

Exiting cash and moving into bonds

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In recent years, especially during COVID and the subsequent interest rate hikes, many investors increased their cash allocations. While holding large cash positions can be a solid defensive strategy in volatile markets, the landscape has evolved. In 2022, when both equities and bonds delivered negative returns simultaneously for the first time in decades, cash offered stability. However, as inflation cools and central banks edge closer to rate cuts, high-quality bonds are emerging as a reliable ballast for portfolios.

A common question from investors is: with 1-year cash term deposits still delivering close to 5%, why consider bonds yielding around 5.5%? The key point is that the Fed has already begun its rate-cutting cycle, and the RBA is likely to follow suit in the first half of next year. In a year, when that term deposit matures, reinvesting at the same rate may not be an option. In contrast, an investment-grade bond portfolio can continue to yield 5-6% for many years, offering consistent returns.

Below are some examples of longer-duration, high-quality debt instruments. Given the longer duration of these debt instruments, if yields move down 1% from here, there will be a corresponding 10 increase in price assuming an average duration of 10 years.

Government

Issuer	Sector	Payment Rank	Coupon Formula	ISIN	Rating (S&P, FITCH, MOODY)	Call/ Maturity Date	Duration	Yield	Margin (bps) (TM/ASW)	Running Yield
TREASURY CORP VICTORIA	Government	Sr Unsecured	2.000%	AU3SG0002256	AA,N/A,Aa2	20-Nov-37	10.689	5.568%	80.2	2.976%
TREASURY CORP VICTORIA	Government	Sr Unsecured	5.250%	AU3SG0002934	AA,#N/A,Aa2	15-Sep-38	9.629	5.552%	102.9	5.407%
NEW S WALES TREASURY CRP	Government	Sr Unsecured	4.750%	AU3SG0002702	AA+,AAA,Aaa	20-Feb-35	7.949	5.161%	77.5	4.910%
NEW S WALES TREASURY CRP	Government	Sr Unsecured	1.750%	AU3SG0002553	AA+,AAA,Aaa	20-Mar-34	8.331	5.109%	63.3	2.328%
QUEENSLAND TREASURY CORP	Government	Sr Unsecured	2.250%	AU3CB0271989	AA+,AA+,Aa1	20-Nov-41	12.805	5.563%	71.4	3.526%

High Quality Debt

Issuer	Sector	Payment Rank	Coupon Formula	ISIN	Rating (S&P, FITCH, MOODY)	Call Date	Duration	Yield	Margin (bps) (TM/ASW)	Running Yield
DEXUS FINANCE PTY LTD	Financial	Sr Unsecured	3.000%	AU3CB0270197	A-,#N/A,#N/A	03-Nov-31	6.254	5.979%	158.8	3.630%
TRUSTEE FOR GENERAL PROP	Financial	Sr Unsecured	2.849%	AU3CB0270635	A-,#N/A,#N/A	20-Nov-31	6.328	6.012%	160.0	3.495%
EDITH COWAN UNIVERSITY	Consumer, Non-cyclical	Sr Unsecured	3.400%	AU3CB0281590	#N/A,#N/A,Aa2	15-Apr-41	11.324	6.677%	160.9	5.053%
EDITH COWAN UNIVERSITY	Consumer, Non-cyclical	Sr Unsecured	2.741%	AU3CB0281582	#N/A,#N/A,Aa2	15-Apr-33	7.383	5.764%	127.0	3.447%
LENDLEASE FINANCE LTD	Financial	Sr Unsecured	3.700%	AU3CB0278711	N/A,BBB-,Baa3	31-Dec-30	5.500	6.697%	232.0	4.375%
PACIFIC NATIONAL FINANCE	Industrial	Sr Unsecured	3.800%	AU3CB0282812	BBB-,BBB-,N/A	10-Jun-31	5.791	6.652%	224.6	4.498%

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