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Australian Bond Market

The foundation on which its Capital Market is built

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One of the primary foundation pillars of any developed and fully functioning capital market is easy and complete access to debt capital. Australia would certainly fit this description in capital market and is well-trusted and respected globally.

The most significant debt for any country is government debt. A liquid and stable market in government bonds adds respectability and trust to investors, not just in the debt market but also in financial markets of the country. They are very aptly named benchmarks.

In some way, debt instruments use their price for the benchmark upon which the whole debt market pricing is based. You could call them the "lungs" of the debt market. If they are healthy and trusted, everything is working and investment funds flow in and out calmly. However, if the market is viewed as 'sick', then investors would be worried and will look for healthier bodies (countries) to place their funds.

Yields on government bonds are expensive and with QE being touted, there's a possibility that they will get even pricier. Liquidity requirements and policies will keep the demand coming, and with low rates, more bonds will find their way to the market for cheap funding solutions for corporates.

Interestingly, the Reserve Bank of Australia considers retiring govt debt and thought to use corporate bonds as the foundation of the market. Wisely and not surprisingly, after seeking advice from far and wide including market makers and traders, it decided to continue its tried and tested path.

It is a very successful debt market and as a result more than $1 trillion of corporate debt is outstanding in Australia. Of that debt, less than half of it is held by domestic investors, again showing the high regard it is held globally

It is very appealing to investors as, on top of its stability, it also has one of the highest returns available for bonds in a developed capital market (an average of 6.1% in 2006-2016) and has far outstripped the return on Australian shares (4.3% for the same decade).

Caption: Australia capital market gain its reputation as well-trusted and respected globally and here is why.

Holding corporate bonds can be a reliable & stable income (73%), the rate of return given the risk profile (72%) and finally for capital preservation (54%)

Surprisingly, 84% of HNW's in Australia do not own corporate bonds. It is a complex market with a myriad of different types of bonds, each with their own benefits and pitfalls with different risks.

Understanding the debt market is key to ensure sure the investor has the right bond to fit his goals and risk appetite and these all starts with the learning in & out of these topics.

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