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The changing face of ETFs: the active fixed income opportunity



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Exchange-traded funds (ETFs) have become one of the most widely adopted investment vehicles of the past two decades. Yet despite their growth, many investors still view them through the lens of their origins in passive equity investing. This perception is increasingly outdated.

Today, ETFs provide access to a vast range of asset classes and investment approaches. While passive strategies continue to dominate the market, one of the most significant developments in recent years has been the rise of active ETFs – particularly in fixed income.

To understand why, it is important to start with a simple point: an ETF is a wrapper, not an investment strategy.

ETFs offer investors a liquid and accessible way to gain diversified market exposure. These advantages have helped drive adoption across institutional and retail investors alike.

Historically, however, ETFs were largely associated with passive equity investing. As a result, many investors still incorrectly assume that ETFs and passive investing are effectively the same thing.

The growth of active ETFs reflects a recognition that the vehicle itself can be used to deliver a far broader range of investment solutions. This is particularly relevant in fixed income.

Many of the arguments in favour of passive investing originate in equity markets, where indices are relatively straightforward to replicate and where active managers have often struggled to outperform consistently over time. Fixed income markets are different.

The global bond market is vast – worth approximately $150 trillion* – and significantly more complex than equity markets. Investors can choose from government bonds, agency debt, corporate bonds, securitised assets and emerging market debt across multiple currencies, maturities and structures. A single issuer may have hundreds of bonds outstanding, compared with only one or two listed share classes.

This complexity creates inefficiencies that active investors can potentially exploit.

One reason is the composition of market participants. Unlike equity markets, where most investors are seeking to maximise returns, a substantial proportion of activity in fixed income is driven by investors pursuing other objectives. Central banks conduct monetary policy, pension funds match liabilities, insurers manage regulatory requirements and banks hold

bonds for capital purposes. Collectively, these so-called non-economic buyers are estimated to account for more than half of bond market activity.

Their presence can create pricing distortions and opportunities for active managers to identify relative value.

The structure of bond indices also presents challenges. A typical global equity benchmark may contain a few hundred or even thousands of constituents. A broad fixed income benchmark can contain tens of thousands of securities*. Replicating such indices is neither simple nor costless. Bonds mature, new bonds are issued and benchmark compositions change constantly. As a result, passive investors can face significant implementation challenges that do not exist to the same extent in equities.

Active managers, by contrast, are not constrained to own every security within an index.

Importantly, the ETF wrapper does not change the investment process itself. At PIMCO, active ETFs are managed using the same rigorous approach applied across our broader fixed income platform. Portfolio managers combine top-down views on macroeconomic trends, duration and country allocation with bottom-up security selection and relative value analysis. The ETF simply provides investors with a different way to access those capabilities.

Another area where misconceptions persist is liquidity.

ETF liquidity extends beyond the volume visible on an exchange screen. A broad ecosystem of market makers, authorised participants and creation-redemption mechanisms helps connect ETF trading with the underlying bond market. In many cases, ETFs can provide efficient access to fixed income exposure, with competitive trading costs and robust liquidity even during periods of market stress.

For investors, the result is a growing opportunity set. They no longer need to choose between the flexibility and accessibility of the ETF wrapper and the potential benefits of active management; they can combine both.

Combined with the liquidity and ease of execution that ETFs provide, PIMCO's active fixed income ETFs offer investors access to a rigorous, time-tested investment process alongside the operational benefits of the ETF structure.

In a market characterised by complexity, inefficiencies and a wide range of opportunity sets, that combination may prove increasingly valuable.

* Source: PIMCO, July 2026

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