yields settling in a range we last saw consistently before the financial crisis.

Over time, the large majority of what a bond investor earns comes from income. Your starting yield is the single most important determinant of your long-run return. It is why this is a good time to be a bond investor. With high-quality government bonds yielding in the 4-5% range, and investment-grade credit a little north of that, an investor does not need a single penny of capital gain to beat inflation, out-earn cash in the bank and generate a respectable mid-single-digit return.

Figure 1: Real 10-year US Treasury yields (per cent)



Source: Federal Reserve Bank of St.Louis, Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Inflation-Indexed, as of June 2, 2026

Crucially, none of this requires moving down the risk curve. There is a temptation, when income is scarce, to go looking for it the murkier corners of the market. Today, there is no need.

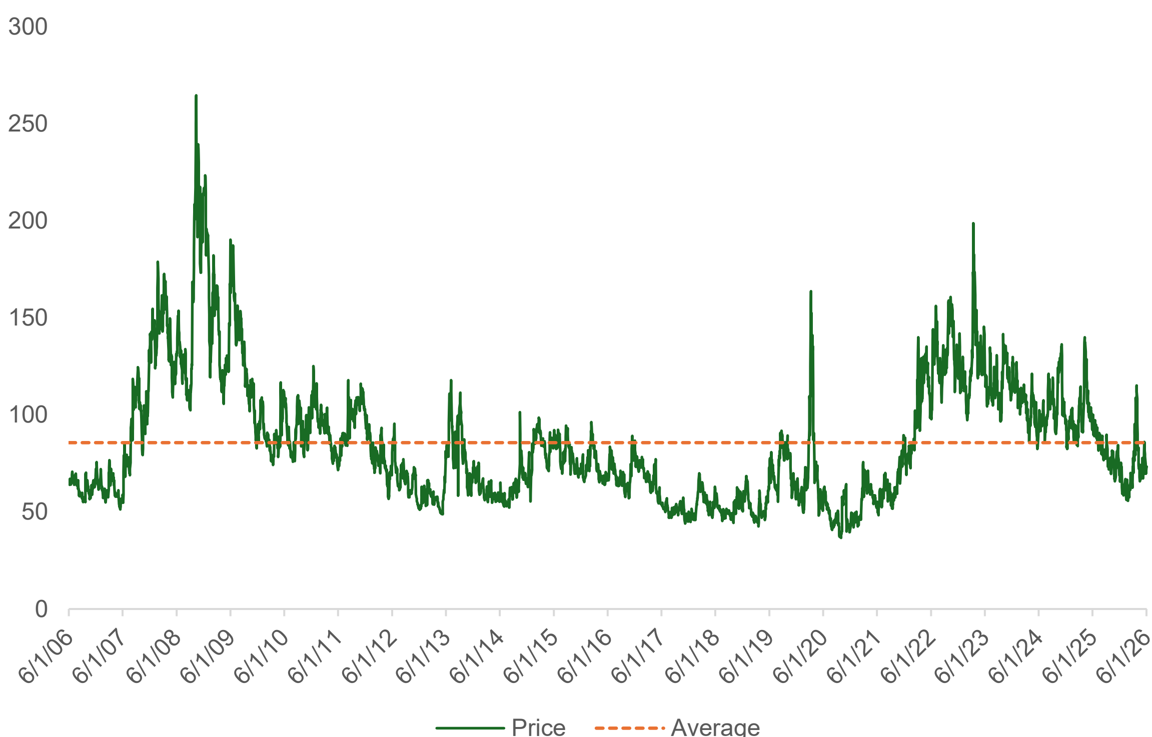
Income is the backbone but isn't the whole story. The same volatility that unsettled plenty of people in recent months was, for an active manager, an opportunity. Gilts and Treasuries swung; corporate bonds moved with them. Exploiting those moves added a little extra on top of the income.

The order matters. The income comes first and does the heavy lifting; alpha is an important supplement, not the foundation.

Volatility, in perspective

It is worth keeping recent 'turmoil' in perspective. By any honest historical measure, bond market volatility has been nowhere near the extremes of the past two decades. This is not the global financial crisis, when the plumbing of the system seized up. It is not the pandemic, when markets briefly stopped functioning. It is not 2022 and 2023, when the most aggressive rate-hiking cycle in decades sent volatility soaring.

Figure 2: Bond market volatility today is normal, not exceptional



Source: ICE BAML, MOVE Index, as of June 2, 2026

Measured against those episodes, recent conditions are less like a storm and more like ordinary weather. After a decade in which central banks suppressed yields and dampened every wobble, a return to normal price action can feel like volatility. Mostly, it is just a market doing what markets do.

So, what does the next year hold? Nobody knows, and anyone who claims otherwise should be treated with suspicion. But that is the point. When you begin the year with a decent level of income already in hand, you can afford to be a little more relaxed about events you cannot predict.

In this 'old normal', bonds are paying investors properly to hold them. There is no need to do anything clever. The better course, more often than not, is to let the income do its work.

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