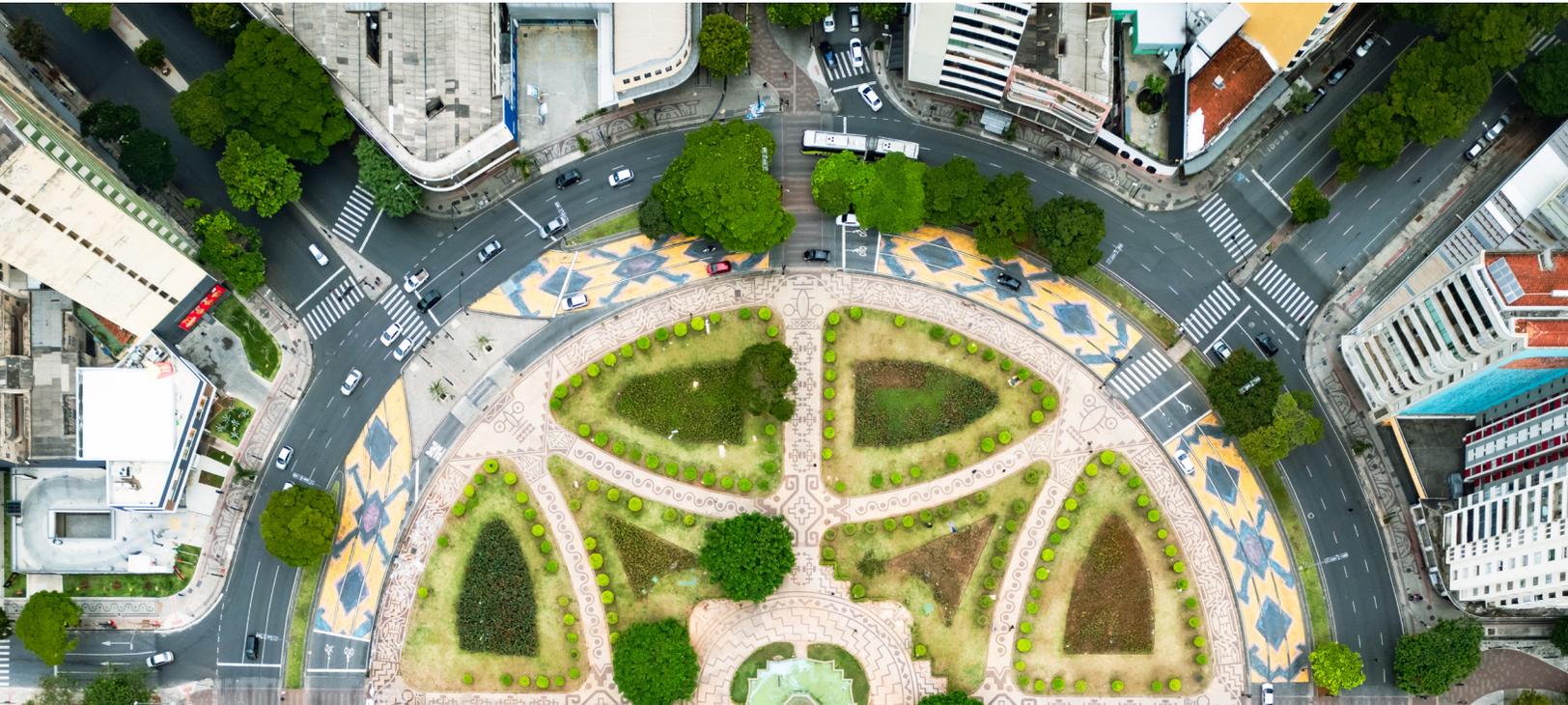


# Unlocking pure credit: A strategic evolution in portfolio construction

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## Key takeaways:

- On average, interest rate risk accounts for approximately 67% of a corporate bond fund's total return, while credit risk contributes the remaining 33%.
- Fixed income portions of portfolios are already typically sensitive to interest rates via core holdings, creating the need for pure credit exposure.
- Modern alternative mutual fund structures now enable investors to separate credit risk from interest rate risk. This allows for targeted exposure to credit markets, creating opportunities for more consistent and fundamentally driven sources of alpha.
- Integrating pure credit strategies into portfolios can offer equity-like returns with lower volatility, improving diversification and risk-adjusted performance.

Discussions around asset allocation often gravitate toward the traditional pillars: fixed income, equities, and alternatives. While these broad categories provide a useful framework, they can obscure differentiated opportunities now accessible through modern investment vehicles, particularly alternative mutual funds.

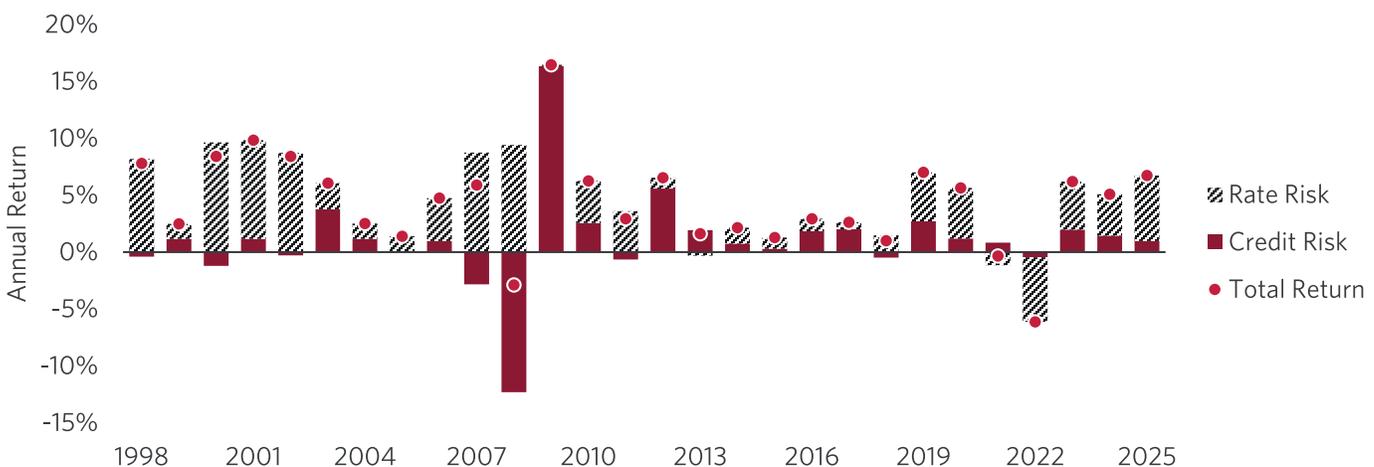
## Fixed income: Disaggregating the risk profile

Fixed income is too often perceived as a monolithic asset class. In reality, fixed income allocations typically include a range of debt securities, including corporate bonds. Within the corporate bonds allocation exists a complex interplay of risks—including interest rate, term structure, default, and liquidity risk. These elements are bundled into the total return of what may appear to be a straightforward 5-year corporate bond.

When we decompose this bundle, interest rate risk and credit risk emerge as the primary drivers. **On average, interest rate risk accounts for approximately 67% of a corporate bond fund's total return, while credit risk contributes the remaining 33% (see chart below).** This means that even investors seeking to diversify their fixed income allocation via credit exposure through traditional corporate bond funds are still predominantly exposed to interest rate movements.

Isolating pure credit exposure can be a useful tool to generate diversified sources of alpha within the broader fixed income allocation without overexposing to interest rate risk.

### Decomposing sources of return for corporate bonds



Source: ICE BofA, Based on ICE BofA US Corporate 1-5 Year Index, February 2026

## Pure credit provides a more persistent and controllable source of alpha

What if investors could surgically separate these risk factors and focus exclusively on credit? The advent of alternative mutual fund structures now makes it possible to isolate pure credit exposure—unlocking a distinct source of return without adding exposure to interest rate risk.

We believe the credit markets offer a more persistent and accessible source of alpha compared to interest rate risk, which is heavily influenced by macroeconomic policy, central bank activity, and other non-fundamental factors. In contrast, credit risk is fundamentally driven, shaped by issuer quality and market structure. By concentrating active management on credit selection, investors can pursue a more reliable and attractive risk-adjusted return profile.

## Comparing interest rate risk and credit risk

Characteristic	Interest rate risk	Credit risk
Dependencies	<ul style="list-style-type: none"> <li>Economic forecasting</li> <li>Central bank thinking</li> <li>Geopolitical risks</li> <li>Inflation expectations vs reality</li> </ul>	<ul style="list-style-type: none"> <li>Company health</li> <li>Sector dynamics</li> <li>Supply / Demand</li> <li>Company specific</li> </ul>
Ability to manage	<ul style="list-style-type: none"> <li>Harder to manage</li> </ul>	<ul style="list-style-type: none"> <li>Easier to manage</li> </ul>

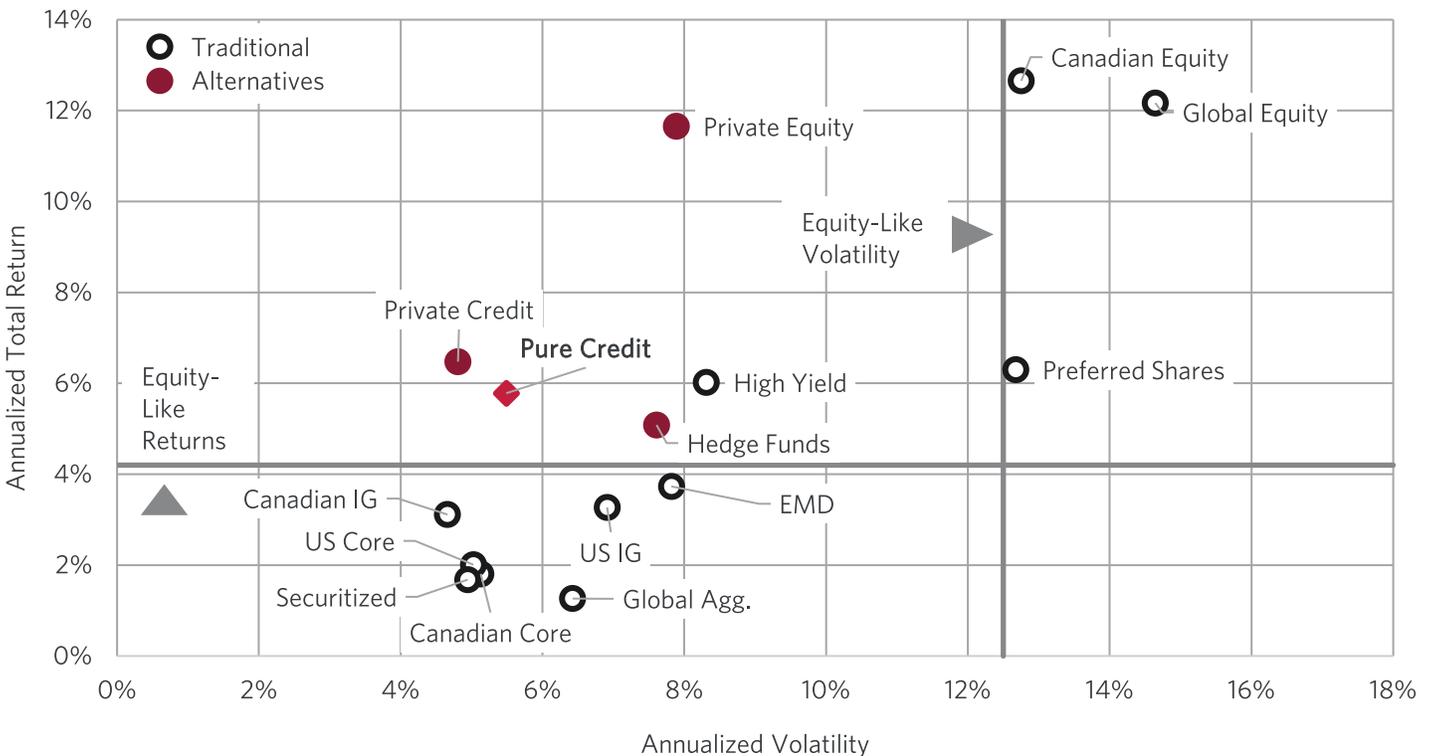
## The role of pure credit in portfolio allocation

Pure credit strategies, which strip out interest rate risk, effectively create a hybrid asset class—positioned between traditional fixed income and equities. This approach offers the potential for equity-like returns with lower volatility, enhancing portfolio diversification and risk-adjusted performance.

Integrating pure credit exposure presents an opportunity to refine portfolio construction, moving beyond binary asset class distinctions. By targeting the nuanced risk-return characteristics of pure credit, investors can address gaps left by conventional approaches and better align allocations with specific investment objectives.

Traditional asset classes can overlook compelling new sources of return. Pure credit exposure, facilitated by innovative mutual fund structures, is a valuable addition to the modern investor’s toolkit. It enables more precise risk targeting and the pursuit of differentiated alpha—positioning portfolios to capitalize on opportunities that traditional frameworks may miss.

## Risk & returns across traditional and alternatives



Source: Bloomberg, Based on respective Bloomberg Indices, February 2026

## Putting into practice

[CIBC Alternative Credit Strategy](#) is an actively managed credit solution that can complement a core fixed income portfolio by providing a consistent and diversifying return potential that aims to minimize volatility and interest rate risk.

- Seeks to provide capital growth: aims to generate credit-like returns without increasing credit risk or extending duration.
- Minimize downside risk: aims to reduce the vulnerability to interest rate volatility and credit deterioration relative to a corporate focused portfolio.
- Enhances diversification: access to the full opportunity set across the fixed income universe, offering the potential for enhanced portfolio diversification within a risk-managed framework.

**To learn more about this strategy, and other credit solutions, please contact your CIBC representative.**



## About CIBC Asset Management

At CIBC Asset Management, we believe that every customized investment solution begins with research and rigour. We specialize in a variety of investment solutions such as equities, fixed income, currency management, liability-driven investments, asset allocation, and responsible investments.

Across a spectrum of investment solutions, we commit to robust research. Dedicated sector and regional analysts focus on industry research and security-specific idea generation. Our investment professionals leverage deep and diverse expertise by sharing proprietary research across asset-class teams. By sharing insight across asset class teams, we maximize opportunities to add value to our client portfolios.

## Contact us anytime

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