# Volatility Recalibrated: A New Regime for the Agg

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Volatility in the Bloomberg U.S. Aggregate Bond Index (the Agg) spiked in late 2024 to levels last seen in the early 1980s, driven by a combination of macro uncertainty, central bank tightening, and structural shifts in the market. While volatility has since moderated, it remains well above pre-2020 norms, suggesting that fixed income is adjusting not to a temporary disruption, but to a new baseline.

## A HISTORICAL SHIFT IN VOLATILITY NORMS

In the decade leading up to 2020, the Agg's 3-year rolling standard deviation typically ranged between 2½–3%, a reflection of stable inflation, steady monetary policy, and a consistent blend of Treasuries, MBS, and IG corporates. In late 2024, that number climbed to nearly 8%, highlighting the scale of the market shift.

While that peak has receded, today's readings remain elevated, pointing to a structural change rather than a simple reversion. Several persistent forces are keeping volatility above historical levels.



Source: Bloomberg as of 9/30/2025

## WHY VOLATILITY REMAINS ELEVATED

### 1. A Post-Pandemic Rate Regime

The Fed's most aggressive tightening cycle in 40 years broke with decades of rate stability. As a result, swings in rate expectations and term premium assumptions now introduce greater uncertainty across the yield curve.

### 2. Quantitative Tightening and the End of Balance-Sheet Support

With the Fed allowing assets to run off its balance sheet, one of the market's largest and most price-insensitive buyers has stepped back. The repricing of duration risk now falls to private investors, who demand more compensation for uncertainty.

### 3. Extended Duration and Negative Convexity

Rising yields have lengthened the duration profile of the Agg, increasing its sensitivity to rate moves. Mortgage-backed securities — a significant portion of the index — also carry negative convexity, which amplifies volatility when rates move higher.

### 4. A More Variable Inflation Backdrop

Inflation has become more volatile and less predictable. Sticky services prices and lingering supply constraints raise the dispersion of expected policy paths, feeding directly into rate and spread volatility.

### 5. Ongoing Spread Dynamics

Corporate and securitized spreads have narrowed since mid-2023, but they remain reactive to macro surprises and liquidity conditions. Their intramonth variability continues to contribute to overall volatility in total returns.

## WHAT THIS MEANS FOR INVESTORS

While the Agg's volatility has moved off its peak, we believe it reflects a reset to a higher structural level — not a return to the sub-3% environment that followed the Global Financial Crisis. There is potential for realized volatility to stabilize in the 4–5% range.

For investors, this shift brings both challenge and opportunity. It reinforces the importance of active risk management, flexible duration strategies, and a renewed focus on income as a core component of total return.

## IMPORTANT DISCLOSURES

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