timeline
MONEY FOR LIFE

Short-dated global credit

The role of corporate bonds in a defensive portfolio

October 2026

Contents

Introduction 3
Corporate Bonds within a Global Aggregate Bond Index 3
Returns and the risk taken to earn them 4
The return premium within corporate bonds 6
How credit behaves when markets fall 7
Choosing the maturity of the credit allocation 8
Adding short-dated credit to a global bond allocation 9
Conclusion 11
Data and methodology 12
Investment risks 12

Introduction

At Timeline, we hold bonds primarily to provide stability within a multi-asset portfolio, particularly when equities are under stress. Choosing which bonds to hold therefore means looking at how they support the portfolio as a whole. This research explores where corporate bonds fit within that allocation.

Corporate bonds typically offer higher yields to compensate investors for lending to companies. However, the same concerns about company finances and the economic outlook that weigh on equities can also affect corporate bonds. Their additional yield therefore comes with risks that matter when we need the bond allocation to provide support.

The time remaining until repayment also makes a difference. Shorter-dated bonds are generally less sensitive to changes in market yields than longer-dated bonds, although they still carry the risks associated with the issuer. In this study, we compare short-dated and all-maturity global investment-grade corporate bonds with global aggregate bonds, looking at their returns, volatility, losses and recovery across different market conditions.

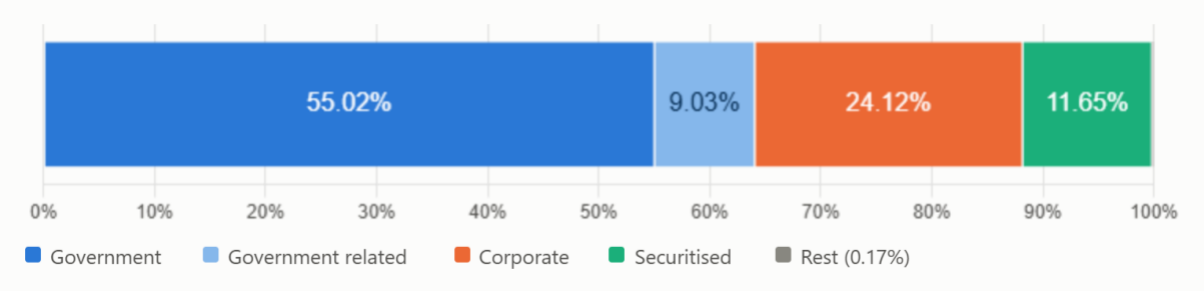
We begin with the composition of the global bond market, then compare how corporate and aggregate bonds performed from October 2018 to September 2026, including the additional return from corporate bonds and how they behaved during periods of market stress. Finally, we assess how replacing 15% of a global aggregate bond allocation with short-dated corporate bonds would have affected its returns and risk over that period.

Corporate Bonds within a Global Aggregate Bond Index

Before looking more closely at corporate bonds, it helps to understand where they sit within the global bond market. A global aggregate bond index brings together government, corporate and other investment-grade bonds. Investors holding this broad exposure therefore already have some of their money invested in company debt.

Figure 1 below illustrates this mix. Government and government-related bonds accounted for around 64% of the holdings shown at 30 September 2026, while corporate bonds represented about 24%.

Figure 1: Composition of global aggregate bonds



Source: Morningstar. Fund holdings at 30 September 2026 for the Vanguard Global Bond Index Fund Institutional Plus GBP Hedged Acc (ISIN IE00BPT2BQ43), used as a proxy for the composition of global aggregate bonds. Morningstar sector classifications. Rest includes municipal bonds, cash and derivatives. Figures may not sum to 100% because of rounding.

For global bond investors considering a separate corporate bond allocation, the decision is therefore about increasing an existing exposure. Doing so changes the balance of risks within the portfolio. Both government and corporate bond prices respond to changes in market yields, but corporate bonds also respond to changes in investors' confidence in the companies issuing them.

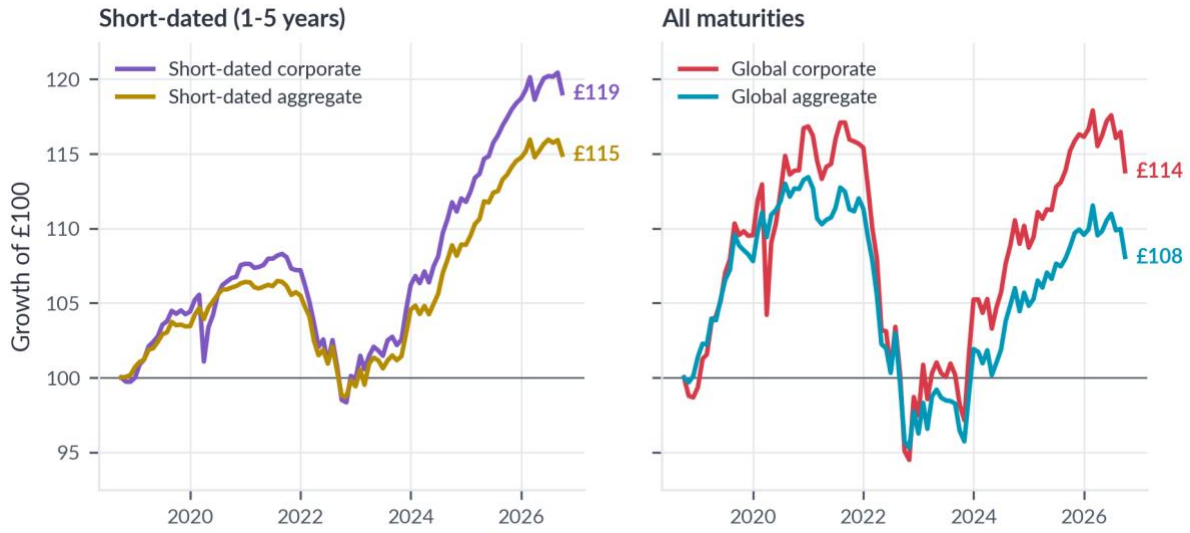
The maturity of the bonds matters too. An allocation to short-dated corporate bonds increases exposure to company debt while generally reducing sensitivity to changes in yields compared with longer-dated holdings. Assessing the allocation therefore means considering both its credit risk and its interest rate sensitivity.

We start with a simple comparison of how corporate bonds performed against aggregate bonds of similar maturity and how much risk was taken along the way. We then examine the size and consistency of the additional return from corporate bonds.

Returns and the risk taken to earn them

Figure 2 below compares the growth of £100 invested in corporate bonds with the same amount invested in aggregate bonds of similar maturity. The left panel covers bonds with one to five years until repayment, and the right panel covers all maturities. Both panels use the same scale.

Figure 2: Growth of £100 in corporate and aggregate bonds



Source: Timeline calculations from Morningstar. Monthly total returns in GBP, with all bond series hedged to GBP, from October 2018 to September 2026 (96 months), starting from £100 at 30 September 2018. Short-dated series cover maturities of one to five years. Global aggregate bonds use the Morningstar Global Core Bond Index (index, gross of fees). Short-dated aggregate, short-dated corporate and global corporate bonds use the Vanguard Global Short-Term Bond, Global Short-Term Corporate Bond and Global Corporate Bond Index Funds respectively (funds, net of fund charges). Further detail is in Data and methodology.

Past performance is not indicative of future returns.

Corporate bonds delivered higher returns than aggregate bonds in both maturity groups over the full period, although they fell behind during some market sell-offs. The short-dated series followed a steadier path, while the all-maturity series experienced larger swings.
To assess what this meant for investors, Table 1 below compares returns, volatility and the largest losses across the four bond series, with cash included for reference.

Table 1: Return and risk over the full period

	Return pa %	Volatility %	Sharpe ratio	Max drawdown %	Worst month %
Global short-dated aggregate 1-5y	1.76	2.19	−0.31	−7.3	−1.6
Global short-dated corporate 1-5y	2.20	3.15	−0.07	−9.2	−4.2
Global aggregate bonds	0.98	4.58	−0.32	−16.0	−3.9
Global corporate bonds	1.63	6.57	−0.12	−19.3	−7.7
Cash (SONIA)	2.42	0.59	–	0.0	0.0

Source: Timeline calculations from Morningstar and Bank of England. Monthly total returns in GBP, with all bond series hedged to GBP, from October 2018 to September 2026 (96 months). Returns and volatility are annualised. Sharpe ratios use SONIA and drawdowns use month-end values. Short-dated series cover maturities of one to five years. Global aggregate bonds use the Morningstar Global Core Bond Index (index, gross of fees). Short-dated aggregate, short-dated corporate and global corporate bonds use the Vanguard Global Short-Term Bond, Global Short-Term Corporate Bond and Global Corporate Bond Index Funds respectively (funds, net of fund charges). Cash uses SONIA from the Bank of England, calculated as the monthly average of daily SONIA divided by 12. Further detail is in Data and methodology.

Past performance is not indicative of future returns.

The eight years from October 2018 to September 2026 were a difficult period for bonds, with all four bond series returning less than cash. All-maturity corporate bonds experienced the largest fluctuations and deepest losses, while both short-dated series delivered higher returns with less volatility.

Short-dated corporate bonds earned the highest return among the bond series. Short-dated aggregate bonds offered a smoother experience and smaller losses, but a lower return. The additional return from corporate bonds therefore came with additional risk.

Table 2 below shows how these results varied across the individual years, using 12-month periods ending each September. It also includes the simulated 85/15 blend examined later in the report.

Table 2: Discrete 12-month returns to 30 September

	Sep 2019	Sep 2020	Sep 2021	Sep 2022	Sep 2023	Sep 2024	Sep 2025	Sep 2026
Global aggregate bonds	8.9	3.5	−1.2	−14.0	0.7	9.9	2.6	−0.6
Global short-dated aggregate 1-5y	3.5	2.4	0.1	−6.9	2.4	7.6	4.3	1.2
Global short-dated corporate 1-5y	4.3	2.3	1.3	−8.9	3.7	9.4	5.1	1.4
Global corporate bonds	9.6	3.9	1.8	−18.0	3.3	12.6	4.2	−1.2
Cash (SONIA)	0.7	0.4	0.1	0.7	4.1	5.3	4.5	3.8
85/15 blend (simulated)	8.2	3.3	−0.9	−13.2	1.2	9.8	3.0	−0.3

Source: Timeline calculations from Morningstar and Bank of England. Total returns in GBP, with all bond series hedged to GBP, in % for each 12 months ending 30 September, from September 2019 to September 2026. Data starts in October 2018. Short-dated series cover maturities of one to five years. Global aggregate bonds use the Morningstar Global Core Bond Index (index, gross of fees). Short-dated aggregate, short-dated corporate and global corporate bonds use the Vanguard Global Short-Term Bond, Global Short-Term Corporate Bond and Global Corporate Bond Index Funds respectively (funds, net of fund charges). Cash uses SONIA from the Bank of England, calculated as the monthly average of daily SONIA divided by 12. The 85/15 blend is 85% global aggregate bonds and 15% short-dated corporate bonds, rebalanced monthly. It is simulated and combines an index gross of fees with a fund net of fund charges. Further detail is in Data and methodology.

Past performance is not indicative of future returns.

The year to September 2022 was particularly difficult. All four bond series lost value, with falls ranging from 6.9% for short-dated aggregate bonds to 18.0% for all-maturity corporate bonds.

Returns improved in the following years, with short-dated corporate bonds leading the bond comparisons in three of the four subsequent 12-month periods. Over the three years to September 2026, they returned 5.23% a year, compared with 4.55% for cash and 3.87% for global aggregate bonds.

The return premium within corporate bonds

In the previous section, we looked at how corporate and aggregate bonds performed and the risks investors faced along the way. We now take a closer look at the extra return from corporate bonds, beginning with why investors expect a higher return when investing in corporate debt.

When investors lend to a company, they accept the risk that the company may default on some of its debt obligations. They therefore generally demand a higher yield than they would from a government bond of similar maturity with a stronger credit standing. This difference is known as the credit spread. The size of the spread also reflects how easily the bond can be traded and wider market conditions.

That higher yield creates the potential for a return premium, but does not guarantee one. If the company's financial position weakens or investors demand more compensation for risk, its bond price can fall, offsetting the additional yield. Figure 2 above showed that corporate bonds finished ahead from October 2018 to September 2026. The question here is how large that additional return was, and how consistently it was earned.

To measure this, we return to the two comparisons in Figure 2. We compare short-dated corporate bonds with short-dated aggregate bonds, and all-maturity corporate bonds with global aggregate bonds. Since aggregate bonds already include some company debt, we are assessing the effect of increasing that exposure. Differences in holdings and sensitivity to changes in yields also influence the results.

Table 3 below shows how much additional return corporate bonds earned and how consistent that advantage was. Tracking error shows how much their returns varied relative to aggregate bonds. The information ratio puts that extra return in context, with a higher ratio indicating more additional return per unit of variability. Finally, the hit rates show how often corporate bonds finished ahead over one- and three-year periods.

Table 3: Size and consistency of the additional return from credit

	Premium pa %	Tracking error %	Information ratio	12-month hit rate	3-year hit rate
Short-dated corporate 1-5y vs global short-dated aggregate 1-5y	0.47	1.6	0.28	74%	87%
Global corporate vs global aggregate bonds	0.76	3.2	0.23	78%	79%

Source: Timeline calculations from Morningstar. Monthly total returns in GBP, with all bond series hedged to GBP, from October 2018 to September 2026 (96 months). Short-dated corporate bonds are compared with short-dated aggregate bonds, and global corporate bonds with global aggregate bonds. Short-dated series cover maturities of one to five years. Global aggregate bonds use the Morningstar Global Core Bond Index (index, gross of fees). Short-dated aggregate, short-dated corporate and global corporate bonds use the Vanguard Global Short-Term Bond, Global Short-Term Corporate Bond and Global Corporate Bond Index Funds respectively (funds, net of fund charges). Premium is the annualised average monthly return difference. Tracking error is annualised. Hit rates use 85 overlapping 12-month windows and 61 overlapping 36-month windows. Further detail is in Data and methodology.

Past performance is not indicative of future returns.

Corporate bonds earned an additional return in both comparisons. Short-dated corporate bonds added 0.47% a year over short-dated aggregate bonds, while all-maturity corporate bonds added 0.76% over global aggregate bonds. The larger premium came with greater variability: tracking error was twice as high in the all-maturity comparison.

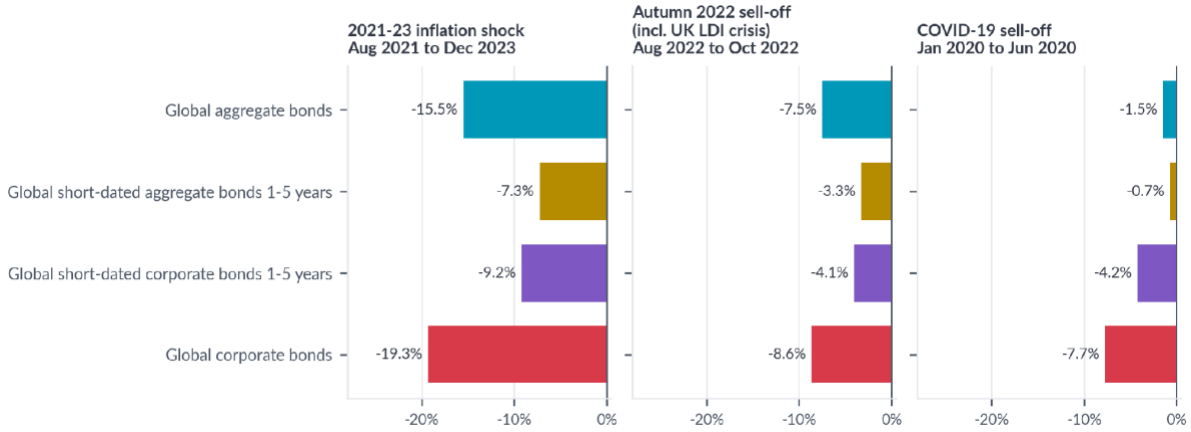
The picture also depended on how long investors held the bonds. All-maturity corporate bonds outperformed slightly more often over one-year periods. Over three years, short-dated corporate bonds finished ahead in 87% of the periods measured, compared with 79% for the all-maturity series. These periods overlap, so many share the same months of performance.

The additional return is only part of the story. For bonds to support a defensive allocation, their behaviour when markets fall matters too. We therefore turn to the losses each bond series experienced during three periods of market stress.

How credit behaves when markets fall

The cause of a sell-off matters. Rising yields tend to hurt longer-duration bonds more, while fears about corporate solvency or market liquidity can widen credit spreads and push corporate bond prices lower. Figure 3 below compares the largest falls within three stress windows. The two 2022-related windows overlap, and the sample does not include the global financial crisis.

Figure 3: Maximum drawdown during bond market stress



Source: Timeline calculations from Morningstar. Monthly total returns in GBP, with all bond series hedged to GBP, from October 2018 to September 2026 (96 months). The stress windows are August 2021 to December 2023, August to October 2022 (including the UK LDI crisis) and January to June 2020. Each drawdown is the largest fall within its window, using month-end values, rather than the return over the whole episode. Short-dated series cover maturities of one to five years. Global aggregate bonds use the Morningstar Global Core Bond Index (index, gross of fees). Short-dated aggregate, short-dated corporate and global corporate bonds use the Vanguard Global Short-Term Bond, Global Short-Term Corporate Bond and Global Corporate Bond Index Funds respectively (funds, net of fund charges). Further detail is in Data and methodology.

Past performance is not indicative of future returns.

The inflation shock shows how much maturity can matter when yields rise. Between August 2021 and December 2023, short-dated corporate bonds experienced a maximum fall of 9.2%, compared with 15.5% for global aggregate bonds and 19.3% for all-maturity corporate bonds. The shorter window from August to October 2022, which included the UK liability-driven investment crisis, showed the same pattern, with falls of 4.1%, 7.5% and 8.6% respectively.

Shorter maturities helped limit the losses, but corporate exposure still carried a cost. Short-dated aggregate bonds held up better than short-dated corporate bonds in both windows.

The COVID-19 sell-off tells a different story. Short-dated corporate bonds fell 4.2%, while global aggregate bonds lost 1.5% and short-dated aggregate bonds just 0.7%. All-maturity

corporate bonds suffered the largest fall, at 7.7%. As concerns about companies' ability to repay their debts intensified, the greater government bond exposure within aggregate bonds proved helpful.

Recovery was relatively quick on this occasion. Both corporate bond series regained their previous peaks four months after reaching their lowest points, compared with two months for global aggregate bonds.

These episodes show why short-dated corporate bonds need to be considered alongside the rest of the bond allocation. Their lower sensitivity to yields helped during the inflation shock, but their exposure to company debt left them more vulnerable than aggregate bonds during the COVID-19 sell-off.

Choosing the maturity of the credit allocation

If the aim is to increase exposure to the credit premium while limiting interest rate risk, shorter-dated corporate bonds offer a way to do this. Their lower duration reduces sensitivity to changes in yields while retaining exposure to corporate credit.

Over the period studied[1], all-maturity corporate bonds earned the larger premium over their aggregate comparator. Short-dated corporate bonds nevertheless delivered the higher total return, at 2.20% a year compared with 1.63%, with roughly half the volatility. Their maximum drawdown was also smaller, at 9.2% versus 19.3%, and they recovered from their deepest trough in 21 months rather than 40 months. The shorter-dated allocation therefore offered a more favourable balance of return and risk in this sample.

The difference in interest rate exposure becomes clearer when we compare the duration of short-dated and all-maturity global corporate bonds. At 30 September 2026, the short-dated corporate bond proxy had an effective duration of 2.7 years, compared with 5.7 years for the all-maturity proxy.[2] As a rough guide, these durations suggest that a one percentage point rise in yields would reduce prices by around 2.7% for short-dated corporate bonds and 5.7% for all-maturity corporate bonds, before allowing for income and other effects. These figures reflect sensitivity at the end of the period, rather than throughout the study.

This lower duration also matters when combining corporate bonds with other holdings. We therefore examine what happens when part of a global aggregate bond allocation is replaced with short-dated corporate bonds, increasing credit exposure while reducing overall duration.

[1] October 2018 to September 2026

[2] Source: Morningstar, effective duration at 30 September 2026 for the Vanguard Global Short-Term Corporate Bond Index Fund GBP Hedged Acc (ISIN IE00BDFB7639) and the Vanguard Global Corporate Bond Index Fund GBP Hedged Acc (ISIN IE00BDFB5M56).

Adding short-dated credit to a global bond allocation

We now bring the two exposures together to see how a modest allocation to short-dated corporate bonds would have affected a broader bond portfolio. We replace 15% of a global aggregate bond holding with short-dated corporate bonds and rebalance monthly. This hypothetical blend uses historical returns and does not represent the performance of a Timeline portfolio.

Table 4 below compares the blend with global aggregate bonds on their own, showing the effect on returns, volatility, losses and recovery.

Table 4: Effect of a 15% short-dated credit allocation

	Return pa %	Volatility %	Sharpe ratio	Max drawdown %	Recovery	2022 %
Global aggregate bonds (100%)	0.98	4.58	−0.32	−16.0	Not yet recovered	−13.5
85% global aggregate bonds + 15% short-dated corporate 1-5y	1.16	4.29	−0.29	−14.9	40 months	−12.5

Simulated past performance. Source: Timeline calculations from Morningstar and Bank of England. Monthly total returns in GBP, with all bond series hedged to GBP, from October 2018 to September 2026 (96 months), with monthly rebalancing. The 85% global aggregate bonds + 15% short-dated corporate 1-5y blend is hypothetical. Global aggregate bonds use the Morningstar Global Core Bond Index (index, gross of fees). Short-dated corporate bonds use the Vanguard Global Short-Term Corporate Bond Index Fund (fund, net of fund charges). Sharpe ratios use SONIA from the Bank of England. The 2022 column is calendar year 2022. Recovery is measured from trough to the previous peak. Further detail is in Data and methodology.

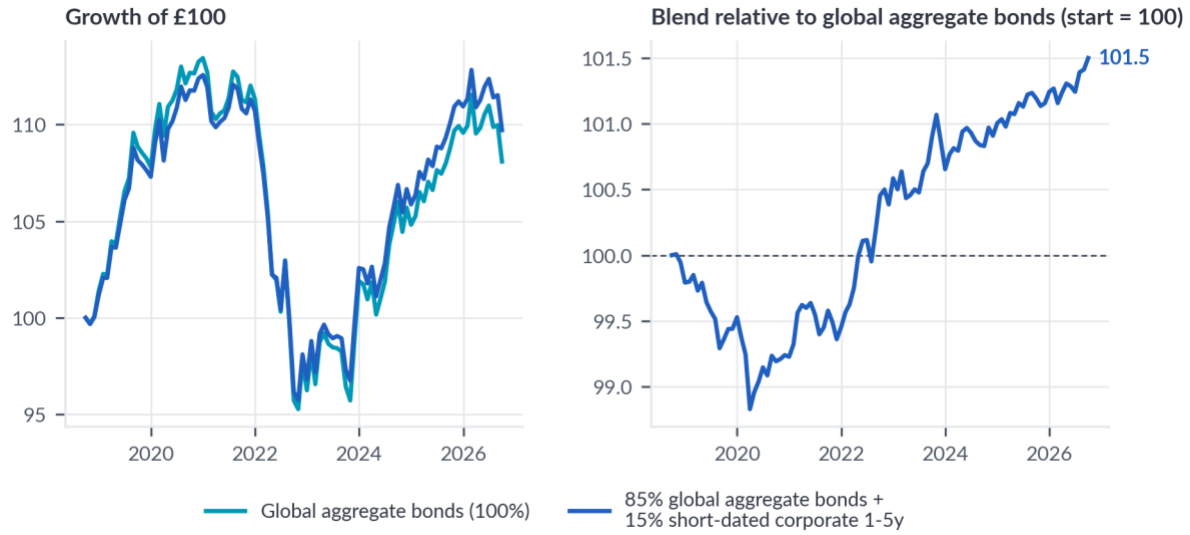
Past performance is not indicative of future returns.

The allocation made a modest difference. Annualised return increased from 0.98% to 1.16%, while volatility and maximum drawdown both fell. The blend recovered its previous peak 40 months after the October 2022 trough, whereas global aggregate bonds remained below their peak at September 2026. Both still returned less than cash over the full period.

The improvement was also visible in 2022, when the blend lost 12.5% compared with 13.5% for global aggregate bonds. Short-dated corporate bonds softened the decline, although the overall loss remained substantial.

Figure 4 below shows how these results developed. The left panel follows the growth of £100 in each allocation. The right panel highlights the difference between them, with a reading above 100 indicating that the blend is ahead.

Figure 4: Performance of the 85/15 blend



Simulated past performance. Source: Timeline calculations from Morningstar. Monthly total returns in GBP, with all bond series hedged to GBP, from October 2018 to September 2026 (96 months), starting from £100 at 30 September 2018. The left panel shows growth of £100. The right panel shows blend value divided by the global aggregate value, rebased to 100. The blend is hypothetical, made up of 85% global aggregate bonds and 15% short-dated corporate bonds, and rebalanced monthly. Global aggregate bonds use the Morningstar Global Core Bond Index (index, gross of fees). Short-dated corporate bonds use the Vanguard Global Short-Term Corporate Bond Index Fund (fund, net of fund charges). Further detail is in Data and methodology.

Past performance is not indicative of future returns.

The benefit was not consistent throughout the period. The blend initially lagged global aggregate bonds, with its largest shortfall during the COVID-19 sell-off. It moved ahead in 2022 as yields rose and finished the study 1.5% ahead overall. The close lines in the left panel put that advantage in perspective.

The blend also outperformed in 90% of the rolling three-year periods measured. However, these periods share many of the same months and were influenced by the sharp rise in yields. They should not be read as a 90% likelihood of future outperformance.

Adding short-dated corporate bonds changed the balance of risks by reducing duration and increasing corporate exposure. That combination helped over this period, but it can work against the portfolio when falling yields favour longer-dated bonds or concerns about company debt increase. Its role therefore depends on how it complements the other holdings and supports the portfolio when equities are under stress.

Conclusion

Corporate bonds bring another source of return to a bond portfolio, but that return comes with exposure to the financial health of companies. When economic conditions deteriorate, corporate bonds can come under pressure alongside equities. The COVID-19 sell-off illustrated this clearly, with government-heavy bond holdings providing more stability.

Other market conditions can produce a different outcome. During the inflation shock, shorter-dated corporate bonds held up better than the broader global aggregate allocation. Their lower duration helped limit the impact of rising yields, showing how they can complement a portfolio when its longer-dated holdings are struggling. This benefit came from the combination of credit exposure and shorter maturity, rather than corporate bonds being inherently more defensive.

Controlling duration is therefore central to the case for short-dated credit. It allows investors to seek the credit premium while limiting the extent to which changes in yields drive returns. Interest rate risk remains, but it is less pronounced than in an all-maturity corporate bond allocation.

The 85/15 simulation shows how this balance could work in practice. A modest short-dated corporate allocation increased returns and reduced volatility and losses over the period studied, although it did not help in every market environment. For Timeline, its potential lies in complementing the existing bond holdings. Combining different sources of return and risk can support a more diversified allocation, while retaining high-quality government bonds for the protection they may offer when equities are under stress.

Data and methodology

The analysis uses monthly total returns from October 2018 to September 2026, in GBP. All bond series are hedged to GBP. The two corporate fund series begin in December 2017 and September 2026 is the latest month for which every series has data. Counting back in whole 12-month periods gives October 2018 as the start, which means eight complete years. The fund proxies represent asset classes; their inclusion is not a fund recommendation.

Global aggregate bond returns use the Morningstar Global Core Bond Index, GBP hedged and gross of fees. Portfolio composition uses the Vanguard Global Bond Index Fund Institutional Plus GBP Hedged Acc, ISIN IE00BPT2BQ43. The return series and holdings proxy are different, so the holdings shown are illustrative of the market rather than the precise return-index weights.

Short-dated aggregate bonds, short-dated corporate bonds and all-maturity corporate bonds use the Vanguard Global Short-Term Bond, Global Short-Term Corporate Bond and Global Corporate Bond Index Funds respectively, in GBP-hedged share classes. Returns are net of their ongoing charges. The short-dated funds cover maturities of one to five years. Charges for other investments may differ. Index returns exclude investment costs, and indices cannot be invested in directly. Morningstar index histories may include results calculated before an index launched.

Table 3 annualises the average monthly return difference, which can differ from the gap between compounded annualised returns in Table 1. Tracking error is the annualised volatility of that difference. Sharpe ratios use monthly SONIA. Drawdowns use month-end values and may miss larger falls within a month. Rolling return windows overlap.

The 85/15 blend uses the actual past returns of the two proxies, rebalanced monthly. Its results combine an index gross of fees with a fund net of charges. No separate allowance is made for portfolio-level fees, dealing costs or taxes. They do not represent the returns an investor necessarily could have achieved.

Sources: Morningstar, fund and index total returns, sector weights and effective durations. Global equity returns for the 2022 comparison use the Morningstar Global Target Market Exposure Index in GBP, unhedged. Bank of England, Official Bank Rate history, www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp; and SONIA benchmark, www.bankofengland.co.uk/markets/sonia-benchmark.

Investment risks

Bonds are exposed to interest rate, credit and liquidity risk. Currency hedging reduces, but does not eliminate, currency risk. Diversification does not guarantee against loss. Past performance, including simulated past performance, is not a reliable indicator of future results.

timeline
MONEY FOR LIFE

Email support@timeline.co

Office 70 Gracechurch St
4th Floor
London
EC3V 0HR

timeline.co

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