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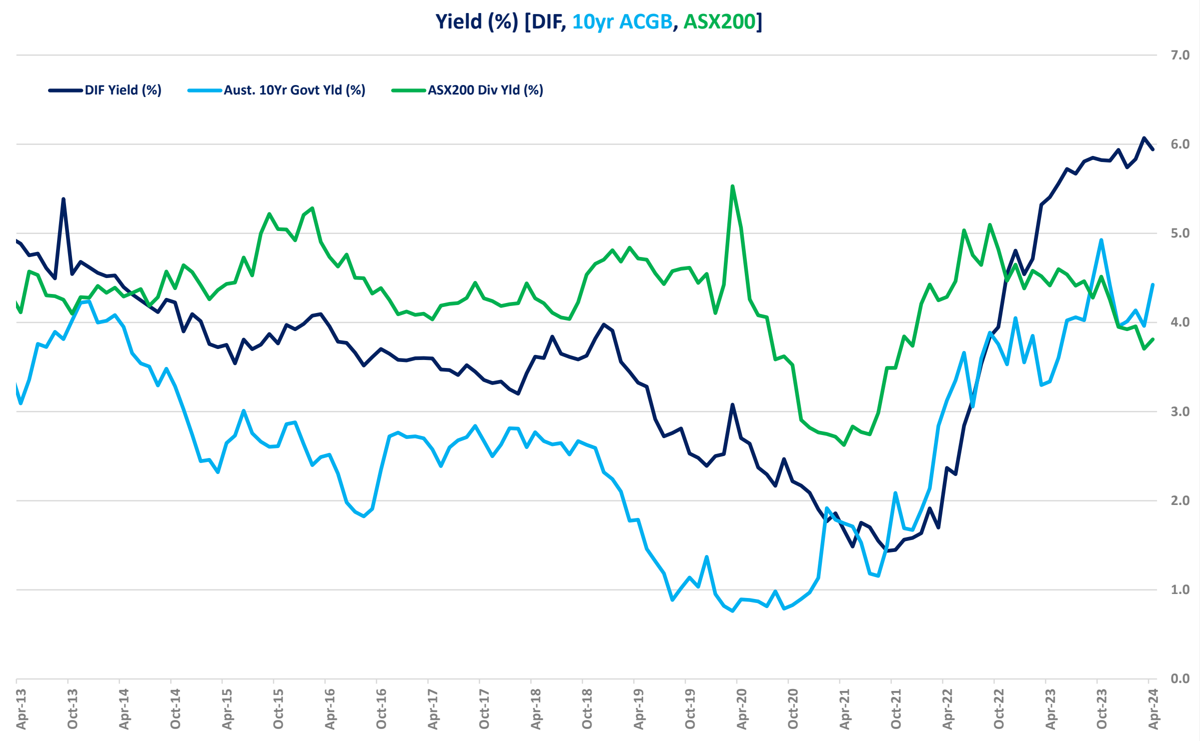
Media Release

Fixed income investment opportunities the best in a decade: Perpetual

Investors looking to tilt away from expensive equities or growth assets could find some of the best opportunities in fixed income in the past decade, says Perpetual Head of Fixed Income Vivek Prabhu.

The last time 10-year Australian Commonwealth Government Bond (ACGB's) yields were on par with the ASX200 dividend yield was in October 2013. Often used as a proxy for the risk-free rate, it wasn't until almost a decade later in September 2023 that 10-year ACGB yields surpassed those of the ASX200. In November 2022, the yield on Perpetuals Diversified Income Fund also exceeded that of the ASX200 for the first time in over eight and half years, and currently offers a 2% yield premium to equites.



Source: Bloomberg, Perpetual

"Given what many consider an expensive equities market relative to historical valuations, the opportunities we're seeing in fixed income should make investors think about their asset allocation because, on a relative basis, it is looking cheap.

"You can have your cake and eat it too at the moment, because you can get equity-like returns with the stability of fixed income," said Mr Prabhu.

Perpetual's credit and fixed income team examine individual issuers and their industries, including an annual, bottom-up review cycle for corporate investment-grade credit and ongoing market surveillance. The investment team refreshes their credit outlook fortnightly and also form a matrix of investment preferences by industry sector, credit rating and maturity. As at 31 March 2024, Perpetual's credit and fixed income strategies had $7.3 billion in funds under management.

"In an over-the-counter market like fixed income, it's important to have your finger on the pulse as it can give you early warning signs that managers who aren't as active may not see.

"We are regularly facing the market and can see subtle changes in liquidity or pricing, which often provide an early warning sign as to when market conditions are changing, offering a signal of when to de-risk or add risk," said Mr Prabhu.

Active vs passive fixed income investing

The rise of passive investing is well-known to equities investors, however Prabhu cautioned that there are distinct differences as it relates to fixed income.

"Passive might work in equities because the companies that are doing well (winners) typically have a bigger market cap, and the passive funds will build a higher weighting to the companies that are growing and getting a bigger index representation.

"But it's actually the opposite in fixed income. Rather than being weighted towards winners, you're lumbered with the losers. With fixed income, the index representation of a particular company or government is driven by how much debt they have on issue, and as companies or governments issue more debt – and become worse credit quality (losers) and often more financially leveraged as a result – they actually become a bigger part of the index," Mr Prabhu said.

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