

August 2025

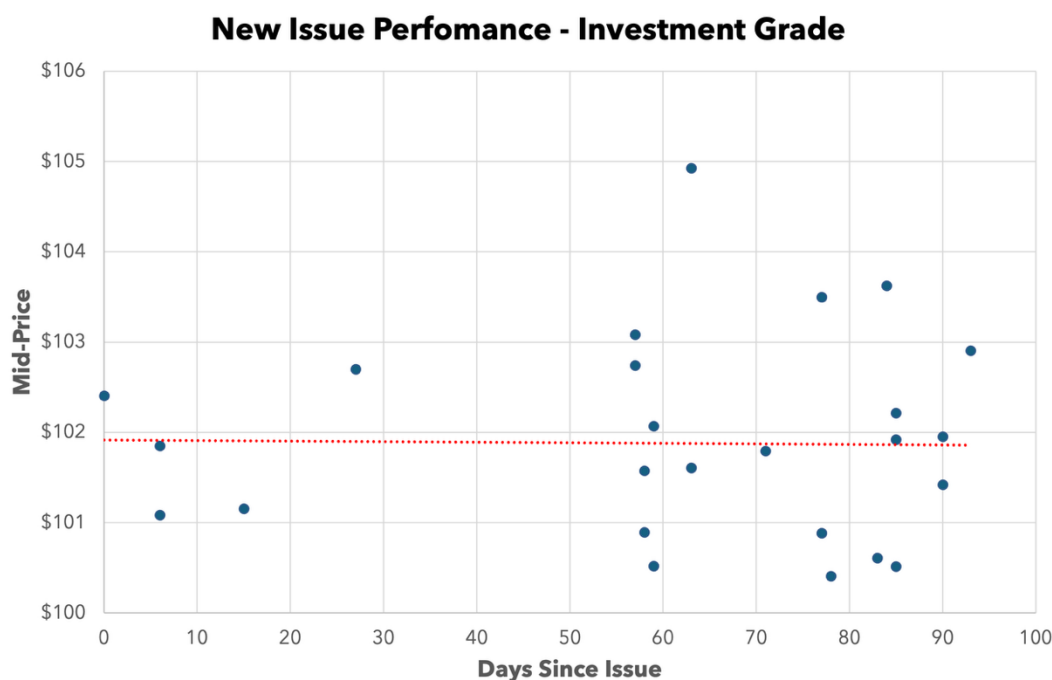
New Bonds, Big Gains

By Darryl Bruce

Over recent months, investors have seen a steady stream of new issuance in the investment grade bond market. Together with consistent supply in syndicated loans, this has created a wide range of opportunities across the risk/return spectrum, making it an opportune time to build a diversified fixed income portfolio.

We know that the new issue process can sometimes feel challenging for investors. Bookbuilds are rapid affairs and orderbooks are frequently many times oversubscribed. Orders can get scaled and often pricing tightens i.e. the final coupon can be lower than the initial guidance, leading investors to feel like issuers have the upper hand.

Despite these frustrations, recent investment grade issuance has delivered strong results for investors. Demand has been consistently strong in the new issue market and remains strong in the secondary market. The chart below reflects the current mid-prices on investment grade bonds issued in the last three months, with the red dotted line indicating the average of those prices.



Source: Bloomberg

All of the bonds are trading above par (100). A handful are lingering between 100 and 101, however majority are trading between 101 and 104, a 1%-4% price increase (or capital gain) in a short time frame.

Among the strong performers, two standouts of note have been BCPE 6.5618% 2035c which is trading at c.105 around two months after issue. In addition, the recently issued ANZ 6.171% 2045 was trading at 102.4 the day it settled.

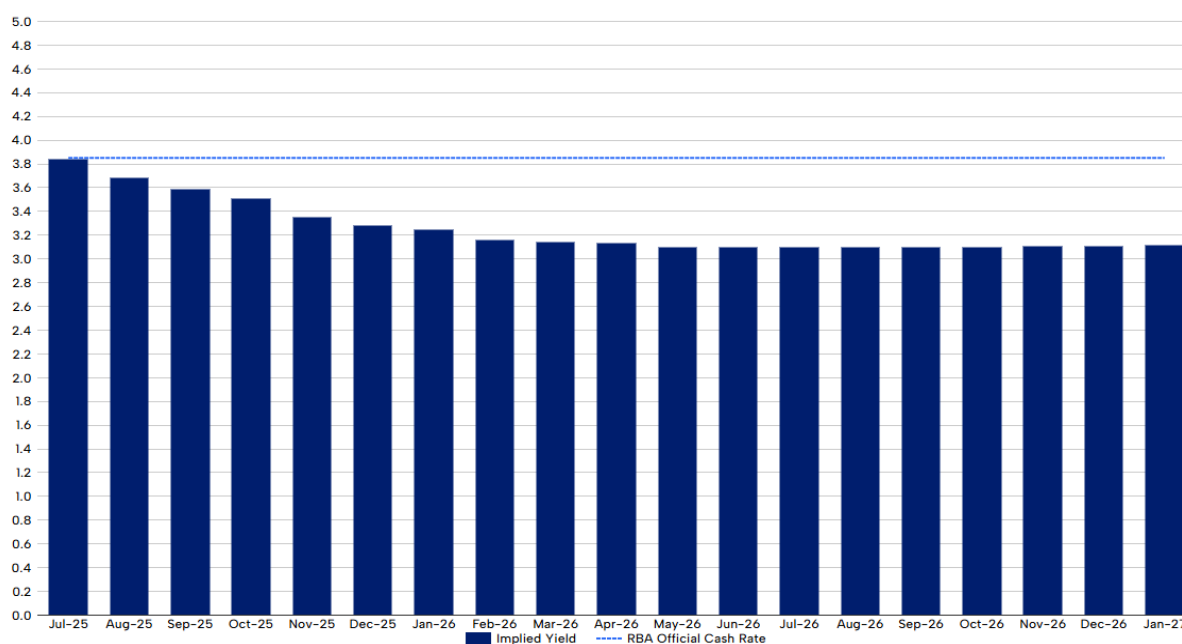
Although it can be frustrating when a coupon is squeezed during the new issue process, this capital increase along with an annual income return that has typically been in the high 5% to low 6% range, shows that the issuers are not the only winners in the new issue process. *Refer to the table at the bottom to see specific issues represented on the chart above.*

The opportunity ahead

While the Reserve Bank of Australia (RBA) surprised the market by holding the Cash Rate in July, expectations are that more cuts are on the horizon as the economy broadly slows. The chart below shows that the market is currently expecting three more Cash Rate cuts by February 2026. This provides ideal conditions for the quintessential bond trade - locking in a high level of fixed income and waiting for the Cash Rate to come down. As rates fall the fixed income return will look more attractive, thereby lifting the capital values.

ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve

As at market close on 01 August 2025



Source: Australian Stock Exchange

The days of 6%+ coupons for investment grade bonds are largely behind us for the time being. However, bonds issued with 5% coupons have also been performing very strongly in the secondary market.

Based on the current dynamics of insatiable demand for fixed income together with falling Cash Rates I expect that, despite its frustrations, the new issue market will continue to deliver solid returns and liquidity for investors for the foreseeable future.

Indicative Mid-Prices of Recently Issued Bonds

Issuer Name	Security Name	Days Since Issue	Mid Price
DYNO NOBEL LTD	DNLAU 5.4 11/08/32	0	\$101.080
DYNO NOBEL LTD	DNLAU 5.817 08/08/35	0	\$101.844
NATIONAL AUSTRALIA BANK	NAB 5.774 07/30/40	7	\$101.150
PORT OF NEWCASTLE INVEST	PONEIV 6.1 07/18/33	19	\$102.694
BARCLAYS PLC	BACR 6.052 06/18/36	49	\$103.076
EMIRATES NBD BANK PJSC	EBIUH 5.913 06/18/35	49	\$102.739
NEXTERA ENERGY CAPITAL	NEE 6.043 06/17/55	50	\$101.571
NEXTERA ENERGY CAPITAL	NEE Float 06/17/55	50	\$100.887
AUSTRALIA PACIFIC AIRPORT	MELAIR Float 06/16/55	51	\$100.513
AUSTRALIA PACIFIC AIRPORT	MELAIR 5.95 06/16/55	51	\$102.063
BPCE SA	BPCEGP 6.5618 06/12/40	55	\$104.921
COMMONWEALTH BANK AUST	CBAAU 5.252 09/12/35	55	\$101.605
WESTPAC BANKING CORP	WSTP 5.815 06/04/40	63	\$101.788
MACQUARIE BANK LTD	MQGAU 6.1456 05/29/40	69	\$103.495
MACQUARIE BANK LTD	MQGAU Float 11/29/35	69	\$100.878
LLOYDS BANKING GROUP PLC	LLOYDS Float 05/28/31	70	\$100.402
HERITAGE PEOPLES CHOICE	ACDAU Float 05/23/35	75	\$100.602
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AIRSERVICES AUSTRALIA	AIRSER 5.45 05/15/35	76	\$103.617
MYSTATE LTD	MSTTAU Float 05/21/35	77	\$101.914
QBE INSURANCE GROUP LTD	QBEAU 5.802 05/21/36	77	\$102.210
QBE INSURANCE GROUP LTD	QBEAU Float 05/21/36	77	\$100.510
AURIZON HOLDINGS LTD	AZJAU 6.3 05/16/55	82	\$101.946
AURIZON HOLDINGS LTD	AZJAU Float 05/16/55	82	\$101.415
WORLEY FIN SERV PTY LTD	WORAU 5.868 05/13/32	85	\$102.902

Source: Bloomberg

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