

September 2025

Why Australian Investment Grade Bonds Stand Out in Today's Market

By Matthew Macreadie

Today in Australia, traditional income sources such as savings accounts and term deposits are offering less than inspiring returns. Major equities like CBA show net dividend yields of just 2.79% and trade at high price-to-earnings ratios, making them appear more like growth stocks than reliable income plays. The ASX 200 currently yields around 3.25%, a figure that loses further appeal when adjusted for inflation. As we approach the end of the year, it's possible both the RBA cash rate and the ASX 200 yield will dip below 3.50%—a rare convergence. Even hybrid securities, often considered for higher yield, are only offering between 5% and 5.50% for short maturities.

With average interest rates currently hovering above 3% and equity dividend yields facing downward pressure, investors are increasingly seeking more robust fixed income opportunities. As the RBA and banks have started cautiously trimming rates, the case for allocating to investment grade bonds—particularly AUD-denominated credit—has never been stronger.

Yields in this category currently range between 5.50% and 6.00%, providing high-quality returns without the need to venture into riskier segments such as high-yield or private credit. These securities are backed by strong credit ratings, making them a sensible choice for those prioritising capital preservation alongside income generation.

Navigating a Challenging Market

Delayed interest rate cuts from the US Federal Reserve, expectations for further moves by the RBA, inflation remains stickier than expected, and political risks—from shifting tariff policies to upcoming elections—have all contributed to heightened uncertainty. In this environment, we stress the need for more resilient income strategies which balance both yield and risk, across defensive assets like AUD investment grade credit. By constructing portfolios that blend various defensive instruments, investors can better withstand market volatility and unpredictable macroeconomic shifts.

Bank and Corporate Investment Grade Bonds: A Closer Look

Tier 2 bank debt—issued by Australia's [leading banks](#) such as CBA, NAB, WBC, and ANZ—offers particularly attractive yields without the illiquidity risks often associated with private credit. Despite these banks being among the most expensive in the world from an equity perspective, their Tier 2 bonds remain competitively priced for income-focused investors.

Further diversification can be achieved through corporate investment grade bonds (non-financials), which combine appealing yields with improving credit conditions and healthy fundamentals, especially as rates stabilise. Recent primary market performance for these bonds has been strong, reinforcing their role in a well-constructed income portfolio.

The Role of Australian RMBS in Diversified Portfolios

Australian residential mortgage-backed securities ([RMBS](#)) have historically demonstrated strong credit quality, with investors in rated tranches never experiencing credit losses. This track record is largely due to low default rates on underlying loans and the robust structure of these securities, which ensures sufficient income remains in the mortgage pool to cover payments. RMBS can thus provide an additional layer of diversification and yield in a fixed income allocation.

Portfolio Construction: A Practical Example

To illustrate a balanced approach, consider a [Managed Discretionary Account](#) model such as IAM's Income MDA, with a 60% allocation to AUD investment grade credit and 40% to [Syndicated Term Loans](#). This structure leverages the defensive qualities and income potential of investment grade bonds, while the inclusion of syndicated loans further diversifies risk and returns. Such a portfolio is designed to perform well across market cycles and interest rate environments.

The stable attractiveness of investment-grade credit.

As traditional income sources weaken and market risks increase, AUD investment grade credit offers a combination of yield, quality, and resilience. By incorporating these bonds—alongside select corporate credit and RMBS—investors can build robust, income-generating portfolios that are well-equipped to weather the challenges ahead. Now is the time for investors and advisers to revisit fixed income allocations and capitalise on the enduring strengths of investment grade bonds for resilient income and long-term portfolio stability.

Please speak to an IAM Relationship Manager to help build an IG Bond Portfolio or call us on 1300 784 132.

Disclosure

IAM Capital Markets Limited (AFSL 283119) ('IAM Capital Markets') is a financial service business and provides general financial product advice only. As a result, this document, the Content and the Reports are not intended to provide financial product advice and must not be relied upon or construed as such. IAM Capital Markets does not express any opinion on the future or expected value of any financial product and does not explicitly or implicitly recommend or suggest an investment strategy of any kind. The Content and the Reports provided in this document have been prepared based on available data to which IAM Capital Markets have access. Neither the accuracy of that data nor the research methodology used to produce the Content and Reports can be or is guaranteed or warranted. Some of the research used to create the Content and the Reports is based on past performance. Past performance is not an indicator of future performance. Any forecasts are predictive in character and based on specified assumptions generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. The data generated by the research in the Content or the Reports is based on research methodology that has limitations; and some of the information in the Content or the Reports is based on information from third parties. IAM Capital Markets does not guarantee the currency of the Content or the Reports. If you would like to assess the currency, you should compare the Content or the Reports with more recent characteristics and performance of the assets mentioned within it.

You acknowledge that investment can give rise to substantial risk and a product mentioned in the Content or the Reports may not be suitable to you. The Content and Reports have been provided or made available by IAM Capital Markets without taking account of your objectives, financial situation, and needs. IAM Capital Markets strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. Neither IAM Capital Markets, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of the Content and Reports. Nor does IAM Capital Markets accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from the Content and Reports. IAM Capital Markets, its staff and related parties earn fees and revenue from dealing in the securities as principal or otherwise and may have an interest in any securities mentioned in this document. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). IAM Capital Markets does not provide tax advice and is not a registered tax agent or tax (financial) advisor, nor are any of IAM Capital Markets' staff or authorised representatives. IAM Capital Markets does not make a market in the securities or products that may be referred to in this document.

An investment in notes, corporate bonds, syndicated loans, or any debt instrument should not be compared to a bank deposit. Notes, corporate bonds, syndicated loans, or any debt instrument have a greater risk of loss of some or all an investor's capital when compared to bank deposits. IAM Capital Markets is not licensed to provide foreign exchange hedging or deal in foreign exchange contracts services. IAM Capital Markets may quote to you an estimated yield when you purchase a bond. This yield may be calculated by IAM Capital Markets on either A) a yield to maturity date basis; or B) a yield to early redemption date basis. Some bond issuances include multiple early redemption dates and prices, therefore the realised yield earned by you on the bond may differ from the yield estimated or quoted by IAM Capital Markets at the time of your purchase.

To the extent IAM Capital Markets has utilised research from BondAdvisor, the following Disclaimer applies. BondAdvisor has acted on information provided to it and our research is subject to change based on legal offering documents. This research is for informational purposes only. We note that this security offering is only being made to investors who are not retail clients under the Corporations Act nor located outside Australia. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. The Content of this Report is not intended to provide financial product advice and must not be relied upon as such. The Content and the Reports are not and shall not be construed as financial product advice. The statements and/or recommendations on this web application, the Content and/or the Reports are our opinions only. We do not express any opinion on the future or expected value of any Security and do not explicitly or implicitly recommend or suggest an investment strategy of any kind. The Content and Reports provided have been prepared based on available data to which we have access. Neither the accuracy of that data nor the methodology used to produce the Report can be guaranteed or warranted. Some of the research used to create the Content is based on past performance. Past performance is not an indicator of future performance. We have taken all reasonable steps to ensure that any opinion or recommendation is based on reasonable grounds. The data generated by the research is based on methodology that has limitations; and some of the information in the Reports is based on information from third parties. We do not guarantee the currency of the Report. If you would like to assess the currency, you should compare the Reports with more recent characteristics and performance of the assets mentioned within it. You acknowledge that investment can give rise to substantial risk and a product mentioned in the Reports may not be suitable to you. You should obtain independent advice specific to your particular circumstances, make your own enquiries and satisfy yourself before you make any investment decisions or use the Report for any purpose. This Report provides general information only. There has been no regard whatsoever to your own personal or business needs, your individual circumstances, your own financial position or investment objectives in preparing the information. We do not accept responsibility for any loss or damage, however caused (including through negligence), which you may directly or indirectly suffer in connection with your use of this Report, nor do we accept any responsibility for any such loss arising out of your use of, or reliance on, information contained on or accessed through this Report.

© 2025 IAM Group | Income Asset Management Group Limited ABN 42 010 653 862 (ASX: IAM) and wholly owned subsidiaries, IAM Capital Markets Ltd ABN 86 111 273 048 AFSL 283119, IAM Cash Markets Pty Ltd ACN 164 806 357 as corporate authorised representative (no. 001295506) of AFSL 283119, Trustees Australia Limited ABN 63 010 579 058 AFSL 260038 and IAM Funds ABN 54 643 600 088, together the IAM Group.

The information in this website is for general information purposes only and does not purport to contain all matters relevant to any particular or financial instrument. It is not intended to be a recommendation, offer or invitation to purchase, sell or otherwise deal in securities or other investments. Before making any decision in respect to a financial product, you should read the relevant Financial Services Guide and Product Disclosure Statement available from IAM Group <https://www.incomeam.com> and seek independent and specific advice from an appropriately qualified professional. IAM Group shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information contained here.