STATE STREET
INVESTMENT MANAGEMENT

Rising Rates, Smarter Income: Fixed Income Fundamentals

Marie Tsang, CFA

November 2026

For educational purposes only. Not investment advice.

9213179.1.1.ANZ.RTL

What you will take away today

By the end of this session you should be able to:

01

Explain
what fixed income is and how it differs from equities

02

Understand
how interest rates, credit quality and duration affect returns

03

Compare
the common fixed income options available

04

Recognise
how fixed income can support income, stability and diversification in a portfolio

Fixed income basics

What a bond is, how it differs from a share, and where the income comes from

A bond is a loan you make to a borrower

- You lend money to a government or company
- In return, they agree to pay you interest and give your money back on a set date



Face value

The amount borrowed and repaid at maturity

(e.g. $100 face value)



Coupon

The interest rate the issuer agrees to pay, usually once or twice a year; may be **fixed or floating**

(e.g. 4% p.a. coupon)



Maturity

The date your original money (principal) is due to be repaid

(e.g. 30 Nov 2029 maturity)



Tradeable

Most bonds can be bought and sold before maturity, at the market price

(e.g. $98 market price)

Source: State Street Investment Management. For illustrative purposes only.

Who issues bonds?

The fixed income universe is broad. Core exposures sit on the left; other exposures typically aim for more yield in exchange for more risk.

Core (investment grade)

Government
National treasuries; generally the lowest credit risk in their own currency

Government-related
Agencies, states and supranationals

Investment grade corporates
Companies with strong credit ratings

Securitised
Bonds backed by pools of loans, e.g. mortgages

Other exposures

High yield corporates
Lower-rated companies paying higher coupons

Emerging markets
Governments and companies in emerging market economies

Inflation-linked
Principal (and coupons) adjusts with inflation

Hybrids
Lower ranking; can have equity-like features

Source: State Street Investment Management. For illustrative purposes only.

Bonds vs shares: Lender vs owner

Illustrative example applies to corporate bondholders and shareholders

	Bondholder	Shareholder
Your role	Lender to the issuer	Part-owner of the company
How you are paid	Contractual interest (coupons), principal back at maturity	Dividends (not guaranteed) plus any share price growth
Upside	Generally limited to coupons plus any price gain on the bond	Linked to the company's growth, with no fixed cap
Downside (recourse if the company fails..)	Paid before shareholders	Paid after bondholders
Typical volatility	Lower	Higher
Main return drivers	Interest rates and credit	Earnings growth, dividends, investor sentiment

For illustrative purposes only.

What drives returns and risk

Interest rates, yield, duration and credit quality

Six risk/return drivers every bond investor should know

Interest rate (duration)

Bond prices may fall when yields rise. Longer duration means bigger moves.

Credit and default

The issuer may miss payments or fail to repay. Lower quality issuers carry more risk.

Liquidity

You may not be able to buy or sell easily when you want to, or you might have to accept a worse price to get the trade done.

Inflation

If prices go up faster than your returns, you lose spending power.

Reinvestment

When a bond matures, you may not find another one that pays as much.

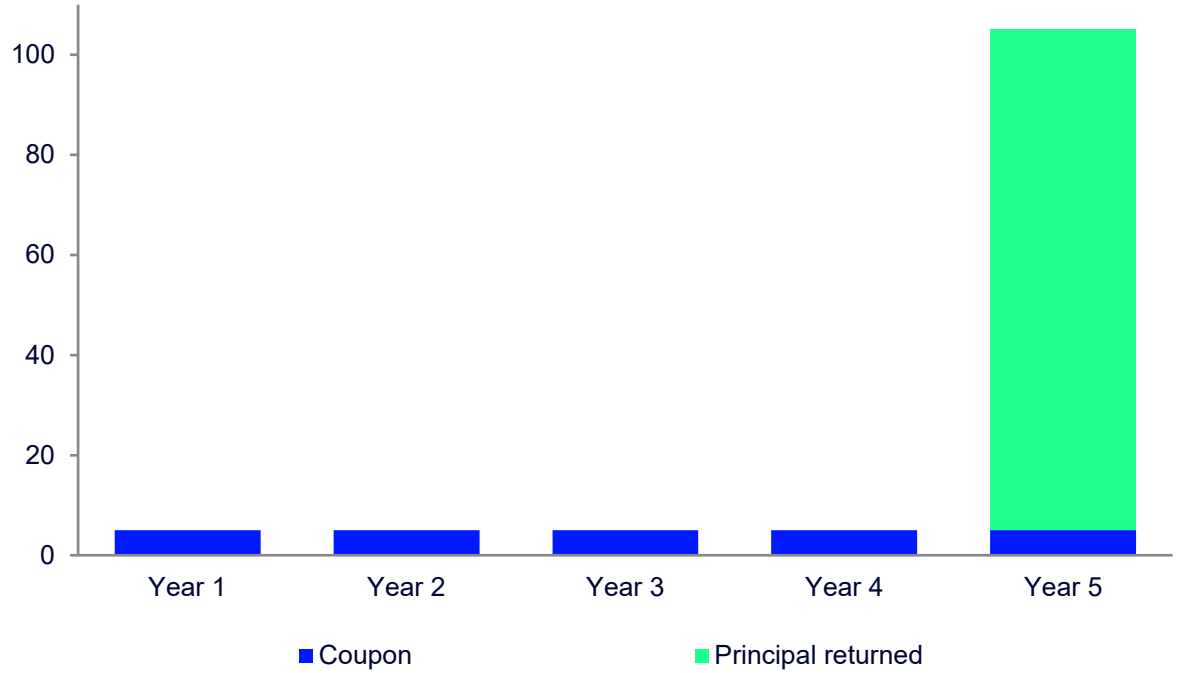
Currency

Foreign bonds can gain or lose value as exchange rates move, unless hedged.

For illustrative purposes only.

Fixed rate bonds: Illustrative cash flows

Example: a 5-year fixed-rate bond bought at $100 with a 5% annual coupon.



Total received

$125

$25 in coupons + $100 principal

- Income is known in advance
- Total return is locked in if held to maturity, assuming no default
- Total return can change if you sell before maturity, or if the issuer defaults

Hypothetical example for illustrative purposes only. Assumes no default and the bond is held to maturity. Excludes fees and taxes.

Fixed rate bonds
When rates go up, bond prices go down

Illustrative example: 5-year bond, 5% annual coupon, bought at $100
Price after market yields move:

Rates fall to 4%

$104.45

Your 5% coupon is now more attractive, so the price rises

Rates stay at 5%

$100.00

Price stays at face value

Rates rise to 6%

$95.79

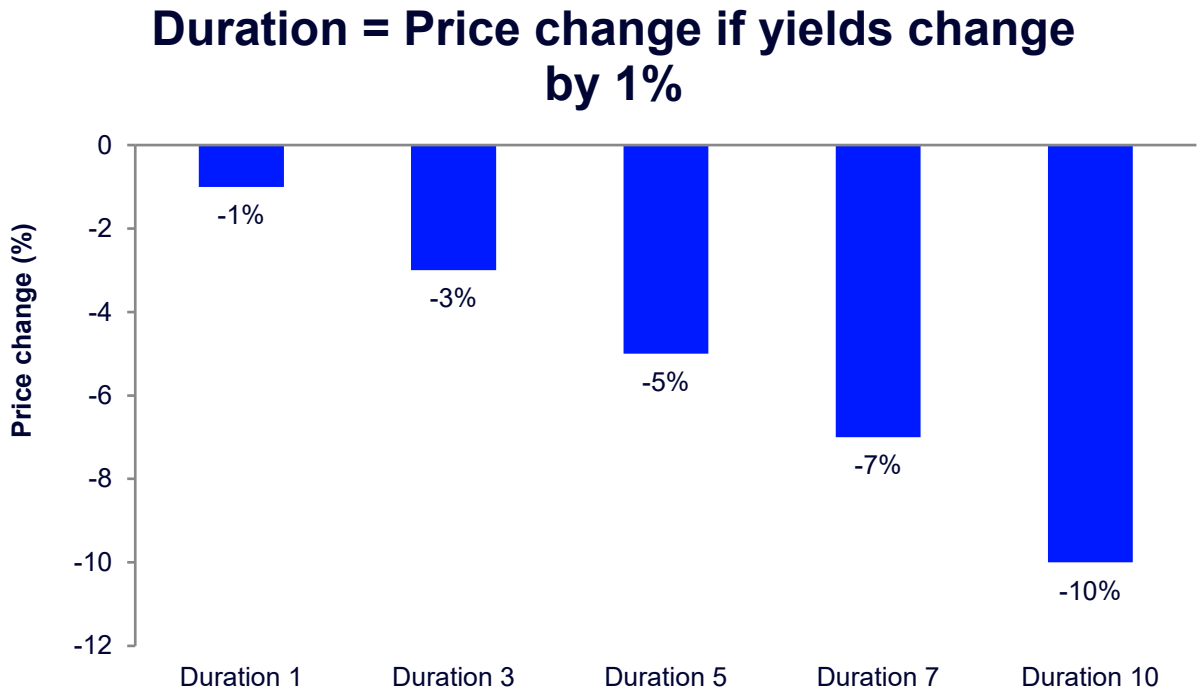
New bonds pay more than 5% coupon, so your bond's price falls

If you hold to maturity and the issuer pays in full, you still get 100 back. Price moves matter most if you sell early, or for funds that are valued daily.

Hypothetical example for illustrative purposes only.

Fixed rate bonds
Risk: Price sensitivity to rate changes

A rule of thumb: for each 1% rise in yields, a bond's price falls by roughly its duration in percent.

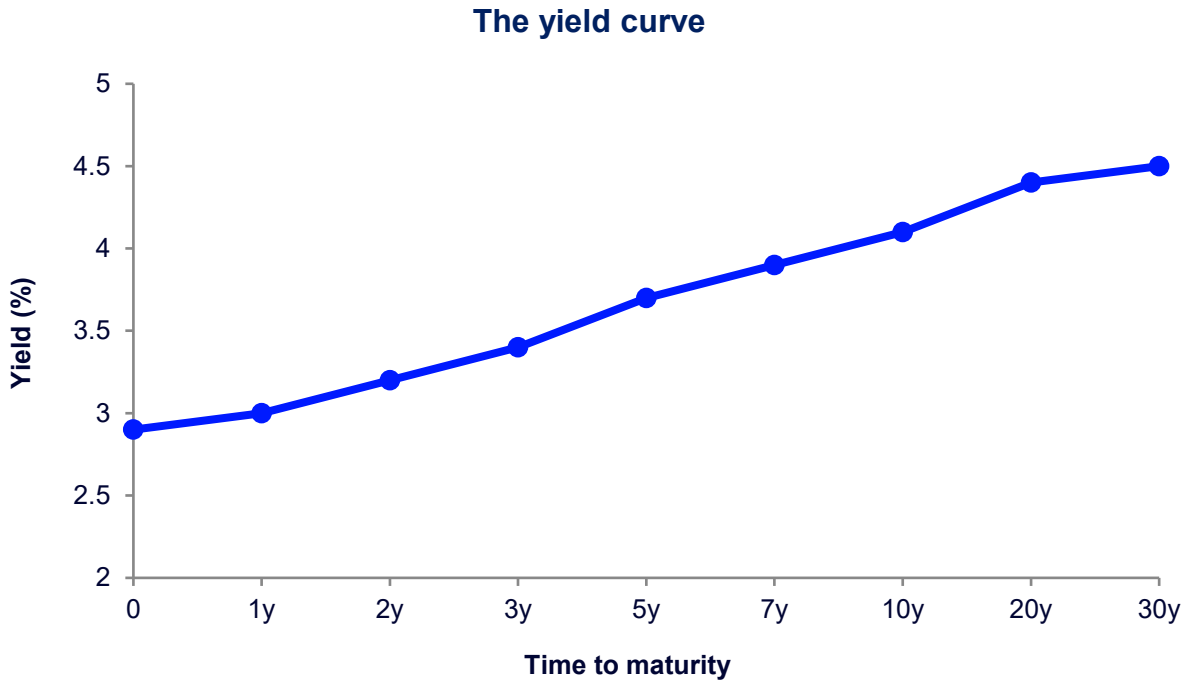


Longer duration
Bigger price swings when rates move, in both directions.

Shorter duration
Smaller price swings, but income can reset lower if rates fall.

Hypothetical example for illustrative purposes only.

Fixed vs floating rate bonds



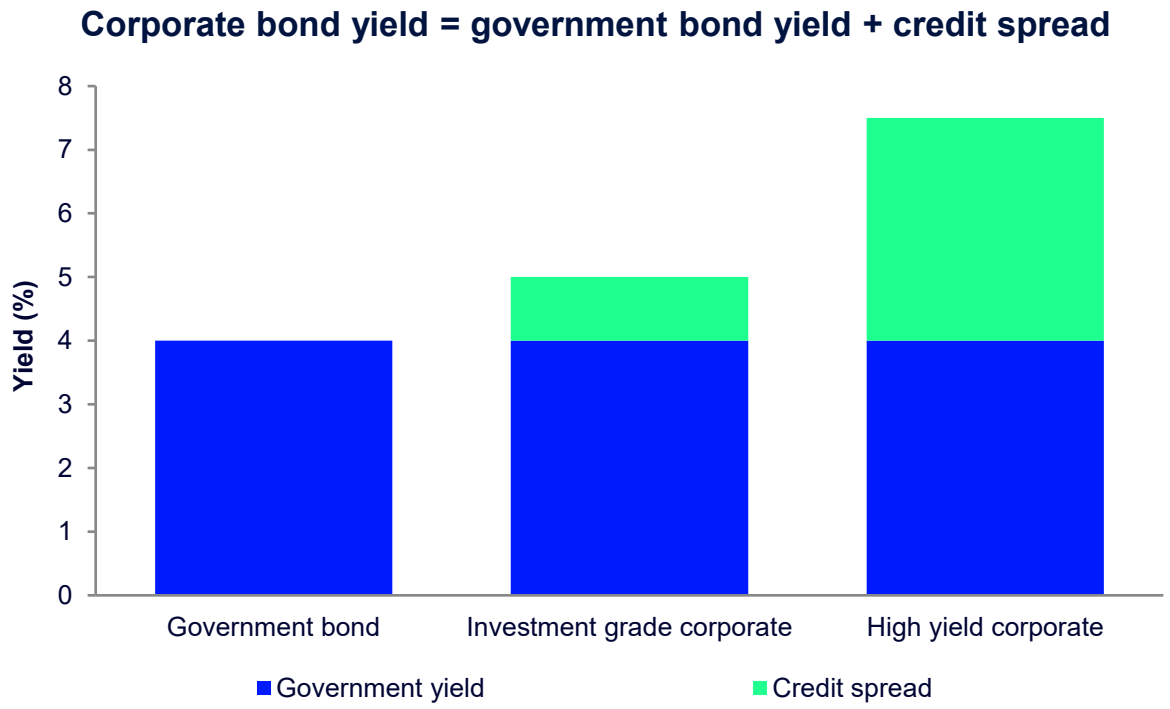
What it shows
The yield available on bonds of different maturities from the same issuer.

Floating rate bonds
Coupon = Cash + Spread

Fixed rate bonds
Investors normally expect extra yield for lending for longer.
Fixed rate bonds benefit from this.

Illustrative yield curve only. Does not represent actual market yields at any date.

Credit spread
The extra yield for taking credit risk



Carry

- The additional income potential when holding a corporate bond (vs. government bond)
- Carry is earned when spreads stay steady

Spreads narrow

- When the economy is strong and confidence is high
- Prices rise

Spreads widen

- When the economy is weak or investors are worried about defaults
- Prices fall

Hypothetical yields for illustrative purposes only. Not representative of current market levels.

Credit quality
How likely you are to be repaid

Rating agencies assess an issuer's ability to pay. Lower ratings generally mean higher yields and higher risk.

Credit risk	Moody's	S&P	Fitch
Highest quality	**Aaa**	**AAA**	**AAA**
Very strong	**Aa**	**AA**	**AA**
Strong	**A**	**A**	**A**
Medium grade	**Baa**	**BBB**	**BBB**
Speculative	**Ba**	**BB**	**BB**
Highly speculative	**B**	**B**	**B**
Very high risk	**Caa**	**CCC**	**CCC**
⋮	⋮	⋮	⋮

Investment grade (BBB- and above)

- Lower default risk
- The core of most diversified portfolios

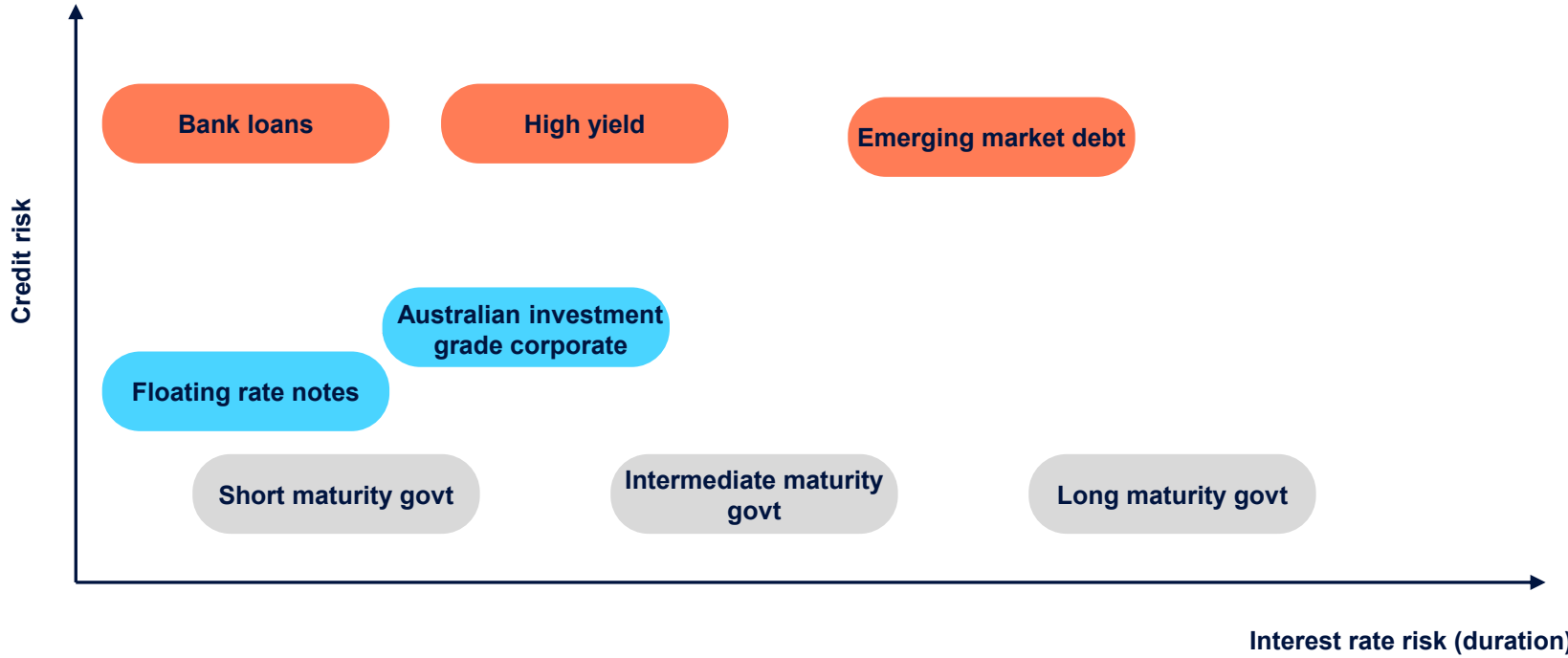
High yield (BB+ and below)

- Higher income in exchange for higher default risk
- Tends to behave more like shares in a downturn

Source: Moody's, S&P Global Ratings, Fitch Ratings rating scales – partial only. For illustrative purposes only.

Two forces drive bond returns: Rates and credit mapping out exposures

Different sectors combine interest rate and credit exposures in different amounts



Source: State Street Investment Management. Positions are approximate and for illustrative purposes only.

STATE STREET

Liquidity: Can you sell when you need to?

How easily you can buy or sell depends on how you hold the bonds, not just on the bonds themselves

	Direct bonds	Managed funds	ETFs
How you buy and sell	Mostly through a broker or dealer (some on exchange)	Subscribe or redeem with the fund manager	On an exchange, like a share
When	When a buyer can be found	Mostly daily; periodic for some funds	Any time during trading hours
Price you get	Dealer's bid/ask price	Unit price and usually a buy/sell spread	Market price, includes a buy/sell spread
In stressed markets	Fewer buyers, wider bid-ask spreads	Redemptions may be limited or frozen in extreme cases	Still trades, but may be at a discount to NAV

Questions to ask

- What does it cost to get in and out?
- How often and how much can I redeem or sell?
- Can redemptions be limited or frozen in stressed markets?
- Does the liquidity of the fund match the liquidity of what it holds?

For illustrative purposes only. Liquidity can deteriorate in stressed markets for any asset class. ETF shares may trade at a premium or discount to NAV.

Comparing products

How to compare fixed income products

Look beyond the headline yield. Check these side by side.

1 Yield
- Total return indication: yield to maturity, yield to worst
- Interest income: running yield, current yield
- **Higher yield usually come with higher risk**

2 Duration
- How much will the price move if rates change by 1%?
- **Driver of return**

3 Credit quality
- Average rating
- What is the exposure to below investment grade?
- **Driver of return**

4 What's the exposure?
- Index or active; diversified or concentrated
- Does it do what it says on the tin?
- Look at what the fund holds – does it match your expectations?

5 Fees and costs
- Management fee
- Buy/sell spread
- Subscription/redemption fee (managed funds)
- Brokerage (ETFs)
- **Small differences compound over time**

6 Liquidity
- How and when you can sell, how much you can sell, and at what cost
- **The true test of liquidity is in a market sell-off**

7 Currency
- Local currency or foreign
- If foreign: is currency hedged back to AUD?

For illustrative purposes only.

Illustrative example of fund comparison

‘Australian government bond’ ETFs

Characteristics	Comment	GOVT ETF	Peer 1 ETF	Peer 2 ETF	Peer 3 ETF
Exposure		• Aust Commonwealth gov • Aust state and territory gov	• Aust Commonwealth gov • Aust state and territory gov • Treasury corporations	• Aust Commonwealth gov	• Aust Commonwealth gov, Aust state and territory gov (75%) • Supranationals and sovereign agencies (25%) • Maturity 7 – 12 years
Yield (%)	Informs expected return	5.28	5.29	5.07	5.60
Rate exposure (duration, years)	Is it suitable (vs. yield and risk tolerance)	5.20	5.20	5.18	7.23
Quality/credit exposure (rating and spread,%)	Is it suitable (vs. yield and risk tolerance)	AAA/AA+ 0.20	AAA/AA+ 0.20	AAA 0	AAA/AA+ 0.37
True to label? - Australian exposure	Is it what you expect?	100%	100%	100%	79%
Fees and costs (%)	Matters more to long term holders	0.10	0.16	0.18	0.22
Liquidity (bid/ask spread)	Matters more to frequent traders	Daily trading 0.12	Daily trading 0.04	Daily trading 0.04	Daily trading 0.05
Currency		AUD	AUD	AUD	AUD

Source: Bloomberg Finance L.P., Vanguard, BlackRock, Betashares, State Street Investment Management, as of 21 October 2026. For illustrative purposes only.

Putting it to work

Fixed income in a portfolio

What fixed income can do in a diversified portfolio



Income

Regular, predictable coupon payments to fund spending or other needs

(e.g. monthly distributions)



Stability

Typically smaller price swings than shares, provide smooth return experience

(e.g. high quality floating rate or short term bonds)



Diversification

High-quality bonds have often held up when share markets fell

(e.g. high quality government and corporate bonds)



Planning

Known maturity values help plan for future expenses

(e.g. target maturity ETFs)

Diversification does not ensure a profit or protect against loss. Past performance is not a reliable indicator of future performance.

Common traps to avoid

Chasing the highest yield
A high yield is usually payment for higher risk, such as lower credit quality, longer duration or less liquidity.

Mixing up yield measures
A distribution yield is not the same as the expected return. Compare like with like.

Ignoring duration
A long-duration fund can lose value when rates rise, even if it holds only high-quality government bonds.

Assuming 'fixed' means 'safe'
Prices move, issuers can default and inflation can erode real returns.

Liquidity mismatch
Make sure you can get your money out when you will need it.

Overlooking currency
Unhedged foreign bonds can add currency swings that outweigh the return.

For illustrative purposes only. Not an exhaustive list.

Key takeaways

1. **A bond is a loan** You are a lender, not an owner: steadier income, limited upside, paid ahead of shareholders.

2. **Rates and prices usually move in opposite directions** Duration tells you by how much.

3. **Credit quality sets the risk** A higher yield usually means more risk somewhere.

4. **Compare like with like** Yield measure, duration, credit, costs, liquidity and currency.

5. **Fixed income has a clear role** Income, stability and diversification alongside growth assets.

For information purposes only. This material is general information and does not take into account any individual's objectives, financial situation or needs. Investing involves risk, including possible loss of principal.

Important disclosures

State Street Investment Management (the business name for State Street Global Advisors, Australia, Limited) (AFSL 238276, ABN 42 003 914 225) ("State Street IM").Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia · Telephone: +612 9240-7600 · Web: www.statestreet.com/im.

The information provided herein does not constitute investment advice and is not a solicitation. It does not take into account any investor's particular investment objectives, risk tolerance, or financial and tax status. You should consult your tax and financial advisor. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information. Past performance is not a reliable indicator of future performance.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

Bonds generally present less short-term risk and volatility than stocks but contain interest rate risk (as interest rates rise bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

The value of the debt securities may increase or decrease as a result of the following: market fluctuations, increases in interest rates, inability of issuers to repay principal and interest or illiquidity in the debt securities markets; the risk of low rates of return due to reinvestment of securities during periods of falling interest rates or repayment by issuers with higher coupon or interest rates; and/or the risk of low income due to falling interest rates. To the extent that interest rates rise, certain underlying obligations may be paid off substantially slower than originally anticipated and the value of those securities may fall sharply. This may result in a reduction in income from debt securities income.

Investments in Senior Loans are subject to credit risk and general investment risk. Credit risk refers to the possibility that the borrower of a Senior Loan will be unable and/or unwilling to make timely interest payments and/or repay the principal on its obligation. Default in the payment of interest or principal on a Senior Loan will result in a reduction in the value of the Senior Loan.

Currency Hedging involves taking offsetting positions intended to substantially offset currency losses on the hedged instrument. If the hedging position behaves differently than expected, the volatility of the strategy as a whole may increase and even exceed the volatility of the asset being hedged. There can be no assurance that the Fund's hedging strategies will be effective.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETF's net asset value. ETFs typically invest by sampling an index, holding a range of securities that, in the aggregate, approximates the full index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

Investing involves risk including the risk of loss of principal. Diversification does not ensure a profit or guarantee against loss.

The funds presented herein have different investment objectives, costs and expenses. Each fund is managed by a different investment firm, and the performance of each fund will necessarily depend on the ability of their respective managers to select portfolio investments. These differences, among others, may result in significant disparity in the funds' portfolio assets and performance. For further information on the funds, please review their respective prospectuses.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without State Street IM's Australia's express written consent.

©2026 State Street Corporation — All rights reserved.

9213179.2.1.ANZ.RTL Expiration Date: 30/11/2027