



Global uncertainty driving strategy shift

BONDS

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AUSTRALIAN investment culture is changing. Investors are increasingly concerned about instability in equity markets and its effect on investment returns.

With no signs of equity market volatility abating, many investors are turning to bonds as a hedge against equity market uncertainty.

The sands have already started to shift in local investment culture, and investors need to be aware of the changes and to know they can participate in the changing environment or face the prospect of being left behind.

Australians have historically invested at the bookends of the risk spectrum: equities at the riskiest end and term deposits at the safest end.

There has been little or no thought of accessing the vast universe provided by the bond market between the bookends.

However, with the ASX 200 returning a negative 13.5 per cent year to date and term deposits returning about 5.6 per cent (with expectations of further cuts to interest rates) investors are now appreciating the benefits a bond portfolio that provides capital stability, and can lock in returns of 7-8 per cent annually for years to come, can have as part of their

overall investment strategy.

FIIG Securities is seeing the change in investor behaviour first hand. For the September quarter, its transaction volume increased more than 95 per cent year on year, as investors shifted from equities and term deposits into bonds. Australian investors want to build their own diversified fixed income portfolios delivering returns and cashflow tailored for their needs — a move away from the “one size fits all” managed fund model.

Increased access to the bond market through FIIG and other fixed income brokers is helping change the investment culture by making direct investment in bonds more accessible.

Other fixed income trends include a shift from term deposits into short-dated bank senior bonds.

This is popular with investors seeking additional yield over and above term deposits while keeping a similar maturity profile.

There is a move away from floating rate bonds into fixed rate and inflation linked bonds. As a result of last Tuesday's interest rate cut and anticipation of further cuts, investors have been moving into bonds delivering fixed returns

for longer terms.

Demand for Australian corporate bonds is rising. After the Woolworths retail hybrid bond offering — which left many investors perplexed with a zero allocation from their broker (as the deal was sold mainly to institutional investors) — investors who had freed up money to participate in the Woolworths offering instead went into Australian corporate bonds and other high-yielding assets.

Non-Australian-dollar bonds are also becoming popular.

Investors wanting to take advantage of the high Australian dollar and turbulence in overseas markets have been accessing US dollar and euro-denominated issues for Australian companies.

And non-household names are attracting attention.

With the help of dedicated fixed income research, investors are considering bond offerings from non-household names such as Envestra, Praeco and Dalrymple Bay Coal Terminal, all of which add excellent yield and diversification characteristics to fixed income portfolios.

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