



Investing in Foreign Bonds

WHITEPAPER | SEPTEMBER 2026

CONTRIBUTORS

Frank Benham, CFA, CAIA
Marina Simanovich
Eric Larsen
Lily Hillis

As US-based investors seek opportunities to enhance returns and further diversify their portfolios, they may evaluate the possibility of allocating assets to foreign bonds. The appeal is straightforward: foreign bonds provide access to a large and diverse fixed income market outside the US with exposure to different issuers, currencies, yield curves, and monetary policy regimes.

However, these same features can also complicate the role bonds are often expected to play in a portfolio. As global fixed income markets have expanded and sovereign debt levels have risen, these questions have become increasingly relevant for investors evaluating the role of foreign debt within a portfolio.

US-based investors often divide the foreign debt universe into two groups: developed market bonds and emerging market bonds. This paper will focus on the former, while briefly addressing the latter within the framework of a broader foreign or global debt portfolio. This paper examines debt securities issued in developed foreign markets. It reviews foreign bond performance on both an unhedged and currency-hedged basis, examines historical diversification benefits and risks, and discusses practical considerations investors should evaluate when choosing to make an allocation to foreign bonds.

Key Takeaways

- › **For US-based investors, currency exposure largely determines the risk and return profile of foreign bonds.** Unhedged foreign bonds have historically delivered returns comparable to or slightly below US bonds, but with nearly twice the volatility. Currency fluctuations account for much of this return differential and are the primary source of unhedged volatility. Hedging substantially narrows the return gap and reduces volatility, leaving interest rates as the primary return driver.

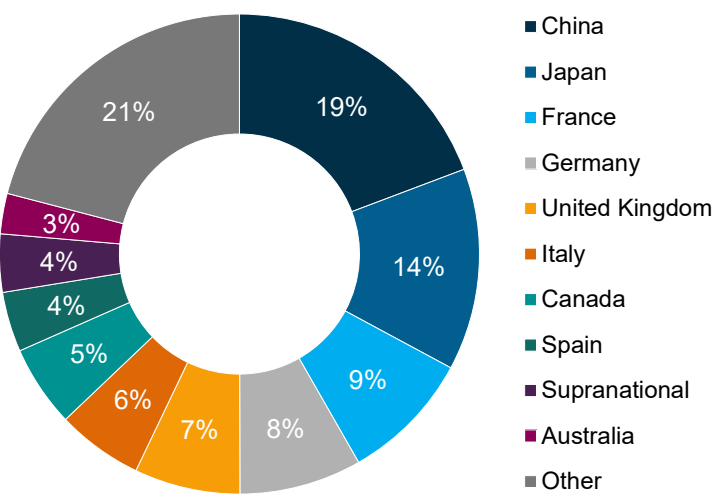
- › **Hedged foreign bonds behave more like high-quality US fixed income.** Currency-hedged foreign bonds have historically exhibited return and volatility characteristics similar to US core bonds, though they are not perfect substitutes. Their diversification value depends primarily on differences in regional interest rate cycles, yield curves, and benchmark composition rather than on currency movements. Hedging currency exposure, however, introduces additional operational costs and increased tracking error.
- › **Historical diversification benefits between foreign bonds and US equities have been regime dependent.** The low correlations between foreign bonds and US equities from 2001 through 2020 largely reflected a benign, low-rate environment. As global rates rose, correlations between foreign bonds and both US bonds and US equities increased, underscoring that historical correlation benefits should not be assumed to persist across market regimes.
- › **The portfolio-level impact has historically been modest.** In growth-oriented portfolios, substituting a meaningful share of a US bond allocation with foreign bonds, on either a hedged or unhedged basis, produced only marginal changes to risk and return. In more conservatively allocated portfolios, the two approaches diverged: unhedged foreign bonds modestly reduced risk-adjusted returns, while currency-hedged foreign bonds modestly improved them.
- › **The additional complexity and costs warrant deliberate consideration.** Foreign bonds introduce currency, political, and liquidity risks beyond those of domestic bonds, along with higher transaction costs, added tax complexity, and management fees that differ from those of US bonds. The currency hedging decision should be made in the context of an investor's total portfolio exposure to foreign currencies, rather than in isolation within the bond allocation.

Composition of Developed Foreign Debt Markets

Global bond markets amount to approximately \$80.0 trillion in outstanding debt and are largely influenced by the United States, with the US representing about 41% of all outstanding world debt.¹ Outside the US dollar market, outstanding debt is concentrated among a relatively small number of major issuers, led by China, Japan, the Eurozone (primarily Italy, Germany, and France), and the United Kingdom. The ten largest issuers account for approximately 79% of the ex-USD global bond market, with China, Japan, France, Germany, the United Kingdom, and Italy together representing more than half the market (see Figure 1).

Despite events such as the Global Financial Crisis (GFC) and the COVID-19 pandemic, the market has grown to more than four times its size prior to the GFC (see Figure 2).

Figure 1
Composition of Global Bond Market (Ex USD)



Source: Barclay's Live, as of June 30, 2026. Indices Used: Bloomberg Global Aggregate Ex USD Index, based on percentage of market value.

Figure 2
Growth of Foreign Developed Bond Market

Source: Barclay's Live, as of June 30, 2026. Indices Used: Bloomberg Global Aggregate Ex USD Index. Note that we use the Bloomberg Global Aggregate Ex USD Index throughout this paper as it is probably the most commonly cited benchmark for foreign bonds.

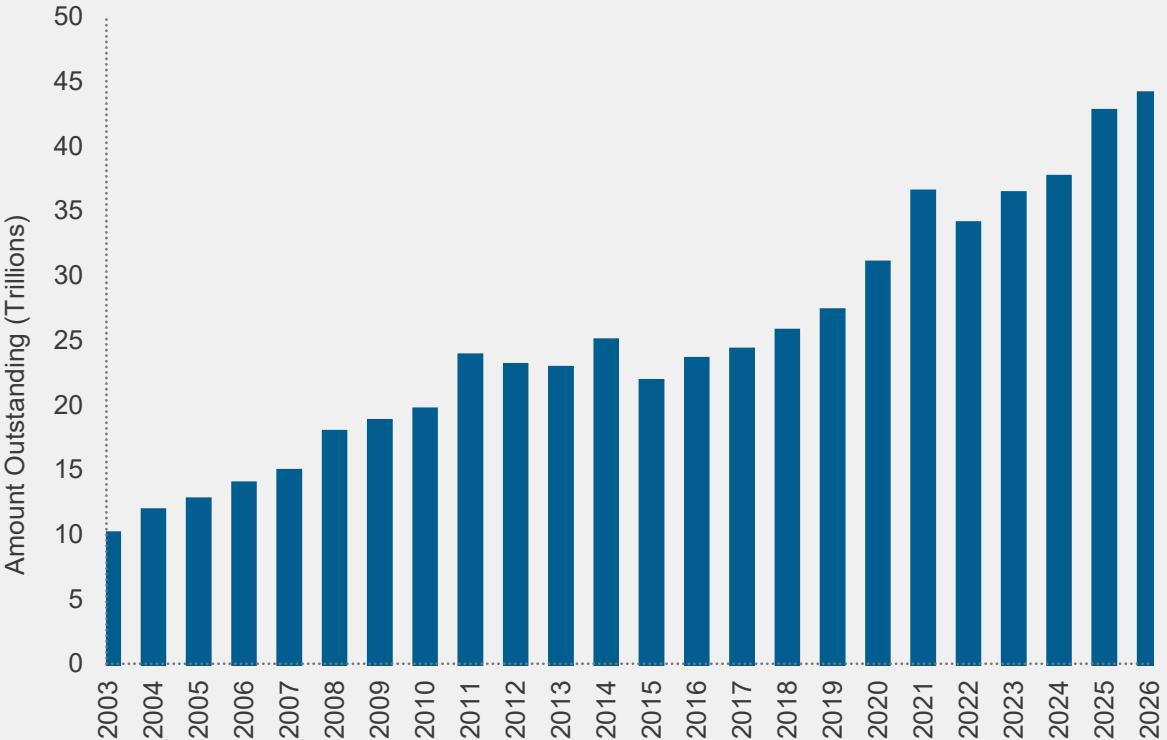
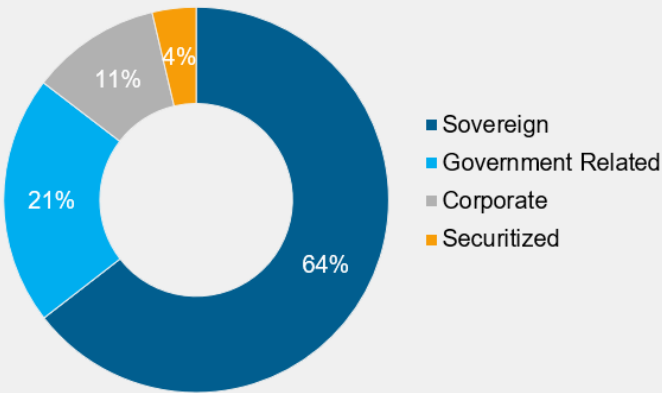


Figure 3
Composition of the Developed Foreign Bond Market



Source: Barclay's Live, as of June 30, 2026. Indices Used: Bloomberg Global Aggregate ex-USD Index, based on amount outstanding. Note: the Bloomberg Global Aggregate Ex USD Index is an investment grade, multi-currency benchmark that excludes USD-denominated securities and permits exposure to the currencies of several Bloomberg-defined emerging market countries, including Chile, Colombia, Mexico, Peru, the Czech Republic, Hungary, Israel, Poland, Romania, China, Indonesia, Thailand, South Korea, and Malaysia. As of June 2026, these countries (excluding China) represented approximately 7% of the index by market value. See Bloomberg, Bloomberg Global Aggregate Index (January 2025); Bloomberg, Bloomberg Fixed Income Index Methodology (January 2026), p. 32.

Foreign bond markets are dominated by sovereign issuance (see Figure 3). Sovereign government debt represents approximately 64% of the outstanding debt of foreign issuers, compared to 46% in the US.² The government-related sector is the next largest component, but is only one-third the size of sovereign issuance. The corporate debt market, though large in absolute terms, composes just 11% of the market.

Most government debt is issued in the local currency of the issuing country (or monetary union). Sovereign debt is generally backed by the full faith and credit (and taxing authority) of the national government that issues it. Ratings among developed market sovereigns have historically clustered at the high end of the ratings spectrum, though ratings for some issuers have declined in recent years as debt burdens have increased. Notable examples include the United States, which Moody's downgraded to Aa1 in 2025,³ and France, which Moody's downgraded to Aa3 in 2024.⁴ Even so, most of the largest developed-market issuers in the ex-USD bond universe continue to carry investment-grade ratings, generally in the single-A range or higher.⁵

Figure 4
Performance Characteristics

Index	Annualized Returns	Annualized Standard Deviation
Global Aggregate ex-US	2.4%	8.2%
Global Aggregate ex-US USD Hedged	3.9%	2.9%
US Aggregate	3.9%	4.1%

Source: INVMetrics and Barclay's Live, for the period from April 1999 through June 2026. Indices Used: the Bloomberg US Aggregate Index, the Bloomberg Global Aggregate ex-USD Index (unhedged), and the Bloomberg Global Aggregate ex-USD (Hedged) Index.

Performance

Historically, foreign bonds have exhibited slightly lower returns for USD investors than those of domestic bonds, but with nearly twice the volatility (see Figure 4). But there is an important caveat to this comparison.

When currency exposure was hedged, foreign bonds performed on par with US bonds. Hence, the underperformance of unhedged foreign bonds was due almost entirely to currency fluctuations (e.g., the US dollar strengthening relative to major world currencies) over this period. Further, hedged foreign bonds exhibited a lower volatility of returns than did US bonds.

This return and volatility differential was not due to an anomaly. Rather, there has been a persistent volatility differential between hedged and unhedged foreign bonds, and the volatility of hedged foreign bonds has consistently been below that of US bonds (see Figure 5). However, these results assume that the currency hedge was implemented without tracking error or hedging costs, and this assumption is likely unrealistic.⁶

Figure 5
Rolling Three-Year Volatility

Source: INVMetrics and Barclay's Live, for the period from April 1999 through June 2026. Indices Used: the Bloomberg US Aggregate Index, the Bloomberg Global Aggregate Ex USD Index, and the Bloomberg Global Aggregate ex-USD (Hedged) Index.

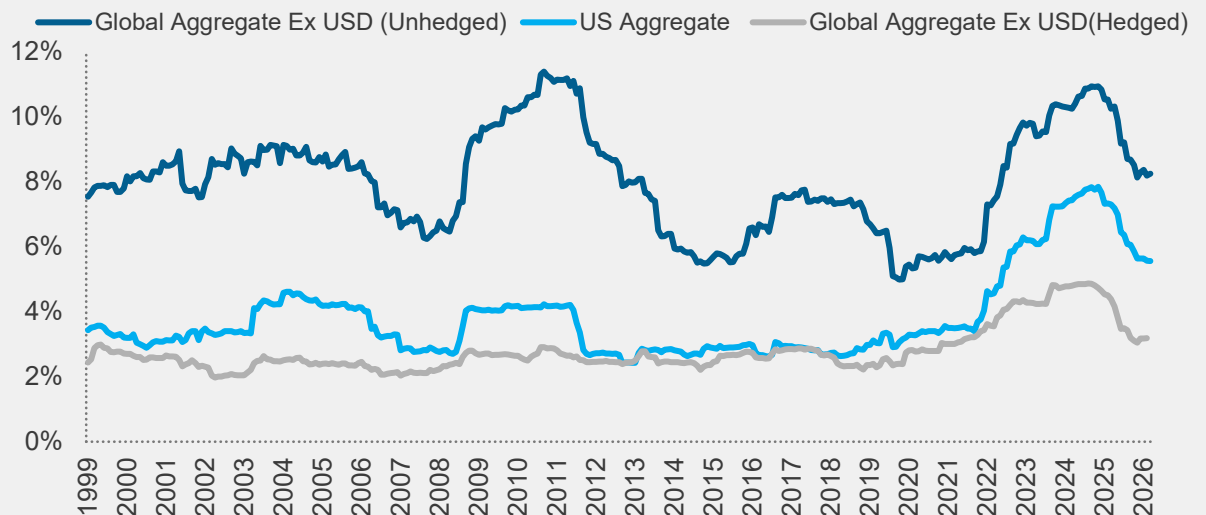
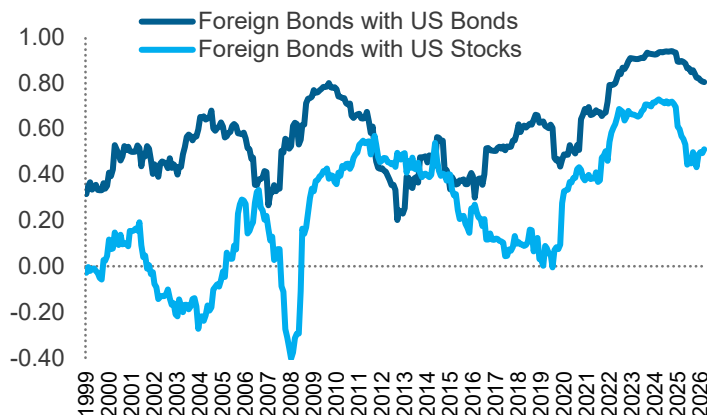
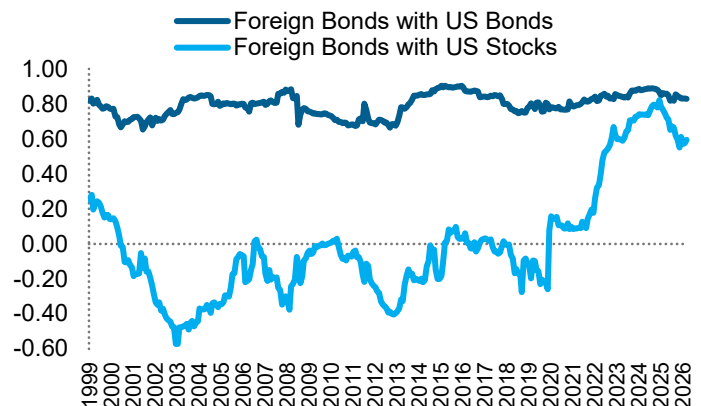


Figure 6
Rolling Three-Year Correlations (Unhedged)



Source: INVMetrics and Barclay's Live, for the period from April 1999 through June 2026. Indices Used: the Russell 3000 Index, the Bloomberg US Aggregate Index, and Bloomberg Global Aggregate ex-USD Index.

Figure 7
Rolling Three-Year Correlations (Hedged)



Source: INVMetrics and Barclay's Live, for the period from April 1999 through June 2026. Indices Used: the Russell 3000 Index, the Bloomberg Aggregate Index, and Bloomberg Global Aggregate ex-USD (Hedged) Index.

Benefits and Risks

Historically, the primary attraction of foreign bonds for US-based investors has been their low correlation with domestic assets (see Figure 6). For example, from 2001 to 2020, the correlation between unhedged foreign bonds and US equities was 0.18.⁷ However, much of this period represented a benign interest rate environment. Once global interest rates started to increase, so too did the correlation between foreign bonds and both US bonds and US equities. Hence, the correlation is (intuitively) dependent on the prevailing interest rate environment, among other factors.⁸

One of the primary reasons for the variable correlation between domestic and unhedged foreign bonds was the impact of changes in the US dollar versus foreign currencies. When one hedges the foreign bond portfolio, the correlation between foreign bonds and US equities declines, becoming negative for most of the period (see Figure 7). In contrast, the correlation between foreign bonds and US bonds increases, becoming consistently and considerably higher. The reason for this is that the act of hedging mitigates the currency risk and leaves interest rate risk as the primary driver of returns.

Taken together, the primary driver of volatility for US-based investors in unhedged foreign bonds is currency risk, which represents an uncompensated risk for most investors. However, once foreign bonds are hedged, they act very much like US bonds, with the primary driver being interest rate risk.

Like US bonds, unhedged foreign bonds have tended to offer some protection during periods of historical equity market stress (see Figure 8). As shown, foreign bonds generally experienced gains or only small losses during periods of market stress. In some of those periods, they

even outperformed US bonds. However, they suffered even worse than US bonds during the recent rate-hiking cycle.

In diversified investment programs, bonds help mitigate equity volatility while providing a predictable level of income. Shifting assets from US bonds to foreign bonds would have had minimal impact historically on risk-adjusted returns for portfolios with a high equity allocation (see Figure 9) as the nearly identical Sharpe ratios for each portfolio illustrates.

Figure 8
Historical Scenario Analysis

Scenario	Foreign Bonds	US Bonds	US Equities
Post-COVID Rate Hikes (Jan 2022 - Oct 2023)	-22.02%	-15.42%	-11.60%
COVID-19 Market Shock (Feb 2020 - Mar 2020)	-4.45%	-0.94%	-34.96%
Eurozone Debt Crisis (July 2011 - Sept 2011)	-0.74%	3.82%	-15.28%
Global Financial Crisis (Oct 2007 - Mar 2009)	2.06%	8.52%	-45.95%
Popping of the TMT Bubble (Apr 2000 - Sep 2002)	8.50%	28.56%	-43.09%
LTCM (Jul - Aug 1998)	3.48%	1.84%	-16.86%
Rate spike (1994 Calendar Year)	5.33%	-2.92%	0.19%
Early 1990s Recession (Jun - Oct 1990)	15.83%	3.78%	-16.25%
Crash of 1987 (Sep - Nov 1987)	-0.30%	2.17%	-29.83%
Strong dollar (Jan 1981 - Sep 1982)	34.84%	29.91%	-3.36%
Volcker Recession (Jan - Mar 1980)	-6.51%	-8.71%	-6.32%
Stagflation (Jan 1973 - Sep 1974)	-1.38%	7.92%	-42.63%

Source: Meketa analysis based on data from the Russell 3000 Index, Bloomberg Global Aggregate ex-USD Index, and the Bloomberg US Aggregate Index.

Figure 9
Portfolio Characteristics (60–40)

	Annualized Returns	Annualized Standard Deviation	Sharpe Ratio
60% US Stocks / 40% US Bonds	7.1%	9.7%	0.53
60% US Stocks / 30% US Bonds / 10% in Foreign Bonds (unhedged)	7.0%	9.6%	0.50
60% US Stocks / 30% US Bonds / 10% in Foreign Bonds (USD hedged)	7.1%	9.6%	0.53

Source: INVMetrics and FRED for the period from April 1999 through June 2026. Indices Used: the Russell 3000 Index, Bloomberg US Aggregate Index, Bloomberg Global Aggregate Ex USD, Bloomberg Aggregate Ex USD Hedged, and 3-Month Treasury Bill secondary market rate, discount basis. The Sharpe ratio is calculated using a risk-free rate of 2.0%, representing the average monthly return on the 3-month Treasury Bill during the period. The blended portfolios shown are hypothetical and do not represent an actual investment, fund, or strategy. Results are constructed by combining unmanaged index returns at the stated fixed allocations, rebalanced periodically, and do not reflect investment management fees, transaction costs, or other expenses. Hypothetical results have inherent limitations and should not be relied upon as an indication of actual future performance.

Figure 10
Portfolio Characteristics (25–75)

	Annualized Returns	Annualized Standard Deviation	Sharpe Ratio
25% US Stocks / 75% US Bonds	5.3%	5.3%	0.64
25% US Stocks / 60% US Bonds / 15% in Foreign Bonds (unhedged)	5.1%	5.1%	0.56
25% US Stocks / 60% US Bonds / 15% in Foreign Bonds (USD hedged)	5.3%	5.1%	0.66

Source: Ibid.

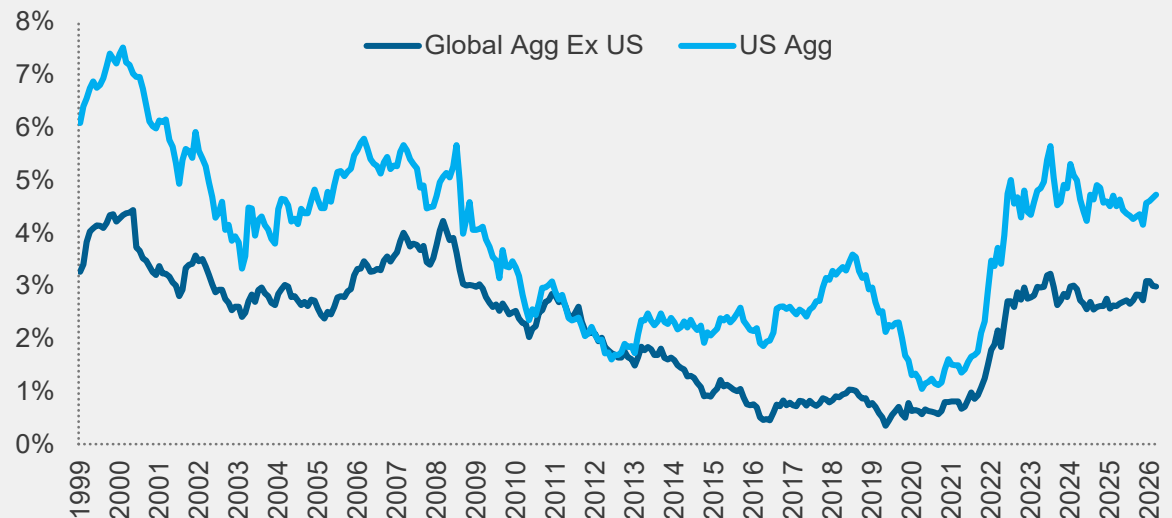
Looking at more conservative allocations, the outcome between the two forms of foreign bond exposure diverges, however not substantially (see Figure 10). Shifting 15% of the portfolio from US bonds to unhedged foreign bonds would have modestly reduced the portfolio's risk-adjusted returns, implying the added currency volatility was not compensated for by higher returns. A currency-hedged allocation would have only marginally reduced volatility and improved risk-adjusted returns.

While foreign and US interest rates have tended to move in similar directions historically (see Figure 11), that may not universally be the case going forward. Exposure to foreign bonds may offer diversification potential via decreased exposure to the US interest rate cycle and

US inflation. For example, if US rates rise because domestic inflation or monetary policy pressures are more acute than in other developed markets, US bonds would likely face greater price pressure than bonds issued in markets where rates are stable or falling. Conversely, if non-US central banks tighten policy while the Federal Reserve eases or holds rates steady, foreign bonds could underperform US bonds. This difference in regional rate cycles can reduce the degree to which all high-quality bonds move together, particularly for currency-hedged foreign bonds where interest rate exposure, rather than currency movement, becomes the primary driver of returns. And while US bonds have tended to offer higher yields historically, that, too, may not hold in the future.

Figure 11
Yield to Worst of
Foreign vs. US
Bonds

Source: Barclay's Live, for the period from April 1999 through June 2026. Indices Used: Bloomberg Global Aggregate ex-USD Index and Bloomberg US Aggregate Index.



Currency Risk and Hedging

Investors in any security denominated in a foreign currency are subject to the risk of the foreign currency declining relative to the investor's domestic currency. Should the US dollar strengthen relative to foreign currencies, unhedged foreign debt strategies would likely lag their domestic counterparts. Hence, it is important for an investor or their investment manager, via delegation, to have a policy regarding currency risk.

Purchasing the appropriate hedging instruments, such as forward contracts, futures contracts, or options, can mitigate or even eliminate the effect of currency movements. While currency hedges eliminate the currency portion of a foreign security's return volatility, the cost of even partially hedging exposure to a particular currency could diminish the investment's return. Generally, the hedger pays both a bid-ask spread and an implicit interest cost, depending on the currency pair traded.⁹ In addition, given the many different currencies in a portfolio and the changing exposures to each, it would be unrealistic to believe that investors can implement the hedges without some marginal amount of tracking error.

Most investors will already have foreign currency exposure via other asset classes. The currency hedging decision is generally best evaluated in the context of an investor's total portfolio exposure to foreign currencies, rather than on an individual investment basis.¹⁰ Still, it may

be beneficial to allow active foreign bond managers to hedge currency exposure opportunistically and in limited circumstances. For example, if the manager believes that a particular bond is very attractive, but that the underlying currency is highly volatile, then there may be a good case to be made for allowing the manager to buy the bond and hedge (i.e., eliminate) the currency risk.

While selective hedging might be appropriate, outright speculation in foreign currencies could add unwanted volatility, and in many cases, it does not represent a competitive advantage for the fixed income manager (whereas hiring a dedicated currency manager would be expected to bring that skill set). If a manager has discretion to hedge currency exposure, then a hedged benchmark is appropriate: the policy decision is to avoid uncompensated currency risk, and accountability is with the manager for how much currency risk to take on.

Other Risks

In addition to the currency risk discussed above, all fixed income investors are exposed to credit risk, which includes the risk of not being repaid by a borrower (i.e., default risk) and the risk that spreads will widen (i.e., credit spread risk). While debt issued by developed market governments is often considered at low risk of default, the growing debt burden of many developed markets has called this viewpoint into question.¹¹ Global government debt remains elevated and is projected to

continue rising across a broad range of advanced economies, reflecting persistent fiscal deficits, higher interest costs, and demographic pressures.¹²

When the borrower is a government, credit risk also includes sovereign risk. Investors in all sovereign debt must contend with the risk of a regulatory or policy change by the issuing government. Foreign debt managers must evaluate both the ability and willingness of a foreign government to pay its debts.

All securities are also subject to liquidity risk, or the risk that investors will have to sell a bond below its fair value because of a specific event or an adverse market environment. During the Global Financial Crisis, foreign debt held up fairly well in aggregate. Future crises may not be as easily weathered.

When investing in assets outside the US, civil insurrection, repudiation of debts, and the state seizure of private assets are political risks that investors must consider, though these risks tend to be far less common in developed countries. Even in a less extreme context, new legislation may alter tax laws, place limits on foreign ownership of domestic assets, or introduce regulatory or accounting costs to businesses. These political risks are separate from ordinary market risks.

Strategies and Investment Vehicles

Passive and Active Management

Historically, active foreign bond managers have shown mixed abilities to outperform the passive benchmarks.

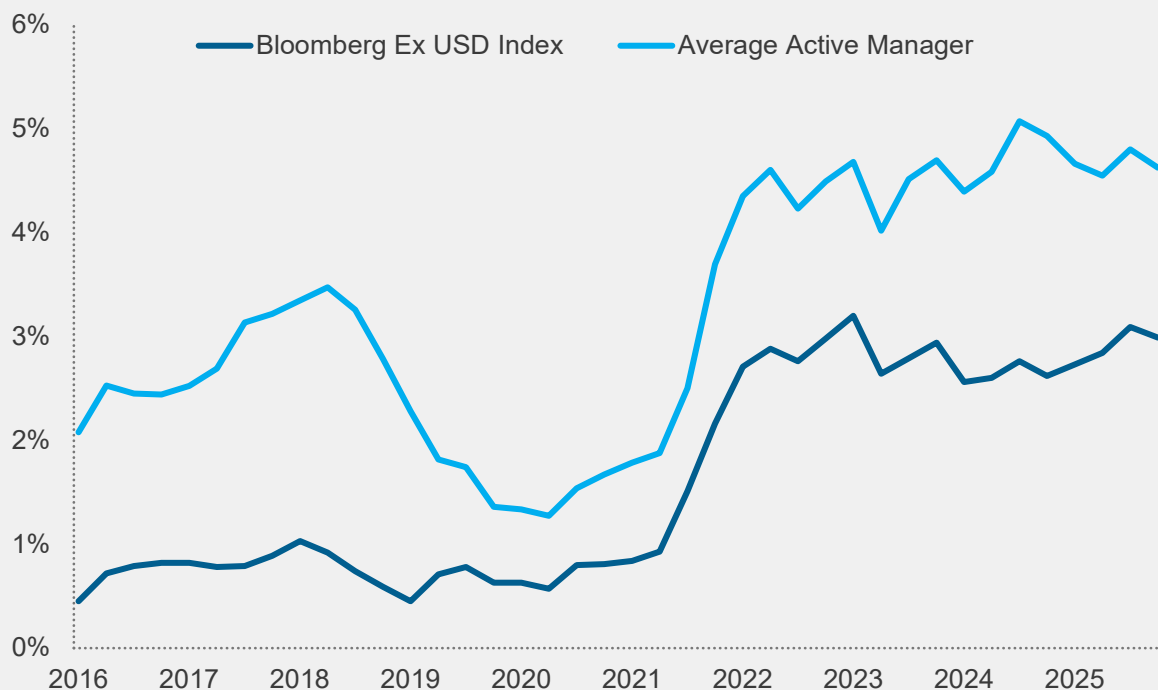
For the ten-year period ended September 2025, the median foreign debt manager generated annual excess returns of 1.5%, gross of fees, relative to the Bloomberg Global Aggregate ex USD Index.¹³ The interquartile spread for the ten-year period was 4.2%, implying that the asset class was modestly inefficient. However, the scale of the excess returns and interquartile spread may be largely due to the small size of the universe being measured, as just 11 funds had a ten-year track record.¹⁴ With so few observations, relative performance results may be disproportionately influenced by outcomes from a small number of managers.

In addition, active managers typically held higher yielding portfolios relative to the benchmark. On average, the yield-to-worst across actively managed funds exceeded that of the Bloomberg Global Aggregate ex USD Index by 1.8%, suggesting greater exposure to higher-yielding and potentially riskier segments of the market (see Figure 12).

Figure 12

Yield to Worst of Average Active Manager vs. the Index

Source: eVestment Alliance and Barclay's Live, as of June 30, 2026. Index used: Bloomberg Global Aggregate Ex USD Index. Active manager data is based on eVestment's Non-US Diversified Income Universe, filtered for primary investment approach not equal to passive (i.e. active) and default reporting vehicle, performance reported gross of fees. Quarterly manager yield-to-worst values represent the simple average of reporting managers. The number of reporting funds varied by quarter, ranging from 8 to 14 over the ten-year period ended June 30, 2026.



This 1.8% yield differential versus the benchmark more than accounts for the 1.5% average excess return earned by active managers, even before subtracting fees. Hence, while active managers can arguably beat the benchmark in this space, there is no compelling evidence to suggest that they can do so on a consistent basis, net of fees, relative to the amount of additional risk they are taking on.

Investment Vehicles

As with many other publicly-traded asset classes, it is possible to gain exposure to foreign bonds via a passive investment vehicle such as an index fund or exchange-traded fund (ETF). As with other asset classes, the fee for passive vehicles tends to be considerably lower than what most active managers charge.¹⁵ Several other large institutional index providers also offer passive strategies via commingled vehicles that may charge even lower fees.

For investors who choose to hire an active manager, they can use a separate account or a commingled fund. Total operating costs are often lower for a commingled fund, which can be many times the size of a separate account for most institutional investors. Additionally, commingling smaller accounts lowers transaction costs, as the netting of inflows and outflows from different mandates reduces the volume of securities that a manager must trade. For many investors that seek active exposure to foreign debt, a commingled fund is more commonly used given its typically lower operating costs and reduced transaction costs from netting flows across mandates.

Investment Costs

The costs of investing in foreign debt are generally higher than those of investing domestically. Investment managers indicate that trading costs for developed sovereign market debt have generally fallen within the single-digit basis point range, but costs vary by market, issue, liquidity, and trade size.¹⁶ Second, the custody and accounting work required to maintain the investments is more complex and more expensive than for US bonds, and investors may incur currency hedging costs.¹⁷ Third, foreign governments sometimes levy withholding taxes on interest, thus increasing costs and reducing returns for all foreign-issued debt. Different vehicles, however, can result in different tax withholding treatments for various types of investors. For example, certain commingled funds are “tax-transparent”

helping an investor use their US tax status to avoid foreign withholding taxes. Other funds are tax privileged themselves. Finally, portfolio management fees are relatively high compared to other fixed income assets. The median fee for all product types for foreign bonds on a \$100 million mandate is 35 basis points, compared to 28 basis points for investment grade bonds and 23 basis points for long-term US government bonds.¹⁸

Type of Mandate

The two basic choices are either a government-only mandate (often benchmarked to the FTSE World Government Bond Index (WGBI) ex-US) or a broader mandate that includes corporate and securitized bonds (often benchmarked to the Bloomberg Global Aggregate ex-US). Accordingly, this choice will come down to a basic trade-off between additional yield and additional credit risk, along with associated factors like interest-rate sensitivity and downside protection.

Because bond indices are typically issuance weighted, their largest weightings are those governments that have taken on the greatest debt burden (e.g., Japan, France, and the UK). One alternative to this approach is to use a GDP-weighted benchmark, which results in a lower weighting to high-debt countries, with the biggest difference being the reduced weighting of Japanese bonds (see the Appendix for a comparison). Another option for investors of a large enough size to warrant a separate account is to create a customized benchmark and guidelines. In this case, investors can work with the manager to determine country weightings and other constraints.

In addition, some foreign bond managers may want to be able to allocate a portion of their portfolio to emerging market bonds. Some managers may allocate opportunistically to this and other ex-benchmark sectors (e.g., high yield), while others may maintain what appears to be a strategic allocation to them. While there is nothing inherently wrong with this approach, investors should consider the additional risk the manager is accepting when comparing the performance of the manager against their benchmark. Investors should also consider whether the manager is skilled in assessing the risks specific to emerging market and/or foreign developed high yield bonds.

While emerging market (EM) local-currency debt sits outside the primary scope of this paper, it warrants brief mention within a broader foreign debt allocation. EM local debt has historically offered higher yields and higher volatility than developed foreign bonds, along with a rate cycle that is less tied to US policy rates. That said, EM local debt also carries materially higher currency, political, and liquidity risk than foreign developed market bonds. As has been noted, currency movements are a primary driver of shorter-term returns and volatility, and the volatility of emerging market bonds has tended to more closely resemble high yield bonds than investment grade bonds. As a result, investors considering an allocation to emerging market debt may want to evaluate it separately, requiring its own size and manager-selection discipline.¹⁹ China warrants particular attention within the emerging market debt universe. Although it is the world's second-largest debt issuer, China continues to be classified as an emerging market due to factors related to market organization and openness to foreign ownership.²⁰

Summary

Foreign bonds occupy a distinct place among the diversifying asset classes available to US-based institutional investors. The feature that most clearly differentiates them from domestic bonds, currency exposure, has also been one of the primary sources of incremental risk. Historically, currency movements have explained much of the difference in returns and volatility between foreign and US bonds. For many US-based investors, whose liabilities and spending needs are denominated in dollars, currency exposure is not typically viewed as a reliable source of expected return. Once hedged, foreign bonds have behaved more like US core bonds, but with exposure to a different set of yield curves and monetary policy regimes. Left unhedged, the allocation becomes a combined bond and currency exposure rather than a pure fixed income diversifier.

This does not argue against foreign bonds, but it does argue for a narrower framing than a naïve diversification case might imply. The historical evidence suggests that foreign bonds can provide incremental benefits, including broader exposure to non-US rate cycles, some resilience in past equity drawdowns, and, on a hedged basis, volatility comparable to or below that of US bonds. Those benefits, however, have generally been modest at the total portfolio level. They also depended in part on the interest rate and currency environment.

Investment grade fixed income typically plays the role of “anchor to windward” in an investor's portfolio. Introducing currency and credit risk, as well as additional operational complexity, can diminish the ability of a bond portfolio to serve in this capacity. For most US-based investors, this remains the primary argument for keeping the core fixed income allocation anchored in high-quality US bonds.

A modest allocation to foreign bonds may still be appropriate for investors seeking to diversify exposure away from the US rate cycle or broaden the opportunity set available to fixed income managers. Where such an allocation is made, the implementation details matter. Hedging can reduce volatility, but it introduces additional costs, operational requirements, and tracking error. Active management may help navigate some of these issues, but the evidence should be weighed carefully against fees and manager dispersion.

The relevant question for investors to consider is whether foreign bonds advance the objectives assigned to fixed income within a given portfolio. For some investors, broader global exposure may improve portfolio construction by diversifying sources of interest rate risk. For others, the diversification benefits may not justify the additional complexity. As with many allocation decisions, the appropriate answer depends less on the asset class itself and more on the role the investor expects it to play within the total portfolio.

Figure 13
Composition of the US and Foreign Bond Markets

	Bloomberg US Aggregate	Bloomberg Global Aggregate Ex-USD	Bloomberg Global Treasury Ex US	Bloomberg GDP Global Agg Ex US
Market Value (MM)	31,433,083	41,404,890	26,234,886	41,404,890
# Issues	14,173	14,493	1,686	14,416
Yield-to-Worst	4.7%	3.0%	3.0%	3.0%
Duration (years)	5.9	6.6	7.4	6.4
Country Weights (%)				
US	93.0	2.4	0.0	1.7
Japan	0.6	13.6	20.3	7.0
France	0.1	8.9	8.7	6.1
Germany	0.3	8.2	7.0	5.7
UK	0.9	7.1	8.8	5.5
Italy	0.0	5.8	8.0	4.0
Spain	0.1	4.0	5.1	2.8
Canada	1.1	5.5	2.8	3.7
Supranational	1.3	3.9	0.0	2.8
China	0.1	19.3	17.9	32.8
Other	2.5 ²¹	21.3 ²²	21.4 ²³	27.9 ²⁴
Currency Weights (%)				
US Dollar	100	0	0	0
Euro	0	42.7	36.5	31.5
Japanese Yen	0	13.4	20.3	7.0
Pound Sterling	0	7.4	8.8	5.8
Canadian Dollar	0	5.1	2.8	3.4
Australian Dollar	0	2.8	2.0	3.0
Korean Won	0	1.7	2.4	3.0
Chinese Yuan	0	19.2	17.9	32.7
Other	0	7.7 ²⁵	9.3 ²⁶	13.6 ²⁷
Sector Weights (%)				
Treasury	46.1	63.4	100	63.0
Government-Related	4.3	21.6	0	24.8
Corporate	24.1	11.3	0	8.7
Other	25.5	3.7	0	3.5

Source: Barclays Live, as of June 30, 2026. Indices Used: Bloomberg US Aggregate, Bloomberg Global Aggregate ex-USD, Global Treasury Ex US, Bloomberg GDP Global Aggregate ex-USD.

End Notes

- ¹ Source: Barclay's Live, as of June 30, 2026. Indices Used: Bloomberg Global Aggregate Index. The index includes both developed and emerging market issuers, provided they meet the investment grade eligibility requirements (See [Global-Aggregate-Index.pdf](#) for more information on index methodology).
- ² Source: Barclay's Live, as of June 30, 2026. Indices Used: Bloomberg Global Aggregate ex-USD Index and Bloomberg US Aggregate Index. The indices referenced throughout this paper are unmanaged and are not available for direct investment. Index returns do not reflect the deduction of investment management fees, transaction costs, or other expenses that an actual investor would incur, which would reduce returns shown.
- ³ Source: Moody's, "Moody's Ratings downgrades United States ratings to Aa1 from Aaa; changes outlook to stable", [2025 United States Sovereign Rating Action - Moody's](#) May 16, 2025.
- ⁴ Source: Moody's, "Moody's Ratings downgrades France's rating to Aa3; changes outlook to stable", [Ratings.Moodys.com/ratings-news/434553?gsid=5f8fd1b-4108-46bf-8bbc-6dcca413281e](#) December 14, 2024.
- ⁵ World Government Bonds, "World Credit Ratings", [World Credit Ratings](#).
- ⁶ In practice, currency hedging is not frictionless. Transaction costs vary based on the type of hedge and frequency of implementing the hedge. Common instruments include derivative contracts (such as forwards, futures, and swaps) that must be monitored, rolled, and rebalanced over time. These implementation requirements can create varying transaction costs, liquidity needs, and basis risk. For US-based investors, the cost of hedging currency exposure is also related to the cost of carry, the short-term interest rate differential between the US and the other currency's country. Depending on the direction of that differential, carry can either reduce or increase hedged returns. For more information, see Meketa's "Currency Hedging" Whitepaper, September 2022.
- ⁷ Source: INVMetrics, for the period January 2001 through January 2020. Indices Used: the Russell 3000 index and the Bloomberg Global Aggregate ex-USD index.
- ⁸ The correlation between US stocks and US bonds likewise increased during this period.
- ⁹ See Meketa's white paper on "Currency Hedging", 2022, for more information.
- ¹⁰ Note, however, that the impact of hedging *on the asset class* is more pronounced for fixed income because the magnitude of the currency volatility is comparable to that of interest rate and spread volatility, whereas currency volatility is typically much smaller than equity volatility.
- ¹¹ Apart from defaults following the Second World War (e.g., Austria, Germany, Japan), since 1900 Greece is the only developed nation to have defaulted, in 2012. In 2013 Greece was recharacterized as an emerging markets economy.
- ¹² Source: International Monetary Fund, "Fiscal Monitor," April 2026.
- ¹³ Data Source: eVestment as of September 30, 2025. Reflects rolling median one-year performance minus the respective benchmark performance over that same period, gross of fees. Benchmark Used: Bloomberg Global Aggregate Ex USD Index.
- ¹⁴ The number of funds with a ten-year track record in the eVestment universe has shrunk since 2019, which further implies that this data should be interpreted with caution.
- ¹⁵ For example, Vanguard's fee for the total International Bond index fund was 0.13% as of April 2026. Source: Morningstar as of April 27, 2026. "Vanguard Total International Bond Index Fund Investor Shares," [VTIBX - Vanguard Total Intl Bd Idx Investor Fund Stock Price | Morningstar](#).
- ¹⁶ Source: Conversation with several asset managers of foreign debt funds, August 2026.
- ¹⁷ Some operational costs for non-US portfolios, including both bonds or equities, require sub-custody, adding an additional layer of operational costs and is very operationally complex.
- ¹⁸ Source: eVestment Alliance, median sliding fee on a \$100 million mandate for all product types as of September 30, 2025. Note that these fees represent rack rate fees.
- ¹⁹ See Meketa's, "Emerging Market Debt White Paper" February 2023.
- ²⁰ Source: MSCI 2026 Global Market Accessibility Review Report, June 2026.
- ²¹ There are 26 additional countries.
- ²² There are 53 additional countries.
- ²³ There are 37 additional countries.
- ²⁴ There are 53 additional countries.
- ²⁵ There are 18 additional currencies.
- ²⁶ There are 18 additional currencies.
- ²⁷ There are 18 additional currencies.

Important Information

This report (the “report”) has been prepared for the sole benefit of the intended recipient (the “recipient”).

Significant events may occur (or have occurred) after the date of this report, and it is not our function or responsibility to update this report. The information contained herein, including any opinions or recommendations, represents our good faith views as of the date of this report and is subject to change at any time. All investments involve risk, and there can be no guarantee that the strategies, tactics, and methods discussed here will be successful.

The information used to prepare this report may have been obtained from investment managers, custodians, and other external sources. Some of this report may have been produced with the assistance of artificial intelligence (“AI”) technology. While we have exercised reasonable care in preparing this report, we cannot guarantee the accuracy, adequacy, validity, reliability, availability, or completeness of any information contained herein, whether obtained externally or produced by the AI.

The recipient should be aware that this report may include AI-generated content that may not have considered all risk factors. The recipient is advised to consult with their Meketa advisor or another professional advisor before making any financial decisions or taking any

action based on the content of this report. We believe the information to be factual and up to date but do not assume any responsibility for errors or omissions in the content produced. Under no circumstances shall we be liable for any special, direct, indirect, consequential, or incidental damages or any damages whatsoever, whether in an action of contract, negligence, or other tort, arising out of or in connection with the use of this content. It is important for the recipient to critically evaluate the information provided.

Certain information contained in this report may constitute “forward-looking statements,” which can be identified by the use of terminology such as “may,” “will,” “should,” “expect,” “aim,” “anticipate,” “target,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Any forward-looking statements, forecasts, projections, valuations, or results in this report are based upon current assumptions. Changes to any assumptions may have a material impact on forward-looking statements, forecasts, projections, valuations, or results. Actual results may therefore be materially different from any forecasts, projections, valuations, or results in this report.

Performance data contained herein represent past performance. Past performance is no guarantee of future results.