

Buy Australian State Government Bonds

Summary

- Trump's presidency and potential Republican Congress may drive global inflation risk, keeping bond yields elevated.
- The risk of US inflation and continued labour market strength in Australia suggest Australian bond yields will stay around 5%.
- While capital gains potential is now limited, income-focused investors can benefit from elevated yields.
- We recommend 10-year state bonds that offer attractive long-term income, while the 30-year ACGB is no longer recommended – exit when possible.

The Red Sweep Significantly Alters the Landscape

Donald Trump's victory in the US presidential election, along with a likely Republican sweep of Congress, could have significant implications for global fixed income markets, including Australia's bond market.

If Trump's tax cuts and tariffs are implemented, they could increase inflation risk globally and sustain economic resilience, keeping global bond yields elevated for an extended period.

AUD Yields Expected to Remain Elevated

The risk of US inflation spillover, combined with concerns over continued strength in Australia's labor market, is expected to limit the likelihood of significant easing by the Reserve Bank of Australia (RBA). As a result, yields on Australian Commonwealth and state government bonds are expected to remain around 5% for the foreseeable future.

Income is the Name of the Game

Given recent developments and heightened uncertainty, we do not expect significant capital gains in the near term. However, income-focused investors will find attractive yields in this environment.

Considering these risks, we recommend prioritizing income and adopting a long-term investment perspective.

Key Risks

- A robust Australian labour market and persistent core inflation may delay the RBA policy rate cuts.
- Uncertainties over Trump's global trade and tariff policies could raise concerns over higher inflation risk and keep interest rates elevated in Australia.
- An increase in US Treasury yields may lessen the appeal of Australian government bonds.

Australian State Government Bonds Remain Great for Long-term Income

Same compelling reasons to continue holding them:

Australian state governments have solid credit profiles, characterized by robust governance, a broad tax base, low debt, and sound fiscal management.

State government bond yields have become more attractive following the recent selloff. We favor the 10-year tenor for its balance of attractive income and moderate price volatility, offering yields of at least 5.25%. Unlike USD and GBP bonds, Australian government bonds are less correlated with US Treasuries, driven more by domestic economic conditions than by the uncertainties surrounding US policies.

While we recommend that investors who have recently purchased 13- to 15-year state government bonds consider exiting when possible, those with higher tolerance for price volatility may choose to hold them for their high quality and attractive yield, as a reliable source of long-term income.

Refer to Table 1 for Australian state government bonds that we like.

Update on the 30-year Australian Commonwealth Government Bond (ACGB)

Given recent developments in the US elections (Trump presidency) and increased risk of market volatility, we no longer expect significant capital gains on ultra-long bonds. **As such, we no longer recommend the 30-year ACGB.**

Current weak bond market conditions may not be ideal for exiting long-tenor bond positions. Market volatility is expected to increase after Trump's inauguration in 1H2025. However, as clarity on his global trade and tariff policies emerges, global bond yields should stabilize in 2H2025, presenting an exit opportunity for 30-year ACGB investors.

Investors who have recently purchased the 30-year ACGB should consider exiting when the opportunity arises. Those holding the 30-year ACGB should be prepared to unwind positions that are profitable or near breakeven (including accrued coupon income and capital gains or losses).

Table 1: Australian State Government Bonds (Senior Bonds)

No.	ISIN	Bond Description	Credit Rating	Coupon	Maturity	Gross Offer Yield
Buy & Hold Until Maturity						
1	AU0000048274	Treasury Corporation of Victoria	Aa2	2.25%	20-Nov-2034	5.40%
2	AU3CB0296580	Queensland Treasury Corporation	Aa1	4.50%	22-Aug-2035	5.38%
3	AU3SG0002769	Australian Capital Territory	AA+	4.50%	23-Oct-2034	5.36%
4	AU3SG0002942	Tasmanian Public Finance Corporation	Aa2	4.75%	25-Jan-2035	5.36%
5	AU3SG0002702	New South Wales Treasury Corporation	AA+	4.75%	20-Feb-2035	5.31%
6	AU3SG0002447	South Australia Govt. Financing Authority	Aa1	1.75%	24-May-2034	5.25%

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