



Index Insights | Fixed Income

A Re-Emerging Portfolio Building Block: The Case for International Inflation-Linked Securities

February 2026

**FTSE
RUSSELL**
An LSEG Business

AUTHOR

Jack Fischer
US Product Lead, FICC
jack.fischer@lseg.com

Contents

Introduction..... 3

International Inflation-Linked Securities Primer 4

 ILS Overview and the Role of the Breakeven Inflation Rate 4

 ILS Structure 5

 ILS Market..... 6

Index Methodology 9

 FTSE World Inflation-Linked Securities Index (WILSI)..... 9

 FTSE International Inflation-Linked Securities Select Index (SILSI)..... 9

Index Analysis 11

 Risk Snapshot..... 11

 Historical Risk Characteristics 16

 Historical Performance..... 19

 Portfolio Considerations..... 22

Summary 25

 Index Codes 26

Introduction

I am constantly reminded of how quickly trends emerge and fade, how once-dismissed strategies regain favor, and how essential it is to regularly reassess sectors, investment ideas, and index methodologies.

International fixed income has been one such area—it is not only being revisited but dynamically redefined. For the purposes of this paper, “international”, refers to global mandates, funds, or indices that exclude the United States and/or US dollar (USD) denominated assets¹.

In the table below, you will find what are traditionally considered the standard, broad-based fixed income building blocks for US-domiciled investment strategies, grouped by regional focus. We also show a representative FTSE Russell fixed income index for each sector.

Table 1: FTSE Russell Broad-Based Fixed Income Indices

| Focus | Broad-Based Sector | FTSE Russell Fixed Income Index |
|--------------------------------|---|--|
| US | US Core Bond | FTSE US Broad Investment Grade Bond Index (USBIG) |
| | US Gov/Credit | FTSE US Government/Credit Index |
| | US Treasury | FTSE US Treasury Index (UST) |
| | US STRIPS | FTSE US STRIPS Index |
| | US TIPS | FTSE US Inflation-Linked Securities Index (USILSI) |
| | US Agency Mortgages | FTSE US Mortgage Index (USM) |
| | US IG Corporates | FTSE US Broad Investment Grade Corporate Index (USBIG Corp) |
| | US HY Corporates | FTSE US High Yield Market Index (HYM) |
| | US Asset-Backed | FTSE ABS Index |
| | US Tax-Exempt Municipal Bonds | FTSE Municipal Tax-Exempt IG Index AMT-Free (MUNITEIG) |
| International (Broad or DM) | International Core Bond | FTSE World Broad Investment Grade Bond Index (WorldBIG) ex-USD |
| | International (Nominal) Sovereigns/Treasuries | FTSE World Government Bond Index (WGBI) ex-US |
| | International IG Corporates | FTSE World Broad Investment Grade Corporate Index (WorldBIG Corp) ex-USD |
| | International HY Corporates | FTSE World High Yield Market Index (WHYM) ex-USD |
| Emerging Markets | EM Broad-Based (USD-Denominated) | FTSE EM USD Broad Based Bond Index (EMUSDBBI) |
| | EM Sovereigns (USD-Denominated) | FTSE EM USD Government Bond Index (EMUSDGBI) |
| | EM Sovereigns (Local Currency) | FTSE EM Government Bond Index (EMGBI) |
| International ILS | International Sovereign Inflation-Linked | FTSE World Inflation-Linked Securities Index (WILSI) ex US |
| | Emerging Market Sovereign Inflation-Linked | FTSE EM Inflation-Linked Securities Index (EMILSI) |

¹ While in this paper “international” will refer to indices that completely exclude US bonds and USD-denominated securities. Fund classification providers like LSEG Lipper and Morningstar will typically use a 65% to 75% threshold to classify whether a US-domiciled fund will be “international-”, “global-”, “emerging-market-” or US-focused. For example, if a fund has a historical average allocation of more than 75% in foreign (ex-US) stocks then it will be considered “international”. To be considered, emerging markets debt-focused, a fund will typically have greater than 65% of its debt securities invested in emerging market countries. Standard “international” indices will generally exclude US and USD-denominated securities altogether.

Generally speaking, US broad-based fixed income sectors are well-established and defined, with extensive risks/return histories and clear portfolio implementation strategies. These US-focused fixed income sectors have been fertile ground for customization and product innovation over the past two years, evident in the surge and variety of ETF launches/filings.

International strategies, which often include additional product considerations, particularly regarding their treatment of foreign exchange exposure, faced strong headwinds in the recent periods of low to negative real yields, sustained USD strength, and equity market dominance. However, these unfavorable market dynamics have since changed course, creating new opportunities for US investors willing to look abroad.

Global market tailwinds are now incentivizing managers, specialists, and investors to embrace the intricacies of hedging costs, local versus hard currency exposure, market-specific liquidity constraints, regional volatility, country classification frameworks, and geopolitical sensitivities.

Most discussions around international fixed income tend to focus on sovereign (nominal) debt, investment-grade credit, and high yield markets, typically packaged into broad-international, developed market, or emerging market exposures. However, one notable international fixed income sector is often overlooked: international inflation-linked securities (ILS), referred to as Treasury Inflation-Protected Securities (TIPS) in the US.

In this paper, we will examine the FTSE World Inflation-Linked Securities Index (**WILSI**), as well as focus on an ex-US variant, the FTSE International Inflation-Linked Securities Select Index² (**SILSI**).

We begin with an overview of the ILS market and instrument structure, compare the methodologies behind WILSI and SILSI, explore their risk/return profiles, and conclude by assessing this sector within a mixed-asset portfolio.

International Inflation-Linked Securities Primer

ILS Overview and the Role of the Breakeven Inflation Rate

Inflation-linked securities (ILS) are fixed-income instruments designed to provide a hedge against the erosion of purchasing power caused by price increases (inflation). The principal (par) value and the coupon payments of ILS are generally linked to an official inflation index (reference index) that tracks the price of a specific basket of goods—in the US, TIPS are linked to the US Consumer Price Index (CPI) for all Urban Consumers.

Since an ILS's principal amount and coupon payments rise in line with the reference (inflation) index, the security's return can be measured in "real" terms (i.e., after accounting for inflation). In comparison, conventional sovereign (nominal) debt has fixed, unadjusted coupons and principal payments, with no protection against rising prices. To be compensated for the lack of inflation protection, investors in nominal sovereign debt expect a higher yield.

The resulting yield spread between nominals and ILS of the same maturity is referred to as the breakeven inflation rate (BEI). While BEI is commonly used as an indicator of inflation expectations, it can also incorporate factors like market risk and liquidity premium.

² SILSI is tracked by a US-listed ETF—SPDR FTSE International Government Inflation-Protected Bond ETF (**WIP**).

The BEI ultimately represents the rate at which the expected returns of nominals and ILS are equal. So, if realized inflation is greater than BEI, investors would earn a higher return holding ILS over nominals, all else equal.

If BEI is declining, then this generally indicates that market-implied inflation expectations have fallen. A declining BEI, combined with higher nominal yields, translates not only into ILS appearing cheaper than usual but also into higher real yields for ILS.

Entering the sector at these higher real yields improves the opportunity for attractive inflation-adjusted returns. As we show later on in this research, this is the current landscape we face today—investors are being offered greater inflation compensation today to hold ILS than in recent years.

ILS Structure

Table 2: Schematic Overview of Inflation-Linked Securities

| Countries | First Issued | Reference Index | Redemption of Par Floor | Approx. Lag (Mo.) | Coupon Frequency | ILS to Total Sov. % ³ |
|----------------|--------------|---------------------------------|-------------------------|------------------------------|------------------|----------------------------------|
| United States | 1997 | BLS CPI for all Urban Consumers | Y | 3 | Semi-Annual | 8.0% |
| United Kingdom | 1981 | ONS RPI ⁴ | N | 3 (post '05) | Semi-Annual | 21.0% |
| France | 1998 | EU HICP / INSEE CPI ex-tobacco | Y | 3 | Annual | 10.0% |
| Mexico | 1989 | INEGI CPI | Y | <1 | Semi-Annual | 45.7% |
| Italy | 2003 | EU HICP ex-tobacco | Y | 3 | Semi-Annual | 7.9% |
| Israel | 1995 | CBS CPI | Y | 3 | Annual | 38.0% |
| Canada | 1991 | Stats CA CPI | N | 3 | Semi-Annual | 4.9% |
| Germany | 2006 | EU HICP ex-tobacco | Y | 3 | Annual | 2.8% |
| Spain | 2014 | EU HICP ex-tobacco | Y | 3 | Annual | 5.8% |
| Australia | 1985 | All Groups CPI | Y | 5 | Quarterly | 5.9% |
| Japan | 2004 | SBJ/ DGPP-SP CPI | Y | 3 | Semi-Annual | 0.7% |
| Sweden | 1994 | SCB CPI | Y | 3 | Annual | 18.7% |
| New Zealand | 1995 | Stats NZ CPI | Y | 5 | Quarterly | 9.5% |
| SILSI Add-Ons | First Issued | Reference Index | Redemption of Par Floor | Approx. Indexation Lag (Mo.) | Coupon Frequency | ILS to Total Sov. % |
| Brazil | 1964 | IBGE IPCA: extended CPI | N | 1 | Semi-Annual | 40.4% |
| South Africa | 2000 | Stats SA CPI | Y | 4 | Semi-Annual | 16.5% |
| Turkey | 1997 | TURKSTAT CPI | Y | 3 | Semi-Annual | 17.9% |
| Chile | 1956 | BCCh IPC | N | 1 | Semi-Annual | 46.1% |
| Colombia | 1967 | DANE CPI | N | 1 | Annual | 33.9% |
| Poland | 2004 | CSO CPI | Y | 2 | Annual | 2.9% |
| Korea | 2007 | KRCPI | Y | 3 | Semi-Annual | 0.4% |

Source: FTSE Russell, national agencies. Data as of 11/30/25.

³ Calculated using FTSE Universal Indices: FTSE Global Inflation-Linked Securities Tracker, FTSE Global Treasury Tracker. These indices represent the market cap weighted, broad markets of ILS and nominal sovereign debt, subject to specific market inclusionary rules such as bond minimum amount outstanding.

⁴ The ONS RPI will change in February 2030, when it is replaced by the UK HICP.

While ILS have a standardized objective and design, there are subtle differences in how each country structures them. These include the security's reference inflation index, whether par is guaranteed at redemption, the length of the indexation lag, and the coupon payment frequency (see Table 2).

The redemption floor is an important concept that provides investors with a guarantee to receive par at maturity. This protects investors even if the reference index decreases, providing deflation insurance.

The indexation lag refers to the time gap between the reporting period of the reference index and the point at which the corresponding adjustment is reflected in the underlying security. For example, in the US the Bureau of Labor Statistics (BLS) publishes the CPI for a given month in the middle of the following month—creating roughly a two-and-a-half month “lag” before the change is realized.

Emerging market (EM) economies often face more persistent and volatile inflationary forces, potentially raising the cost to ILS issuers of issuing inflation-linked debt. However, some EM issuers have issued a large share of their outstanding sovereign debt in inflation-linked form as a way of demonstrating a commitment to reducing inflation. EM ILS also tend to feature shorter indexation lags, making them more responsive to near-term price level surprises.

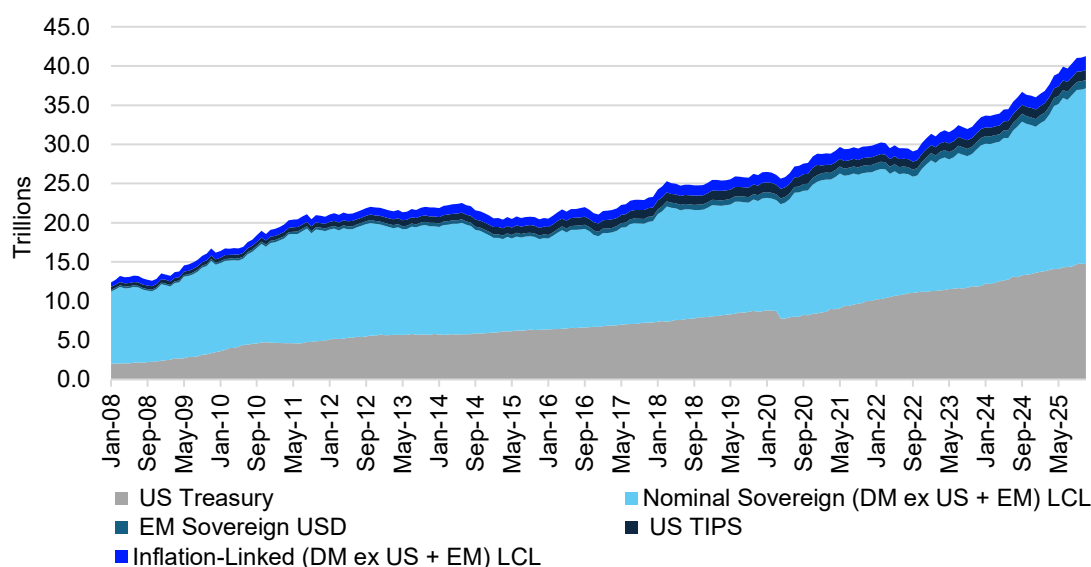
When analyzed individually, the structural differences shown in Table 2 may cause short-term returns of different ILS markets to act differently under similar macro conditions. But an index tracking a broad universe of sovereign-backed, inflation-protected debt can react effectively to both immediate and lingering price shocks worldwide.

ILS Market

Together, FTSE Russell's World Inflation-Linked Securities Index (WILSI) and Emerging Market Inflation-Linked Securities Index (EMILSI) track nineteen countries, accounting for \$3.1 trillion in par outstanding as of November 31, 2025 (\$1.8 trillion if US TIPS are excluded).

The FTSE International Inflation Linked Securities Select Index (SILSI), captures that same ex-US \$1.8 trillion and adds South Korea. Altogether, SILSI tracks 92.8% of the non-US, fixed-rate ILS market. The remaining 7.2% consists of smaller issuances, retail-targeted programs, or (in Japan's case) issuance largely held by the central bank.

For comparison, the FTSE World Government Bond Index – Developed Markets (WGBI-DM) and the FTSE Emerging Markets Government Bond Index (EMGBI) span thirty-eight countries with a total of \$37.1 trillion in nominal, local currency sovereign debt (\$22.4 trillion, excluding US Treasuries).

Chart 1: Nominal vs ILS Amount Outstanding (\$)


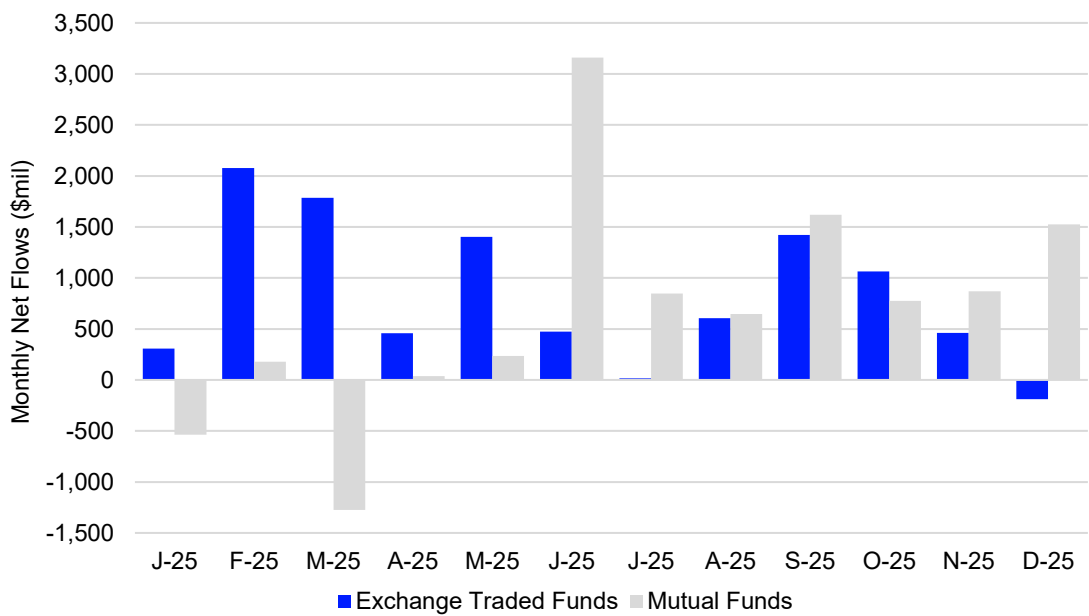
Source: FTSE Russell Index Module (FIXM). The outstanding amount is represented by securities held within the following FTSE Russell indices: FTSE US Treasury Index, FTSE US TIPS Index, FTSE WGBI-Developed Markets Index ex-US, FTSE Emerging Markets Government Bond Index, FTSE Emerging Markets USD Government Bond Index, FTSE WILSI-Developed Markets ex-US, and FTSE Emerging Markets Inflation-Linked Securities Index. Data as of 11/30/25.

Since 2008, the ILS market has accounted for around 8.0% of the international total for fixed-rate, local currency sovereign debt issuance, as tracked by FTSE Russell indices. Despite both Canada and Germany announcing they will no longer issue new inflation-linked debt, the amount outstanding for international ILS has grown a healthy amount (+24%) over the past five years.

Although the total amount outstanding for ILS may seem small in relation to that for nominal fixed-rate treasuries, SILSI tracks a larger total outstanding amount than both the FTSE World High Yield Market Index (WHYM) ex-USD and the FTSE Emerging Markets US Dollar Government Bond Index (EMUSDGBI).

In the US public fund market, demand for US TIPS funds remained strong throughout 2025. Open-ended funds collected a positive \$18.0 billion in year-to-date net flows through December month end— exchange-traded funds (+\$9.9 billion) and conventional mutual funds (+\$8.1 billion). This was the largest annual inflow since 2021 and fifth-largest on record, increasing assets under management to \$256.8 billion according to LSEG Lipper data.

Chart 2: Lipper Inflation-Protected Funds Monthly Net Flows



Source: LSEG Lipper. Includes US-domiciled funds only. Data as of 12/31/25.

In the US there are roughly 50 ETFs with investment mandates specifically focused on inflation-linked securities. Of that group, only one provides dedicated access to the overlooked sector of international ILS.

Index Methodology

FTSE World Inflation-Linked Securities Index (WILSI)

The FTSE World Inflation-Linked Securities Index (WILSI) was launched in 2007 and tracks a broad basket of government bonds whose principal amounts and coupon payments are linked to an inflation index. WILSI currently includes thirteen countries, with bonds denominated in ten currencies. The single currency subcomponents of the WILSI represent some of the most widely analyzed and tracked sectors in the global fixed income market—approximately \$340 billion in public fund AUM worldwide is invested in strategies benchmarked against or indexed to a single currency inflation-linked index, according to LSEG Lipper.

WILSI follows standard fixed income index methodologies, such as requiring a minimum amount outstanding for bonds to enter the index, monthly rebalancing, and market capitalization weighting. In addition to these standard criteria, WILSI also applies specific entry and exit rules based on credit quality, market size, and country classification. These rules follow the standards set by the FTSE World Government Bond Index (WGBI)⁵. This structured approach produces an index that is highly rated, developed market-focused, and maintains a strong liquidity profile⁶.

FTSE International Inflation-Linked Securities Select Index (SILSI)

SILSI casts a wider net in the inflation-linked securities market while simplifying WILSI's eligibility criteria. SILSI excludes US TIPS but expands ILS coverage through the addition of seven markets and a lower minimum credit quality.

To maintain stronger liquidity and tradability, the individual markets carry over the high amount outstanding and float adjusted limits from the base index (see Table 3).

As with most international and global indices tracked by an index-linked fund, SILSI also applies an issuer capping methodology for the fund to maintain Regulated Investment Company (RIC) compliance.

⁵ [FTSE World Government Bond Index \(WGBI\) Series | LSEG](#)

⁶ For further details on FTSE Russell's Fixed Income country classification framework, please see: [Fixed Income Country Classification](#)

Table 3: Index Methodology

| | FTSE WILSI ex-US | FTSE International ILS Select Index (SILSI) |
|-----------------------------|---|--|
| Security Type Inclusion | Sovereign inflation-linked debt denominated in the domestic currency with a fixed-rate coupon. | Same |
| Security Type Exclusion | Nominal coupon rate bonds, variable-rate, private placements, retail bonds, and securities without reliable pricing. | Same |
| Min Maturity | At least one year | Same |
| Rebalance | Monthly, at month end | Same |
| Profile Fixing ⁷ | T-4 | Same |
| Minimum Market Size: | Entry: At least USD 10 billion. Exit: Below USD 5 billion. | N/A |
| Market Accessibility | Minimum level of Level 2 ⁸ | N/A |
| Min Credit Quality | Entry: A-/A3 by S&P/ Moody's Exit: BBB-/Baa3 by S&P/ Moody's | C/Ca by S&P/Moody's |
| Min Issue Size | Americas Canada: CAD 1 billion (excludes BoC holdings) Mexico: MXV 5 billion EMEA EMU (France, Germany, Italy, Spain): EUR 2.5 billion Israel: ILS 5 billion New Zealand: NZD 750 million Sweden: SEK 10 billion UK: GBP 2 billion (excludes BoE/ DMO holdings) Asia-Pacific and Japan Australia: AUD 750 million (excludes RBA holdings) Japan: JPY 250 billion (excludes BoJ/ MoF holdings) | Americas +Brazil: BRL 1 billion (excludes BCB holdings) Canada: CAD 1 billion (excludes BoC holdings) +Columbia COU 3 billion +Chile: CLF 5 million Mexico: MXV 5 billion EMEA EMU (France, Germany, Italy, Spain): EUR 2.5 billion Israel: ILS 5 billion New Zealand: NZD 750 million +Poland: PLN 5 billion +South Africa: ZAR 500 million Sweden: SEK 10 billion +Turkey: TRL 2 billion UK: GBP 2 billion (excludes BoE/ DMO holdings) Asia-Pacific and Japan Australia: AUD 750 million (excludes RBA holdings) Japan: JPY 250 billion (excludes BoJ/ MoF holdings) +South Korea: KRW 1 trillion |
| Weighting | Market capitalization | Market capitalization subject to caps: – Total market weights of the countries with more than 4.6% market weight in the index cannot exceed 45% of the total index weight; and – Individual country is capped at 22.5% |

Sources: [FTSE International Inflation-Linked Securities Select Index](#), [FTSE Russell Fixed Income Guide - December 2025](#)

⁷ Index fixing dates provide a clear reference point for index users to know in advance of any changes to the composition of the indices for the upcoming month. The 2026 schedule of fixing dates available here: [FTSE Russell website – Fixing Dates](#).

⁸ For further details on calibration of Market Accessibility Levels, please see: [Fixed Income Country Classification](#)

Index Analysis

Risk Snapshot

SILSI, through the additional markets and simplification of inclusionary rules, produces a crossover index of developed and emerging market countries, consisting of both investment grade and high yield credit quality. In Table 4, we highlight the November 2025 profiles of both WILSI ex-US and SILSI. In Table 5, we show the country-level characteristics of SILSI.

Table 4: Index Characteristics

| | FTSE WILSI ex-US | FTSE SILSI |
|---------------------------------|------------------|------------|
| Key Stats | | |
| No. of Bonds | 122 | 183 |
| No. of Countries | 12 | 19 |
| No. of Currencies | 9 | 16 |
| Full MV Weighted | | |
| Average Coupon (%) | 1.29 | 1.64 |
| Real Yield (%) | 1.71 | 2.58 |
| YTW (%) | 4.41 | 6.92 |
| Average Life (Yrs) | 12.71 | 11.53 |
| Real Yield Duration | 10.37 | 8.92 |
| Eff. Duration | 8.25 | 5.84 |
| OAS (bps) | 14 | 37 |
| Av. Credit Rating | A+ | A+ |
| Duration Dollar Weighted | | |
| Average Coupon (%) | 1.14 | 1.72 |
| YTW (%) | 4.85 | 6.05 |
| Average Life (Yrs) | 18.30 | 16.75 |
| Eff. Duration | 13.38 | 10.01 |
| OAS (bps) | 8 | 14 |
| Credit Quality (%) | | |
| Investment Grade | 100.0 | 82.9% |
| High Yield | — | 17.1% |
| Region (%) | | |
| Developed Markets | 88.1% | 66.6% |
| Emerging Markets | 11.9% | 33.4% |

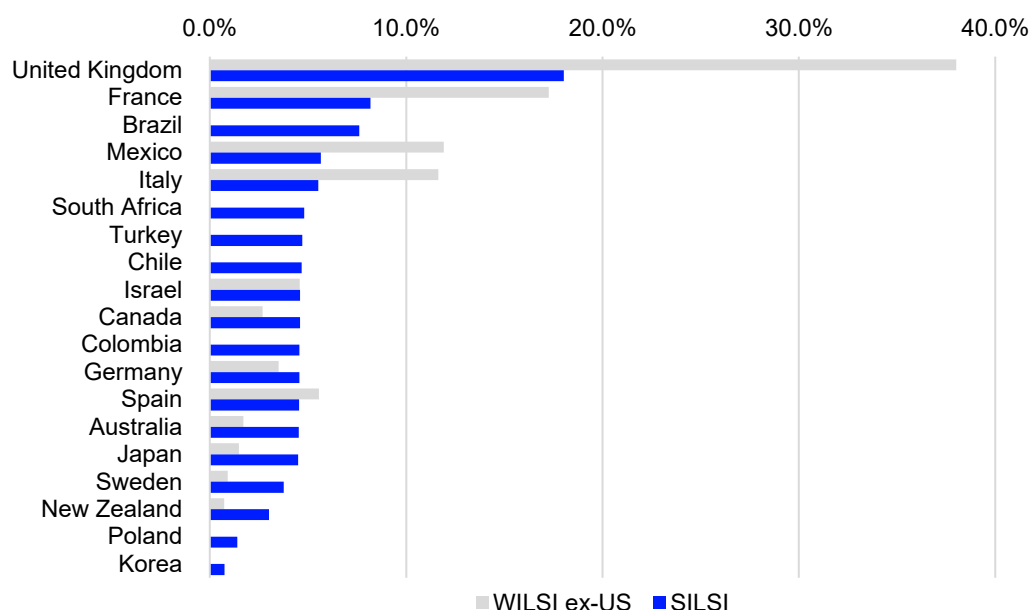
Source: FTSE Russell Index Module (FIXM). Data as of 11/30/25.

Table 5: ILS Country Characteristics

| Countries | Rating | Count | MV % | Real Price | Real Yield | YTW | WAL | Eff. Dur. |
|----------------|--------|-------|-------|------------|------------|------|------|-----------|
| United Kingdom | AA | 34 | 18.0% | 84.87 | 1.6 | 4.7 | 17.7 | 11.5 |
| France | A+ | 17 | 8.2% | 95.85 | 1.2 | 3.0 | 8.7 | 6.0 |
| Mexico | BBB+ | 11 | 5.7% | 95.59 | 4.2 | 8.7 | 13.3 | 5.4 |
| Italy | BBB+ | 12 | 5.5% | 100.81 | 1.3 | 3.3 | 8.9 | 6.6 |
| Israel | A | 10 | 4.6% | 96.60 | 1.9 | 4.0 | 10.0 | 6.2 |
| Canada | AAA | 8 | 4.6% | 102.54 | 1.3 | 3.4 | 16.2 | 12.0 |
| Germany | AAA | 3 | 4.6% | 93.20 | 0.8 | 2.8 | 9.9 | 7.9 |
| Spain | A+ | 5 | 4.6% | 99.76 | 0.9 | 2.8 | 6.5 | 4.7 |
| Australia | AAA | 6 | 4.5% | 94.35 | 1.9 | 4.9 | 9.3 | 5.8 |
| Japan | A+ | 7 | 4.5% | 100.85 | -0.3 | 2.4 | 5.4 | 4.1 |
| Sweden | AAA | 5 | 3.8% | 99.24 | 1.1 | 2.4 | 4.8 | 3.8 |
| New Zealand | AAA | 4 | 3.0% | 101.41 | 2.3 | 5.3 | 11.7 | 4.7 |
| SILSI Add-Ons | Rating | Count | MV % | Real Price | Real Yield | YTW | WAL | Eff. Dur. |
| Brazil | BB | 12 | 7.6% | 92.12 | 7.4 | 12.5 | 13.2 | 1.7 |
| South Africa | BB | 10 | 4.8% | 90.13 | 5.9 | 7.8 | 13.9 | 1.6 |
| Turkey | BB- | 17 | 4.7% | 99.11 | 2.3 | 37.3 | 3.5 | 0.0 |
| Chile | A+ | 8 | 4.7% | 86.17 | 6.3 | 6.7 | 11.8 | 1.7 |
| Colombia | BBB- | 10 | 4.6% | 91.15 | 3.0 | 12.0 | 13.2 | 1.0 |
| Poland | A | 1 | 1.4% | 104.41 | 0.5 | 5.8 | 10.7 | 4.7 |
| South Korea | AA | 3 | 0.7% | 83.55 | 4.4 | 2.9 | 6.0 | 2.8 |

Source: FTSE Russell Index Module (FIXM). Weighted average characteristics use full market value. Data as of 11/30/25.

SILSI's RIC capping and weighting rules improve the diversification of risk across countries, currencies, and regions. The base market cap-weighted ex-US index, on the other hand, remains heavily concentrated in the longer-dated securities issued by the most indebted countries with the index (see Chart 3).

Chart 3: Country Allocation

Source: FTSE Russell Index Module (FIXM). Weights use full market value. Data as of 11/30/25.

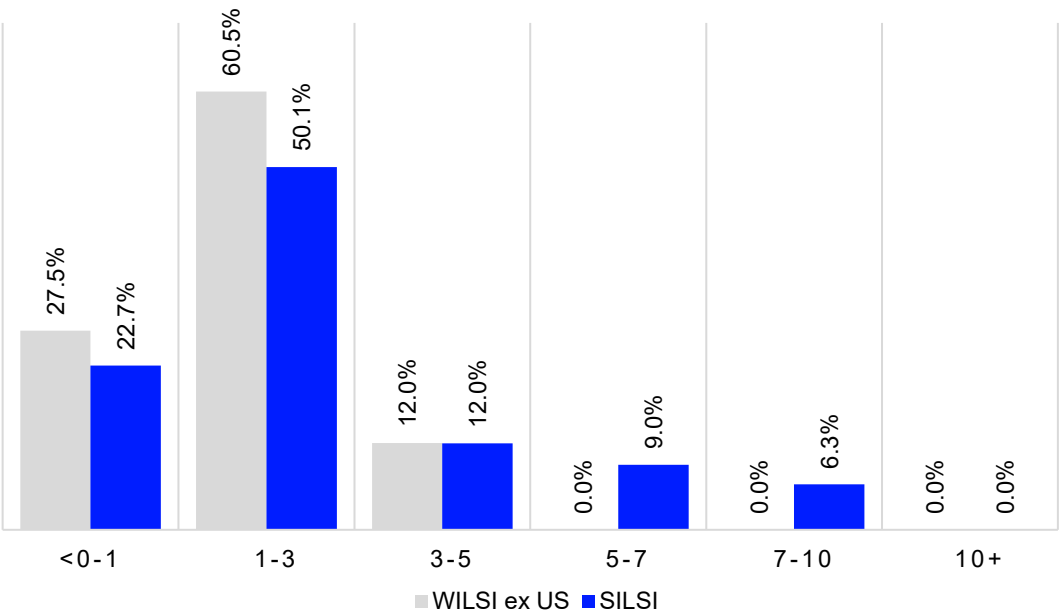
SILSI retains a significantly higher allocation to EM than WILSI, shortening the index's duration and increasing real yields. Another benefit from this relative EM allocation is the exposure to ILS that are more responsive to near-term price level surprises, given the shorter indexation lag referenced earlier.

EM economies and central bank policies have become more dynamic and modernized in recent years. Improving fundamentals can be seen in the steady decline of EM sovereign spreads since the COVID-19 pandemic. Inflation-linked securities within EM countries are also well ingrained into their debt management practices, with many of these countries having issued ILS before the larger DMs (see Table 2).

Looking at November's SILSI and WILSI ex-US real-yield (Chart 4) and real-yield duration (Chart 5) buckets, we see that WILSI ex-US has a more compressed real-yield profile, with 88.0% below 3.0%. SILSI, on the other hand, has 15.3% allocated in securities with real-yield levels between 5% and 10%.

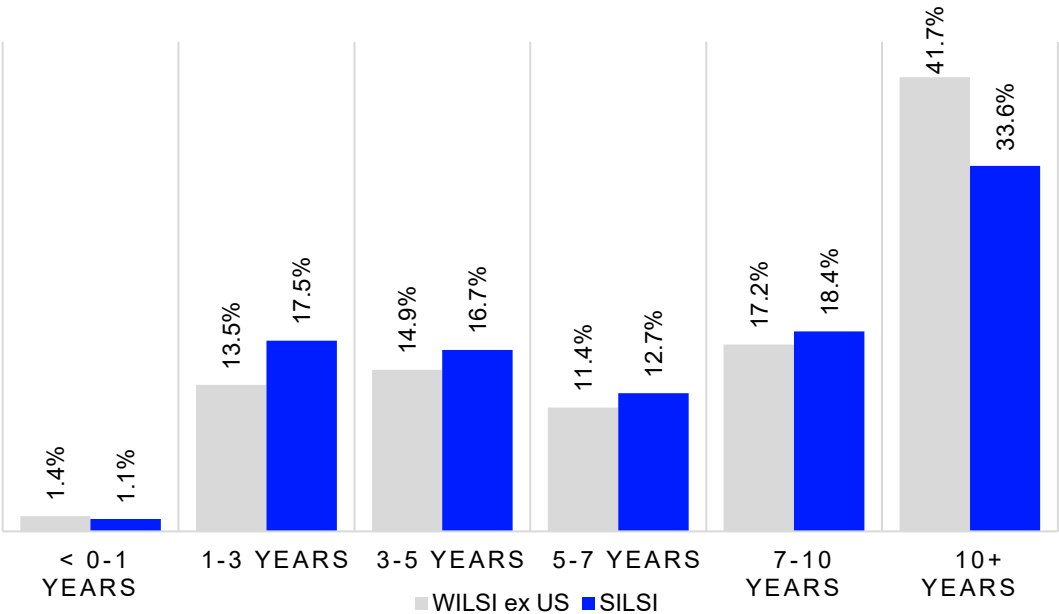
In terms of real-yield duration, WILSI ex-US has greater exposure to long-end shocks, whereas SILSI has a slightly more balanced profile, again attributed to the larger allocation and weighting towards shorter-duration EM countries.

Chart 4: Real-Yield Buckets



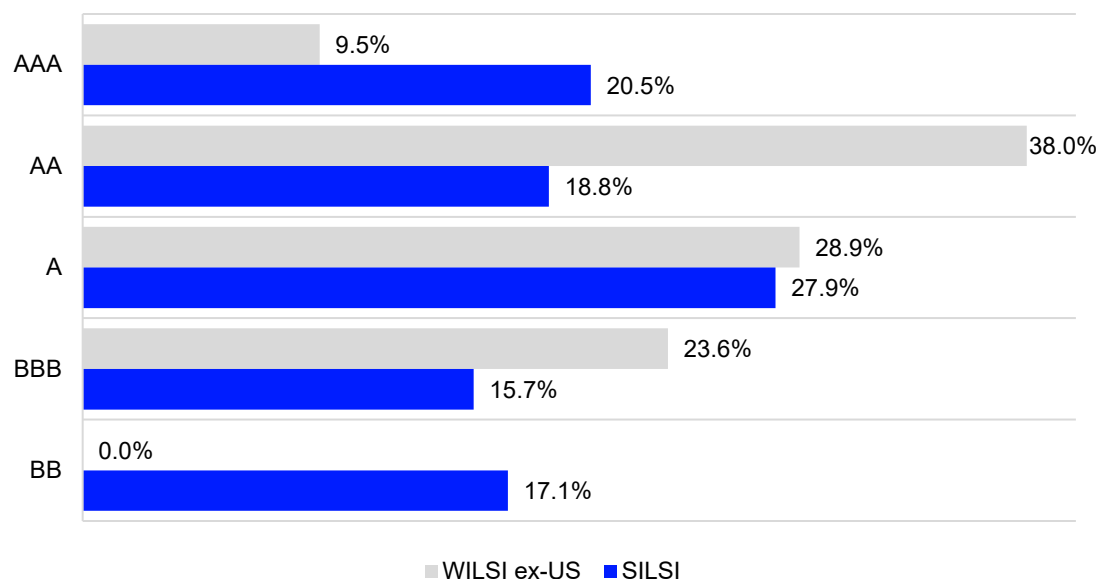
Source: FTSE Russell Index Module (FIXM). Weights use full market value. Data as of 11/30/25.

Chart 5: Real Yield Duration Buckets



Source: FTSE Russell Index Module (FIXM). Weights use full market value. Data as of 11/30/25.

Chart 6: Index Credit Quality



Source: FTSE Russell Index Module (FIXM). Weights use full market value. Data as of 11/30/25.

The average index credit rating should not be overlooked either. SILSI (A+) matches the index-level weighted average credit quality of WILSI (A+) despite SILSI having a broader distribution. The only two broad-based international focused indices with higher average ratings are WGBI ex-US (AA-) and WorldBIG ex-USD (AA-)—WGBI ex-US comprises about 70% of WorldBIG ex-USD.

Table 6: Average Index-Level Credit Quality

| Sector / Index | FTSE Russell Fixed Income Index | Av. Credit Quality ⁹ |
|---|----------------------------------|---------------------------------|
| International Core Bond | WorldBIG Index ex-USD | AA- |
| International Sovereigns (Nominal Treasuries) | WGBI ex-US | AA- |
| International Sovereign Inflation-Linked | WILSI ex US | A+ |
| International ILS Select Index | SILSI | A+ |
| EM Sovereigns (Local Currency) | EM Government Bond Index | A |
| International IG Corporates | WorldBIG Corporates Index ex-USD | A- |
| EM Broad-Based (USD-Denominated) | EM USD Broad Based Bond Index | BBB |
| EM Sovereigns (USD-Denominated) | EM USD Government Bond Index | BBB- |
| Emerging Market Sovereign Inflation-Linked | EMILSI | BBB- |
| International HY Corporates | World HY Market Index ex-USD | BB- |

Source: FTSE Russell Index Module (FIXM). Credit rating weighted averages use full market value. Data as of 11/30/25.

⁹ Average index-level credit quality shown is an indicative summary statistic derived from constituent ratings. This figure is used for illustrative purposes and does not guarantee credit quality or performance and should not be interpreted as investment advice.

Together, SILSI's country diversification, duration exposure, real-yield level, and credit profile all set the foundation for the investment case for ILS. Next, we continue our analysis of SILSI against other international sectors and ask, "Why now?"

Historical Risk Characteristics

Historically, SILSI offered a blend of moderate yield and duration exposure, giving the index a hybrid profile, sitting between international rates and international credit. That identity shifted materially during the COVID-era regime of low policy rates, negative real rates, and significant fiscal stimulus. ILS, and fixed income more broadly, lost much of its appeal in this zero-rate environment.

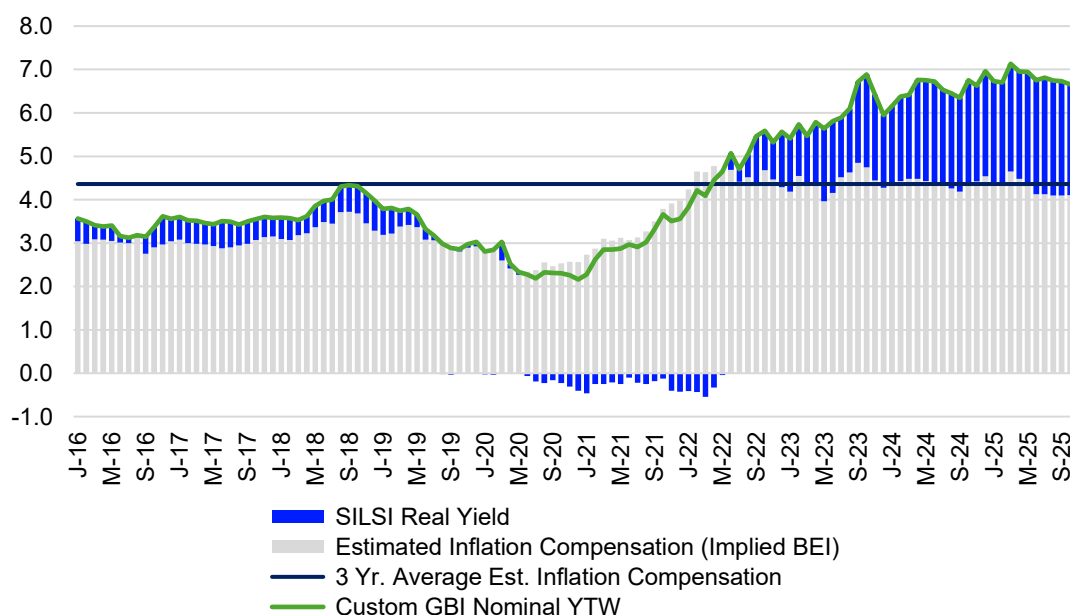
As the economy emerged from lockdowns and rampant government spending, central banks were forced to aggressively raise interest rates in order to contain both realized inflation and inflation expectations. Once again, fixed income and ILS found themselves in a tough position, dealing with central banks hiking policy rates at a historic pace.

But we now have entered a new era. And despite the ongoing geopolitical volatility, market pricing has reflected a modest BEI and subdued expectations of future inflation. These conditions, in combination with still-elevated nominal sovereign yields, have pushed real yields to near-decade highs, increasing the overall attractiveness of ILS (see Chart 7).

As we noted earlier, BEI at the security level is generally calculated as the yield spread between nominal fixed-rate treasuries and ILS. This figure, however, is more difficult to calculate historically at the index level given that constituents will range across various currencies and maturities at any given time.

To help illustrate the relative value of ILS across nineteen various markets represented in SILSI, we calculate an implied BEI. This index-level implied BEI is the difference between: (i) the yield-to-worst of a custom nominal sovereign index designed to mirror SILSI's criteria, and (ii) SILSI's average real yield.

Chart 7: SILSI Historical YTW, Real-Yield, and Implied EIC



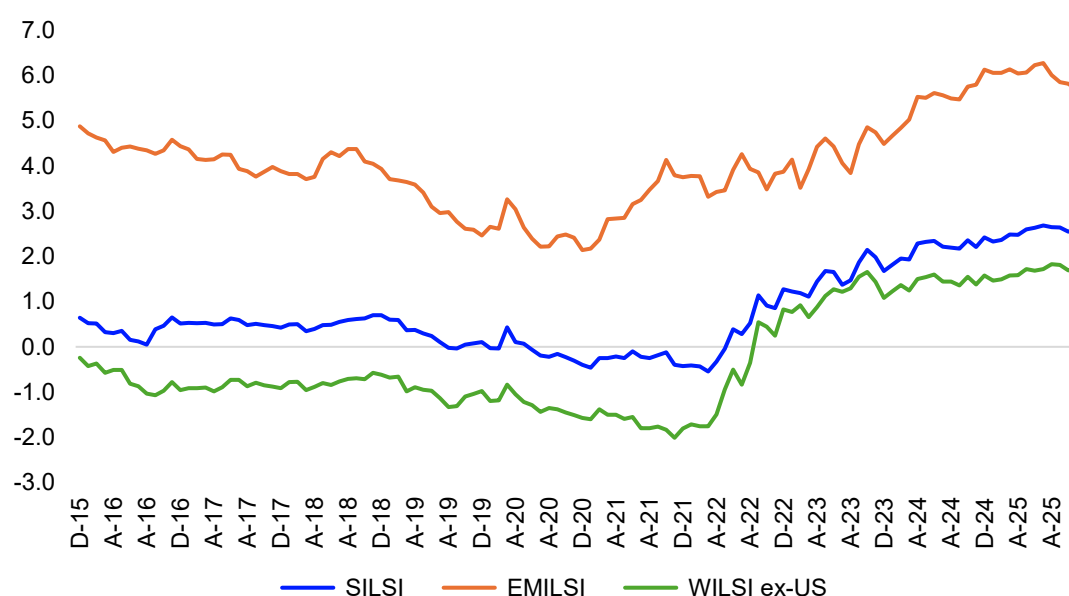
Source: FTSE Russell Index Module (FIXM). Data as of 11/30/25.

As can be seen in Chart 7, there was a sharp rise in implied BEI starting in Q2 2020, followed by a stabilization around the time of the US Federal Reserve's initial rate hike in March 2022. From that point to roughly Q2 2025, implied BEI remains somewhat rangebound around its three-year average. Recently, this figure has declined to its lowest level since May 2023¹⁰.

When implied BEI and nominal sovereign yields are both elevated, inflation protection is relatively more expensive and the proposition to invest in ILS over nominals is less attractive.

However, when implied BEI declines as nominal yields remain high, the real yield levels increase, and thus ILS appear cheaper. The lower BEI indicates a lower hurdle for inflation-linked investors to be rewarded if inflation surprises to the upside. The elevated real yield levels create a more attractive entry point to lock in an inflation-adjusted return.

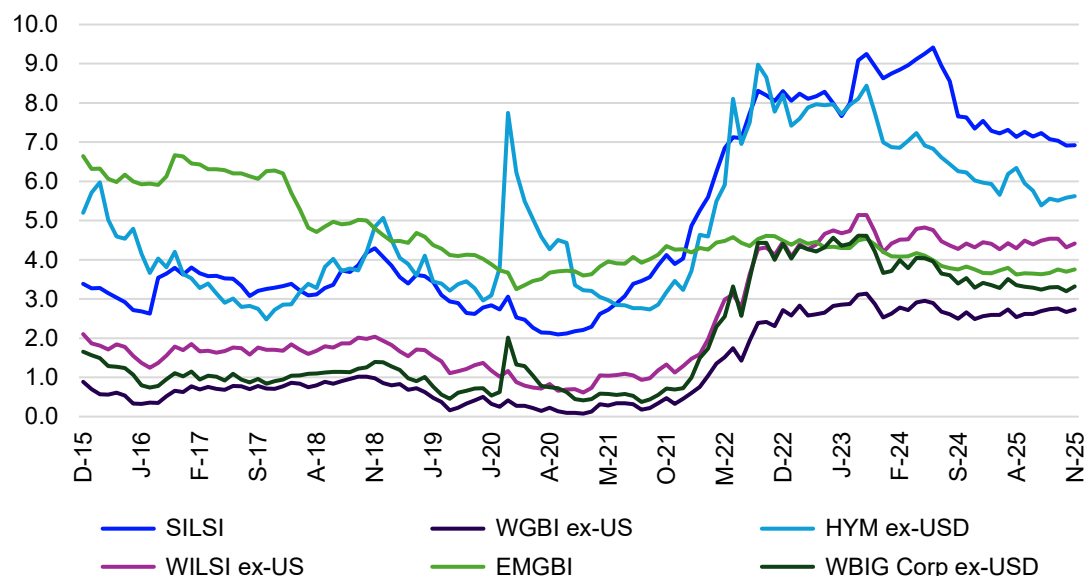
Chart 8: Historical Real Yield



Source: FTSE Russell Index Module (FIXM). Data as of 11/30/25.

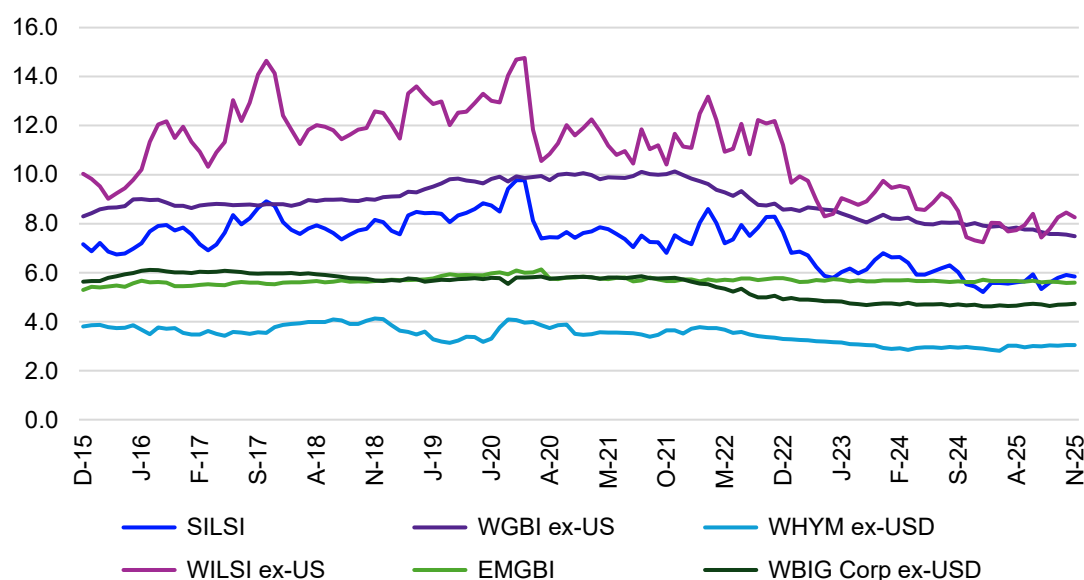
SILSI's relative appeal extends beyond nominal sovereigns. ILS have re-emerged as a compelling alternative to international credit as well. Shown in Chart 9, SILSI's nominal YTW, which has been supported by a historically larger contribution from real yield, is above the index-level average YTW for the FTSE High Yield Market ex-USD index as of November 2025.

¹⁰ As a validation check, we compared our implied BEI with actual 10-year yield spreads of nominals and linkers. The weighted average (following SILSI's criteria), of the in-market BEI was 4.04% versus our implied BEI of 4.08%.

Chart 9: Historical Nominal Yield-to-Worst (YTW)¹¹

Source: FTSE Russell Index Module (FIXM). Data as of 11/30/25.

In Chart 10, we compare the effective duration of broad international fixed income sectors over the last 10 years. In duration terms, SILSI generally sits between the rate and credit markets, and more recently has straddled the duration profile of the FTSE Emerging Market Government Bond Index. This relative duration profile helped SILSI outperform both WGBI ex-US and WILSI ex-US during the 2022 market selloff.

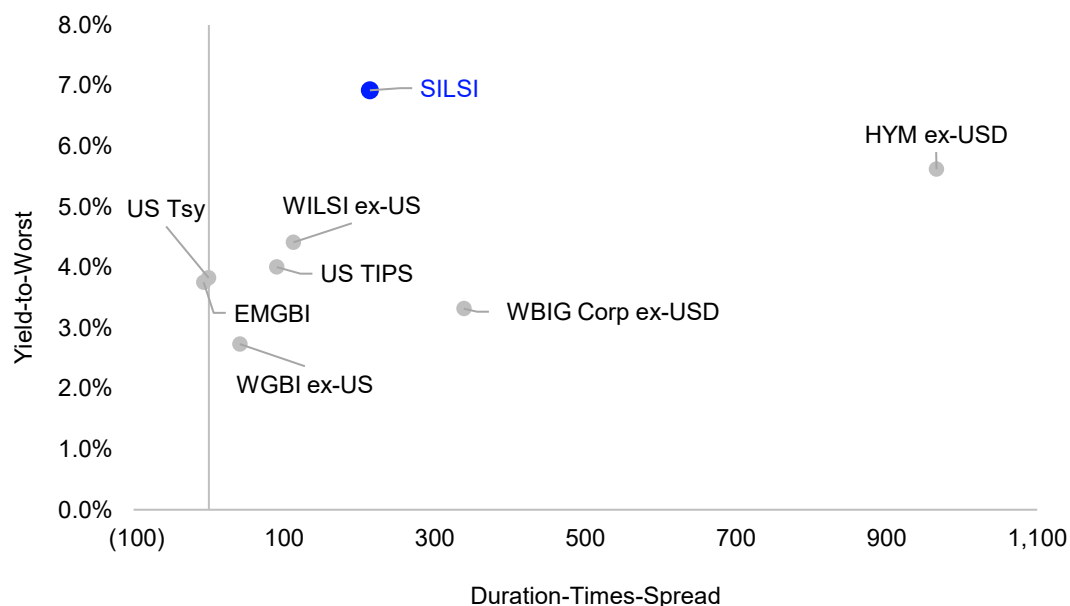
Chart 10: Historical Effective Duration

Source: FTSE Russell Index Module (FIXM). Data as of 11/30/25.

¹¹ Figure 9 uses yields on a nominal yield-to-worst (YTW) basis for comparability across broad international fixed-income indices, which are conventionally quoted using nominal YTW.

In Chart 11, we bring together these various risk metrics into a single analysis, highlighting where these sectors stood at the end of November 2025. The x-axis is a common measure of total risk, duration-times-spread (DTS), which attempts to capture the two primary risk factors to fixed income: credit risk and interest rate risk. The y-axis is November 2025 month-end YTW.

Chart 11: YTW and Total Risk (Duration-Times-Spread)



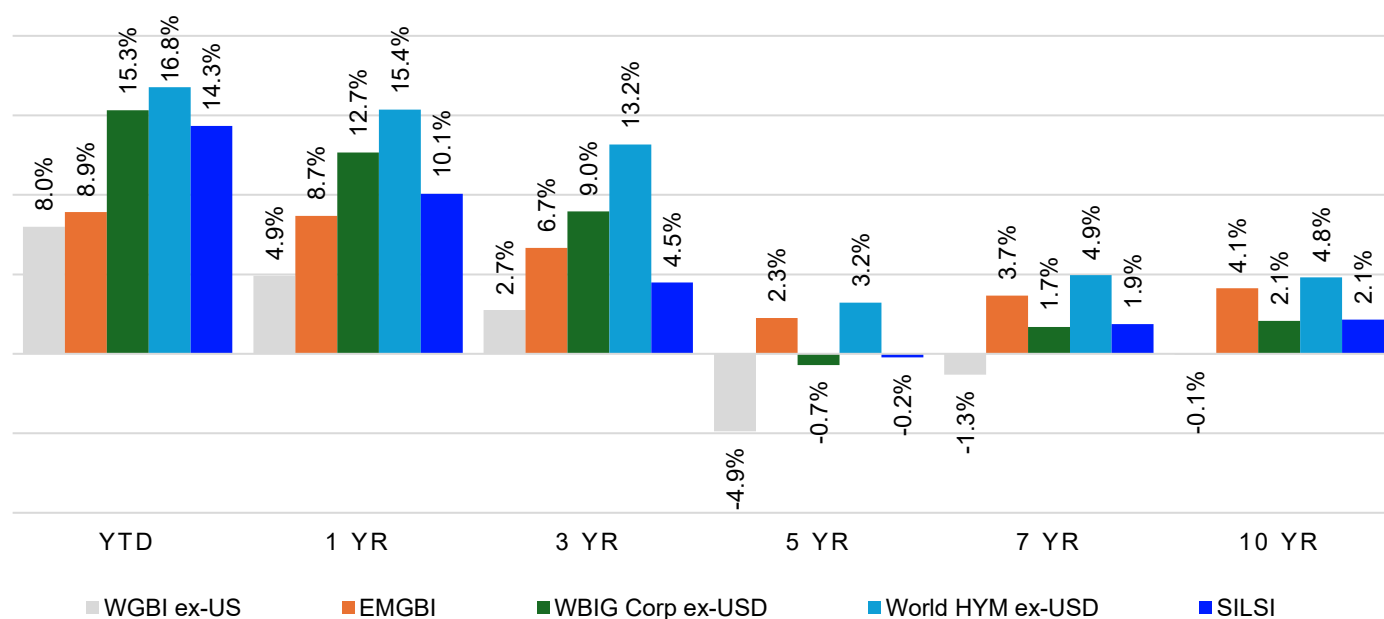
Source: FTSE Russell Index Module (FIXM). Data as of 11/30/25.

Against a backdrop of historically tight credit spreads and heightened global macro volatility, SILSI's elevated yield and relatively short DTS profile reinforced the argument that the ILS sector deserves renewed attention and greater consideration within an overall portfolio.

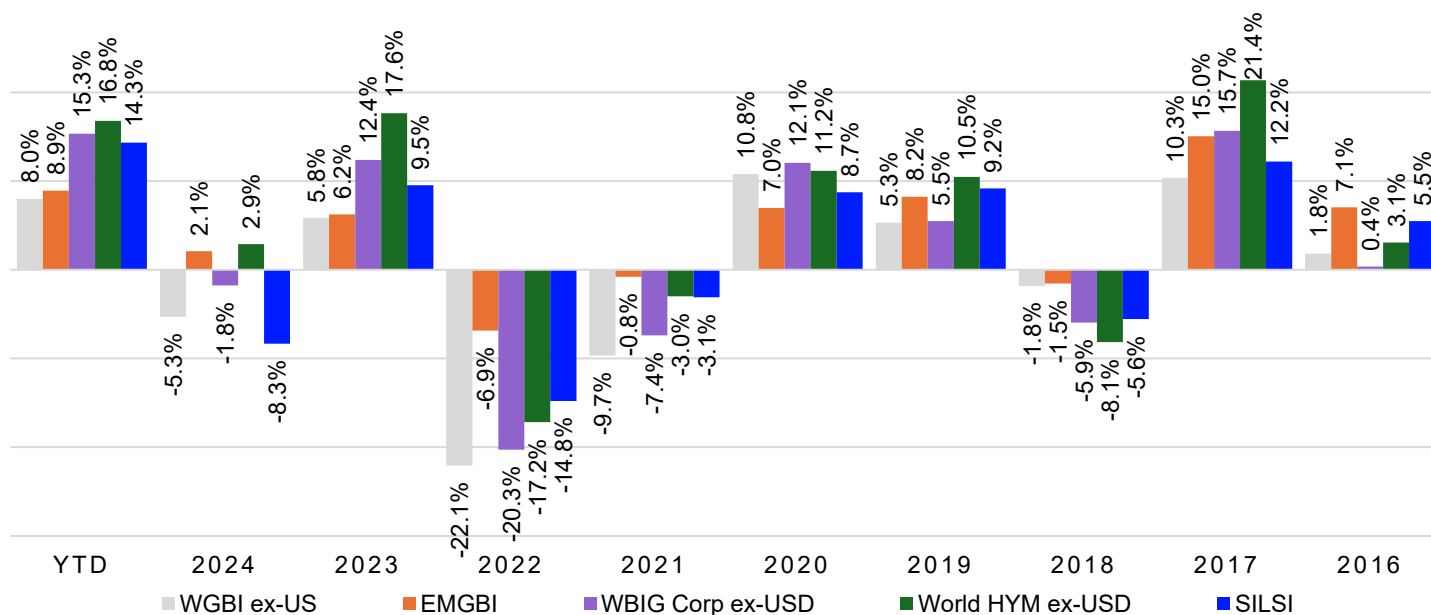
Historical Performance

Next, how have returns historically behaved?

SILSI realized a strong 2025, like many other non-USD, unhedged exposures. The index's rolling-period and calendar-year total returns, like its historical risk profile, tend to fall between international credit and nominal sovereign exposures—see Charts 12 and 13.

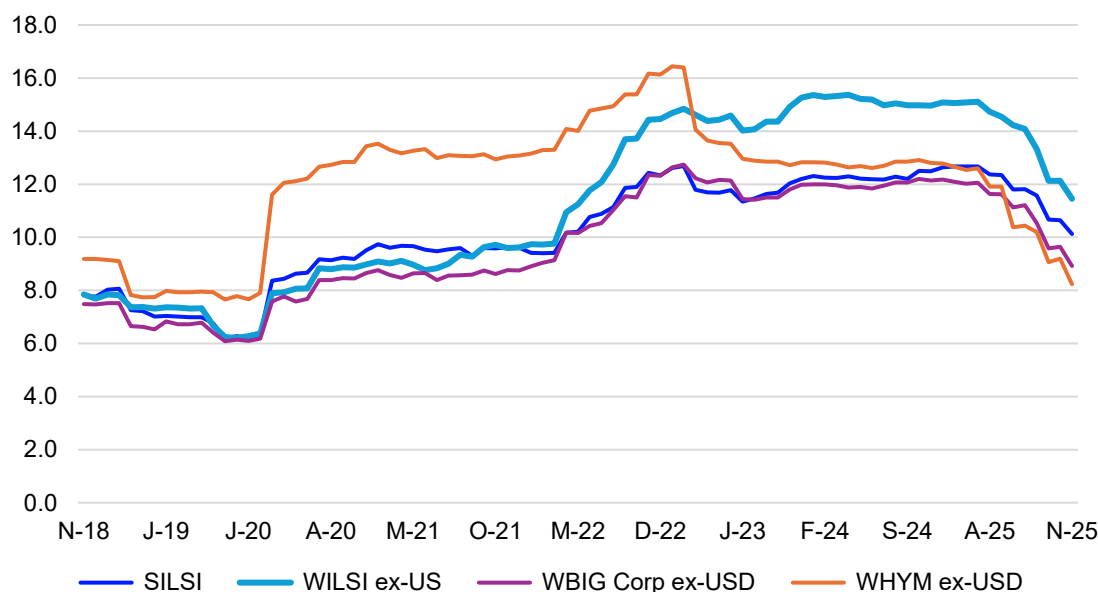
Chart 12: Rolling-Period Total Returns (%)


Data as of 11/30/25. Source: FTSE Russell Index Module (FIXM). Returns are unhedged. Periods over one year are annualized. Past returns are not indicative of future results.

Chart 13: Calendar-Year Total Returns (%)


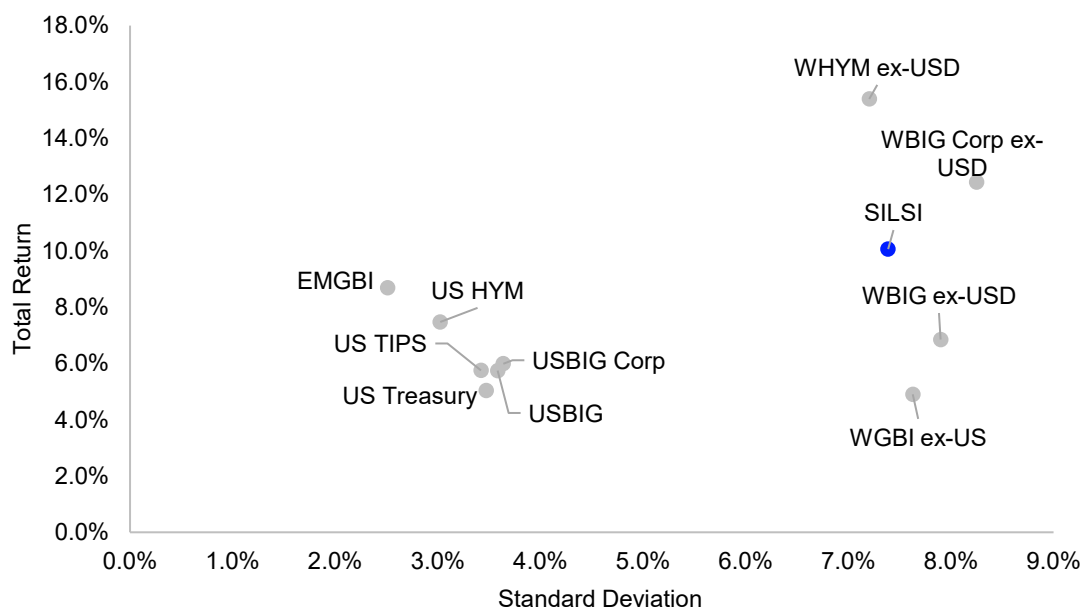
Source: FTSE Russell Index Module (FIXM). Returns are unhedged. Periods over one year are annualized. Past returns are not indicative of future results. Data as of 11/30/25.

In Chart 14, we look at the rolling three-year annualized volatility of different non-US fixed income indices. Over this period, SILSI's return volatility has moved nearly in lockstep with the FTSE WorldBIG Corporate ex-USD Index, with roughly a 99% correlation in monthly movement.

Chart 14: Rolling Three-Year Standard Deviation (%)


Source: FTSE Russell Index Module (IXM). Rolling period volatility is annualized using monthly unhedged returns. Data as of 11/30/25.

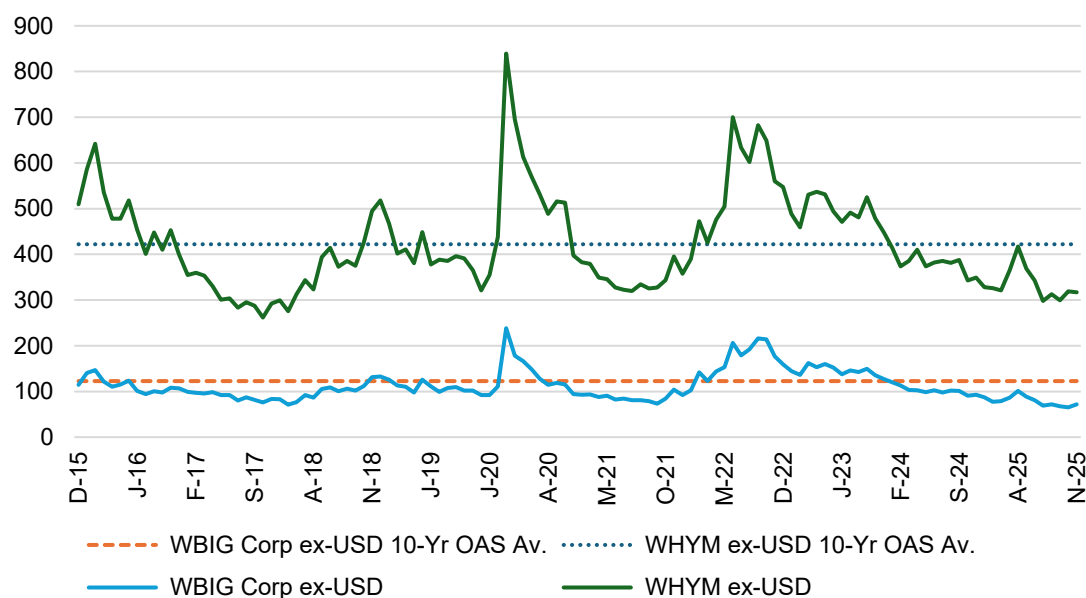
Over the past year, SILSI realized a higher risk-adjusted total return than broad-based indices representing international core bond and international (nominal) treasuries, while trailing international credit indices—see Chart 15.

Chart 15: Trailing One-Year Risk and Return


Source: FTSE Russell Index Module (IXM). Returns are unhedged. Periods over one year are annualized. Past returns are not indicative of future results. Data as of 11/30/25.

In Chart 16, we see that option-adjusted spreads (OAS) for the FTSE WorldHYM ex-USD and FTSE WBIG Corporates ex-USD indices are near 10-year lows, meaning investors are currently being less compensated to take on international credit risk and that these broad sectors have limited room for further spread compression.

Chart 16: Historical Option Adjusted Spread (OAS)



Source: FTSE Russell Index Module (IXM). Data as of 11/30/25.

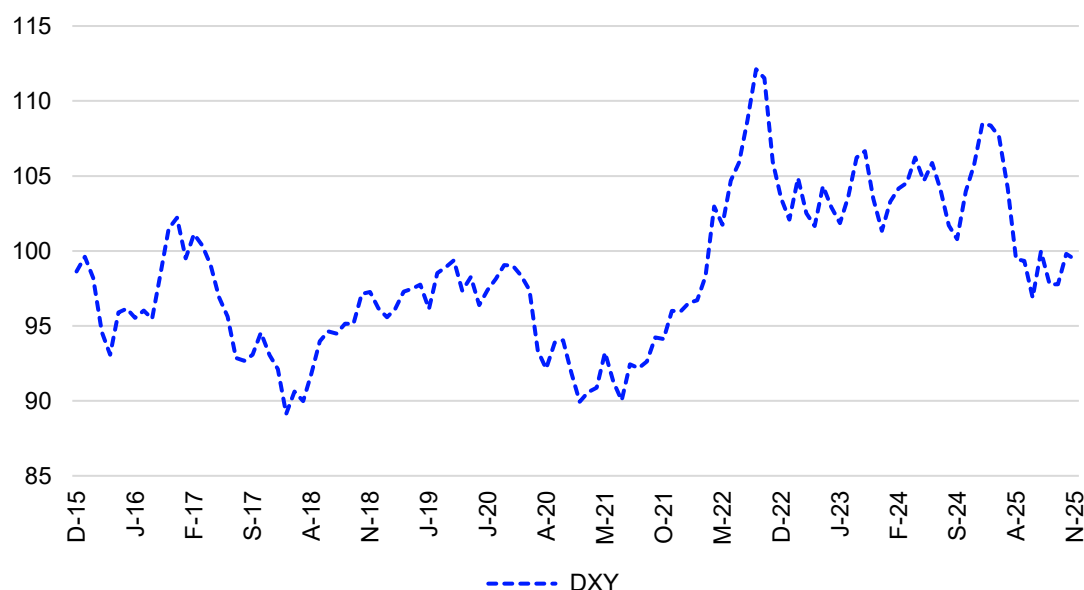
Our conclusion here is that SILSI's attractiveness versus other unhedged international fixed income indices stems from both its construction and relative valuation. The index construction creates a crossover design, diversifying across developed and emerging market countries, with exposure to both HY and IG ILS. On relative valuation, the elevated real yield provides a tactical entry point and allows more room for reward if inflation surprises to the upside or real yields compress.

Portfolio Considerations

Which brings us to our final question: how does SILSI fit within an investor's total portfolio?

The traditional 60/40 stock/bond framework faced heightened scrutiny in the aftermath of 2022, when both equity and fixed income markets suffered sharp drawdowns. But the idea of a well-diversified portfolio survived, with investors now putting income generation and principal protection front and center.

Investor portfolios are built to align specific goals and constraints, including time horizons, future liabilities, risk tolerance, sector concentration, cash flow needs, and so on. Two additional factors deserve extra attention: currency exposure and inflation protection. International inflation-linked securities sit at the intersection of both.

Chart 17: US Dollar Index (DXY) Levels

Source: LSEG Workspace. Data as of 11/30/25.

Through brokerage accounts, 401ks, real estate, and wages, US-based investors are heavily, if not exclusively, exposed to US dollar-denominated assets. This overweight USD has worked out in the investors' favor, given the past strength of the dollar against other currencies.

Chart 17 highlights a key lesson from 2025: USD strength is not a given. Diverging monetary policy, tariff-related macro risks, and rising fiscal debt are just some of the factors that could contribute to both elevated USD volatility and potential future surprises inflation.

In a correlation matrix of returns (see Table 7), SILSI would fall under the "risk-on" portion of a portfolio, given the index's higher past correlation (0.73) to the US high yield market and its relatively uncorrelated (0.50) relationship with US Treasuries.

So, why spend portfolio budget on a sector that could co-move with high yield credit during a major risk-off event?

Table 7: FTSE Russell Index 10-Year Correlation Matrix of Returns

| Index | Russell 1000 | FTSE DM All Cap ex-US | FTSE US Treasury | FTSE US TIPS | FTSE USBIG Corp | FTSE US HYM | FTSE WGBI ex-US | FTSE EMGBI | FTSE WBIG ex-USD | FTSE WHYM ex-USD | FTSE SILSI |
|-----------------------|--------------|-----------------------|------------------|--------------|-----------------|-------------|-----------------|------------|------------------|------------------|------------|
| Russell 1000 | 1.00 | | | | | | | | | | |
| FTSE DM All Cap ex-US | 0.86 | 1.00 | | | | | | | | | |
| FTSE US Treasury | 0.15 | 0.20 | 1.00 | | | | | | | | |
| FTSE US TIPS | 0.51 | 0.51 | 0.78 | 1.00 | | | | | | | |
| FTSE USBIG Corp | 0.59 | 0.63 | 0.74 | 0.83 | 1.00 | | | | | | |
| FTSE US HYM | 0.81 | 0.81 | 0.21 | 0.59 | 0.73 | 1.00 | | | | | |
| FTSE WGBI ex-US | 0.43 | 0.58 | 0.73 | 0.75 | 0.79 | 0.53 | 1.00 | | | | |
| FTSE EMGBI | 0.44 | 0.62 | 0.37 | 0.50 | 0.62 | 0.55 | 0.74 | 1.00 | | | |
| FTSE WBIG ex-USD | 0.60 | 0.77 | 0.51 | 0.67 | 0.77 | 0.69 | 0.90 | 0.74 | 1.00 | | |
| FTSE WHYM ex-USD | 0.69 | 0.87 | 0.27 | 0.55 | 0.72 | 0.81 | 0.73 | 0.73 | 0.93 | 1.00 | |
| FTSE SILSI | 0.62 | 0.77 | 0.50 | 0.71 | 0.78 | 0.73 | 0.87 | 0.82 | 0.90 | 0.85 | 1.00 |

Key

- Domestic Equity
- International Equity
- Domestic Fixed Income
- International Fixed Income

Source: FTSE Russell Index Module (IXM). Returns are unhedged. 10-year correlation matrix using monthly unhedged returns. Past returns are not indicative of future results. Data as of 11/30/25.

In a 2023 article, “Time to trim some (inflation) hedges?”¹² Robin Marshall, Director of Fixed Income and Multi-Asset Research at FTSE Russell, calls out a counter-intuitive point regarding ILS:

“...both real estate and inflation-linked government bonds have *typically performed best during low-inflation, zero-interest-rate regimes* such as in the immediate aftermath of the Global Financial Crisis and before the COVID-19 outbreak – despite their reputations as effective inflation hedges for all seasons.”

In Robin’s research investigating why ILS and real assets performed poorly over 2022-2023, Marshall points out that rising government bond yields driven by policy tightening “can overpower the favorable impact of higher inflation accruals”. This same point can also help frame the case for ILS in 2026, a period of low inflation expectations and potential policy easing.

¹² <https://www.lseg.com/en/insights/ftse-russell/time-trim-some-inflation-hedges>

Altogether, the current opportunity for international inflation-linked securities is compelling. We would argue that a 60/20/20 portfolio, with the latter 20% allocation geared towards inflation protection (a combination of real assets, commodities, and ILS) may be more advantageous than the typical, domestic-focused 60/40 allocation. SILSI, and international ILS more broadly, have the potential to provide both non-USD diversification and inflation-adjusted income streams.

Summary

Elevated yields and increasingly top-heavy equity valuations have investors revisiting their fixed income allocations. At the same time, decoupling central bank policy paths, tariff-related macro ramifications, and rising debt burdens have brought domestic concentration risk in portfolios back into focus.

Historically, non-US fixed income has added volatility and complexity. However, the forward-looking backdrop today feels materially different. The product ecosystem continues to expand to meet growing demand in this area. The US market has already seen record-setting international fixed income inflows¹³ alongside a growing pipeline of international-focused ETF filings—less as a reaction to headlines about waning US exceptionalism and more as a market reassessment of long-standing USD overexposure.

The case for SILSI versus international nominal sovereigns is relatively straightforward: compressed breakeven inflation rates, attractive real yield entry points, and inflation protection with non-USD sovereign backing.

When comparing SILSI with international credit markets, we also consider the potential downside risks arising from historically tight credit spreads. With spreads tight, the margin of safety and compensation for taking on credit risk is smaller, making the diversification benefit weaker precisely when it matters most. In that context, international ILS can serve as an inflation-protected building block for investors seeking non-USD exposure without simply adding another sleeve of equity-sensitive credit risk.

The index design, current risk profile, and macro dynamics position SILSI to be well-suited for a regime in which policy divergence and price-level uncertainty are likely to remain defining features rather than temporary anomalies.

¹³ Lipper International Income ETFs¹³ recorded a new annual inflow high in 2025 (+\$23.3 billion). Note: ¹³ Not all ETFs within the Lipper International Income Classification are unhedged.

Index Codes

FTST World Inflation-Linked Securities Index (WorldILSI):

Reuters: .SBILUU

Bloomberg: SBILUU

FTSE Emerging Markets Inflation-Linked Securities Index (EMILSI):

Reuters: .SBLEUU

Bloomberg: SBLEUU

FTSE International Inflation-Linked Securities Select Index (SILSI):

Bloomberg: CFIIWILC

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner, we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 40 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

To receive our research and insights email and Market Maps reports, directly to your inbox, subscribe [here](#).

FTSE Russell Fixed Income Product:

fi.indexproduct@lseg.com

Jack Fischer

US Product Lead, FICC

Phone: +1 312-728-0972

Email: jack.fischer@lseg.com

To learn more, visit lseg.com/ftse-russell; email info@ftserussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810

Asia-Pacific

Tokyo +81 3 6441 1430

North America +1 877 503 6437

Hong Kong +852 2164 3333

Sydney +61 (0) 2 7228 5659

Disclaimer

© 2026 London Stock Exchange Group plc and its applicable group undertakings ("LSEG"). LSEG includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. "FTSE Canada", (4) FTSE Fixed Income LLC ("FTSE FI"), (5) FTSE (Beijing) Consulting Limited ("WOFE"), FTSE EU SAS ("FTSE EU"). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, WOFE, FTSE EU and other LSEG entities providing LSEG Benchmark and Index services. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "Refinitiv", "WMR™", "FR™" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of LSEG or their respective licensors.

FTSE International Limited is authorised as a Benchmark Administrator and regulated in the United Kingdom (UK) by the Financial Conduct Authority ("FCA") according to the UK Benchmark Regulation, FCA Reference Number 796803. FTSE EU SAS is authorised as Benchmark Administrator and regulated in the European Union (EU) by the Autorité des Marchés Financiers ("AMF") according to the EU Benchmark Regulation.

All information is provided for information purposes only. All information and data contained in this publication is obtained by LSEG, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical inaccuracy as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or LSEG Products, or of results to be obtained from the use of LSEG products, including but not limited to indices, rates, data and analytics, or the fitness or suitability of the LSEG products for any particular purpose to which they might be put. The user of the information assumes the entire risk of any use it may make or permit to be made of the information.

No responsibility or liability can be accepted by any member of LSEG nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any inaccuracy (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of LSEG is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of LSEG nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices and rates cannot be invested in directly. Inclusion of an asset in an index or rate is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index or rate containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index and/or rate returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index or rate inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index or rate was officially launched. However, back-tested data may reflect the application of the index or rate methodology with the benefit of hindsight, and the historic calculations of an index or rate may change from month to month based on revisions to the underlying economic data used in the calculation of the index or rate.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of LSEG nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of LSEG. Use and distribution of LSEG data requires a licence from LSEG and/or its licensors.

The information contained in this report should not be considered "research" as defined in recital 28 of the Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council ("MiFID II") and is provided for no fee.

**FTSE
RUSSELL**

An LSEG Business