



Interest rates are rising again: what it means for your portfolio

July 2026

Aaron Viscayno (00:00):

Hello and welcome to the Ideas Exchange, ASX's regular podcast where we cover investment trends, market updates, and ideas for your portfolio. My name is Aaron Viscayno, business development manager from the investment products team here at ASX. And it is our mission to deliver to you the latest in market updates and ideas through the conversations we have with investment experts.

Speaker 2 (00:22):

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Aaron Viscayno (00:50):

Hello everybody and welcome back to the Ideas Exchange Podcast. My name is Aaron Viscayno, business development manager with the investment products team at ASX. To all of our listeners, let me take you back to November 2023. The RBA announced an increase to the cash rate to 4.35%, the highest it had been since 2011. That rate would hold for a little over a year. The first announcement to drop the rate would be announced in February 2025, much to the joy of mortgage owners here in Australia. Rates would continue to drop in the coming months before bottoming out to 3.6%.

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However, in February this year, the RBA announced the increase of rates once again. As of the time of recording this episode late June 2026, the interest rate has held at 4.35% back to the highs that we saw only two and a half years prior. With economists now predicting rates to remain here until at least mid 2027 with another rate hike still on the cards between now and then.

(01:46):

Joining me on the podcast today is the head of fixed income at Betashares, Chamath De Silva. And together we will discuss what has been prompting this rise in rates and how investors can capitalize on investing in a high interest rate environment. Welcome, Chamath.

Chamath De Silva (01:58):

Great to be here, Aaron.

Aaron Viscayno (01:59):

ETF investors here in Australia will be familiar with Betashares as a company. As the second largest ETF issuer by funds under management locally, Betashares boasts more than 100 ETF products listed on ASX, of which more than 20 are focused around fixed income and cash. So

just to kick us off, Chamath, we now find ourselves once again in a high interest rate environment. So sticky inflation is always going to be main contributing factor in dictating these rates. What other drivers can you think of that are keeping these rates high?

Chamath De Silva (02:27):

It's a few things. So obviously inflation has been sticky and that's been compounded by some of the developments in the Middle East recently, but domestically up until the April jobs report, we had a pretty resilient labor market and business investment had been robust. So the RBA probably had a little reason to move away from a hawkish bias or a hiking bias and the global backdrop also reinforced it. So we've had the Bank of Japan that has been normalizing policy after decades of policy being ultra accommodative. And we've had other central banks more recently pivot to a hiking bias.

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And underneath all this is this global CapEx boom that we're seeing on the back of AI. And that's really been the marginal source of demand in many developed economies and that's really supported growth and demand through the investment channel. I'd say there's also a structural piece to all this. Real yields, so that's yields you get above inflation is still around the highest in over a decade, which suggests that the resting level or the neutral level for rates is much higher now than it was say in the 2010. So part of the story isn't just tight policy, but it's also that higher neutral level of interest rates.

Aaron Viscayno (03:37):

So a lot of global influence here in the rates. And how is it that these elevated rates, or how does that impact investor behavior here in Australia?

Chamath De Silva (03:44):

Yeah. So I think the timing's quite important and these elevated rates have come at a time when dividend yields on Australian shares have generally been trending lower. So the relative appeal of bonds for income-focused investors has shifted. We're seeing a lot of investors either returning to the bond market after a challenging past few years or looking at the bond market for the first time. I think one of the biggest things recently was 2022 was a bit of a watershed year. The bond market suffered some of its worst losses in recorded history from a very aggressive interest rate hiking cycle.

(04:19):

But one of the silver linings from that repricing in interest rates and yields is that bonds are now very attractive again. They're attractive from the perspective of total returns, but they're also attractive from the perspective of delivering reliable income. So you can go a long way to meeting your return hurdles and income needs from government bonds and high quality corporate bonds to a degree that probably wasn't the case a few years ago. But I would say more broadly, fixed income is attractive and investors probably don't have to take on excessive amounts of, let's say, liquidity risk or credit risk or equity risk in order to meet their objectives.

Aaron Viscayno (05:00):

Great. Thank you. And as I mentioned earlier in the intro, Betashares does have a very impressive suite of fixed income and cash products. And you've got things ranging from US treasury bonds, composite bonds, and more recently fixed-term corporate bonds. So it's good to hear that a lot of investors are taking a good close look at fixed income as an asset class in this day and age. But for our investors who are not particularly really familiar with fixed income, what do you think they need to know before investing in their first fixed income ETF?

Chamath De Silva (05:31):

Yeah. So I'd just start with one idea that fixed income is a broad church, so to speak. It's not a one-size-fits-all asset class and it can serve many different needs, whether that's income, capital stability, portfolio diversification, or even as a trading vehicle to express a view about the domestic or global economy. So the first step is really understanding your own goals, your investment horizon, and your tolerance for volatility and credit risk. The way I'd frame it is that bonds exist on a continuum relative to cash. So cash is your starting point, that's the lowest risk asset. And as you move out that continuum, different bonds carry different levels of interest rate risk, credit risk, liquidity risk, and inflation risk. Investors will demand a risk premium or a higher interest rate for taking on one or more of those risks. So understanding which risk you're taking on is really the heart of fixed income investing.

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And that's why different exposures behave differently at the same point in the cycle. So cash and floating rate bonds or high-quality floating rate bonds will behave very differently from long-dated fixed-rate bonds. The key variable is often what we call duration and that's closely tied to the maturity, especially for fixed-rate bonds and that will determine often the day-to-day volatility. So while a short-dated government bond might move around very little and it might resemble something close to cash, a long-dated government bond might behave very differently and might have volatility similar to what you see in the equity market even. So the same asset class, but a very kind of different ride along the way.

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The other thing I'd bring up is it's important to understand how bonds will interact with the rest of your portfolio, especially if you're using it for portfolio diversification. So a lot of investors would be holding kind of equities and equities might be the growth engine in your portfolio. So you want to look at bonds as a diversifier potentially. And fixed-rate bonds in particular, their diversifying ability can vary depending on what sort of economic regime you're in. So in a disinflationary regime, such as what we saw in the 2010s, fixed-rate bonds often provide good equity diversification benefits. So when equity markets might have a drawdown that might be partly offset by bond prices on fixed-rate bonds appreciating. And that's what we often saw in the 2010s.

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But on the flip side, in a more inflationary world, such as what we've seen post-pandemic, it's a different story. And fixed-rate bonds can move in the same direction as equities where inflation rather than growth is the main risk factor for portfolios. So the key thing, just to summarize all that, fixed income, there's a lot of different types of exposure. So it's important to understand your needs, but the ETF market provides building blocks for every one of those exposures.

Aaron Viscayno (08:24):

Fantastic. Thank you. And look, just being a part of the ASX and being witness to this over the past few years, it just seems like fixed income investing, especially within the ETF space has risen. Not only due to the elevated rates, we're seeing more inflows from that, but also the number of fixed income products that are actually coming to market. So do you feel that Australians as a whole are still underinvested in fixed income as an asset class?

Chamath De Silva (08:48):

Personally, I do think Australians still remain underinvested in fixed income, although that's starting to change. So to put it in perspective, if we take the average across the OECD countries

and we look at pension fund allocations, OECD pensions typically are holding close to 50% in fixed income. And that's a share that's been pretty stable for some time. Now in Australia, our super funds are holding a significantly lower share than that. And in the private wealth space, fixed income has historically been only around 5%, but I've seen data that suggests that's risen towards 15% more recently. So there are a few reasons for this historical underweight and the underweight currently. The first is demographics. Some other developed economies have older populations, which naturally lifts the allocation towards defensive assets like bonds. The second reason, and this is more a historical feature, is that the alternatives like bank deposits and dividend paying shares have historically been quite attractive.

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In the past, our banks, they often paid pretty attractive deposit rates often at a margin to the RBA cash rate or even interbank wholesale rates. And our equity market typically offered higher income levels with franking credits than say other equity markets. So the deposit plus dividend barbell is probably seen as good enough for a lot of investors, but I think that's changed. As I mentioned before, dividend yields have been falling in recent years and the margins that you get on deposits are probably no longer as attractive as they once were. And especially term deposits now, there are some more conditions like lockup and the liquidity is a little bit more challenging on term deposits than may have been the case previously. So you can earn quite a decent margin over cash and right now over equity yields from high-quality investment-grade bonds.

Aaron Viscayno (10:53):

Great. Thank you. And I think that really has set the scene here for how fixed income is currently looking presently in Australia. Cham, let's look to the future. So it would be remiss for me to not ask you on your opinion of the proposed tax changes announced in the 2026 federal budget. Responses to that have been polarizing, to say the least. So the most important change to investors outside of the investment property space would be the 50% CGT discount being replaced with cost-based indexation. Cham, how do these changes impact fixed income investors and are the proposed changes more advantageous to them compared to say the likes of an equity investor?

Chamath De Silva (11:30):

Yeah. So it's a question I've been getting a lot recently as you'd expect. Look, I'm no tax expert, but fortunately I do have access to them at Betashares and I've been picking their brains over the past few weeks. So the first thing I'd say is that these are still proposed changes and the legislation hasn't yet passed Parliament. And anyone making these decisions should probably get proper tax advice for their own situation. Now, our view is that a return to CPI indexation for capital gains shouldn't fundamentally alter your overall asset allocation. So where you are in your investment journey and what your objectives are should still drive that split between growth assets and defensive assets, not necessarily the tax chain. It's also worth remembering that super is carved out from these changes. So nothing changes with super.

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So for fixed income and bonds specifically, the impact is marginal. Fixed income returns are largely based on interest income from the coupons they pay, which is taxed at your marginal tax rate and will remain the same under the proposed regime. So the CGT mostly impacts the capital growth component of returns, which is obviously more relevant to equities because a larger share of equity returns would come from capital gains that previously got the 50% discount. There is one wrinkle in the proposed budget that's worth flagging and that's the 30% minimum on real capital gains, which at the margin could make income-producing investments

perhaps more attractive for investors in a lower marginal tax bracket compared to say selling down growth assets in order to fund lifestyle or other needs.

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So if you're drawing an income, maybe at the margin, there are some benefits to taking it as a yield rather than drawing down on your portfolio. But again, I'd just emphasize it's probably more of a marginal consideration. And I'd like to reiterate that the real reason that fixed income is attractive now in our view and why we are so excited about it and why we are seeing a lot more inbound interest isn't so much due to the tax changes. It's much more due to the fact that yields are still around their highest levels in around 15 years and you can still get pretty compelling income from even government bonds and high-quality corporate bonds and bank credit.

Aaron Viscayno (13:47):

Terrific. And yeah, look, it's definitely something that all of us here in the financial industry are keeping a close eye on. Also in our future, a popular investment for Australians to generate income bank hybrids, which are looking to be phased out over the coming years. So reported by nabtrade, an estimated \$42 billion will be returned to investors once these tier one bank hybrids are ruled out in 2032. Where are the investors currently looking to invest to supplement that income?

Chamath De Silva (14:13):

Yeah. So since the APRA announcement, we've actually already had a few calls including a nab hybrid last week. I believe we've got around 34 billion still to run off. I mean, hybrids have been a big part of the investing landscape, especially for advisors. Long being seen as an attractive source of income, paying franking credits in recent years, they've even been investment grade following upgrades from the ratings agencies. So the fact that they'll be phased out will potentially be quite disruptive for some investment strategies, which will probably have to evolve over the coming years. But I guess, fortunately, it is a pretty gradual process. The runoff profile will happen pretty steadily all the way to 2032 when the last Australian Bank hybrid will be called. But the other point that's very important is that this runoff in this phase out is happening at a time when the broader Australian credit market is really having a moment.

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We're seeing record issuance from corporate bonds. We're seeing tremendous issuance from other parts of the bank capital structure, including subordinated bonds. And this APRA phase out, it only applies to bank hybrids, but corporate and insurer hybrids will still see issuance and we are seeing a bit of an issuance wave in corporate hybrids. So I think it's interesting now that this bank hybrid phase out, it's actually forcing many investors, many self-directed investors and advisors to explore the traditional fixed income universe for the first time. And through ETFs, they have probably never before had such easy access to that broader fixed income universe.

(15:56):

And hybrids, that market was a bit over 40 billion, 30 odd billion left, but that's probably dwarfed by the broader credit market, which by my estimates is for investment grade credit is close to a trillion dollars. So that's about 250 billion in senior FRNs, another 250 billion in fixed rate senior investment-grade bonds, another 60 billion or so in subordinated bonds, and a bit over 200 billion in investment-grade securitized credit. So hybrids were only a pretty small part of the broader landscape, but fortunately Australian investors have the ability to access very compelling income solutions.

Aaron Viscayno (16:38):

That's fantastic. Thank you, Cham. And look, everything that you've told me today, things are definitely looking on the up and up. Final question before we get out of here, where do you see the income landscape in the next five years?

Chamath De Silva (16:47):

By some measures, the Australian credit market was the number three credit market in the world in 2025. So it is on the radar for many global investors, but also many issuers. So I mentioned earlier that we are seeing a bit of a CapEx boom through a lot of this spending on AI and a big part of that spending is coming from the hyperscalers and we're seeing a lot of bond issuance from names like Microsoft, Alphabet, Amazon, Meta. And I think we might start to see those names look at our market to diversify their funding sources because they do have a lot of bonds to issue based on their CapEx projections. I think that could bring about a fundamental change in the Australian credit market over the next five years. The fact that as a product of its growing maturity, we are going to see some of the largest names start to issue in size.

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And right now the Australian credit market is probably heavily skewed towards banks and financials. There's very little technology debt here, but I personally feel that will change and we could see a very different industry split in five years time.

Aaron Viscayno (17:57):

Perfect. Chamath, thank you so much for joining us today. Hopefully that's giving the listeners a bit of an idea on where the fixed income is at this point in time here in Australia and moving forward. For more information on Betashare's suites of ETF products, as well as information on their Betashares Direct platform, head on over to their website, betashares.com.au. Until next time, talk to you then.

Speaker 2 (18:18):

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Speaker 4 (18:38):

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