

Trader Insights

Actionable Ideas for the Power to Trade Smarter

The Case for Systematic Fixed Income

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Systematic investing uses a disciplined process to better understand how to generate returns and uncover risk. This approach is based on market theory that states portfolios are driven by certain risk factors, including value, momentum and carry. The goal is to create rules-based trading strategies that can access new sources of alpha, while exhibiting low and stable correlations, and offering diversification and hedging benefits.

Systematic strategies have traditionally been applied to equity investing. However, in recent years, solutions for fixed income have emerged, improving transparency and making it easier to enter certain markets. You can now buy an index that tracks the performance of OTC derivatives like interest rate swaps or swaptions, or CDS indices and CDS options. In particular, fixed income systematic strategies can be used as overlays, boosting defensive properties and mitigating drawdowns. For example, in times of market fragility, long-dated interest rates volatility strategies may act as an efficient and cost-effective macro hedge.

At Bank of America, our systematic strategies are based on a thoughtful, scientific approach, applying deep, asset-class-specific knowledge. This is backed by cutting edge financial engineering, groundbreaking research and advanced trading capabilities.

For other actionable insights across asset classes, check out the rest of our Trader Insights series.

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