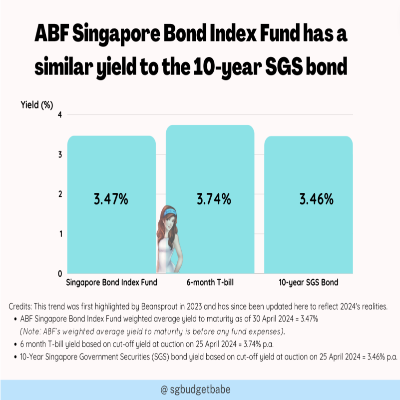


Are Bond ETFs worth investing in?

Description

The past few years have been challenging for bond investors as central banks rapidly raised interest rates, which created uncertainty and volatility for both equities and particularly for long-term bonds.

After decades of very low yields, the Federal Reserve embarked on a very rapid rate hiking program in March 2022, moving the Fed Funds rate from nearly zero to over 4% in just nine months. This had an impact on the bond market, and the losses have been worse for holders of long-term bonds, including:

- 50% declines in some 30-year US Treasuries
- 75% declines in a 100-year Austrian bond

As losses grow, it would seem easy to give up on bonds.

But if you've been paying attention, you may have noticed that bonds are coming back into the spotlight now that the Fed is expected to either halt or cut interest rates soon.

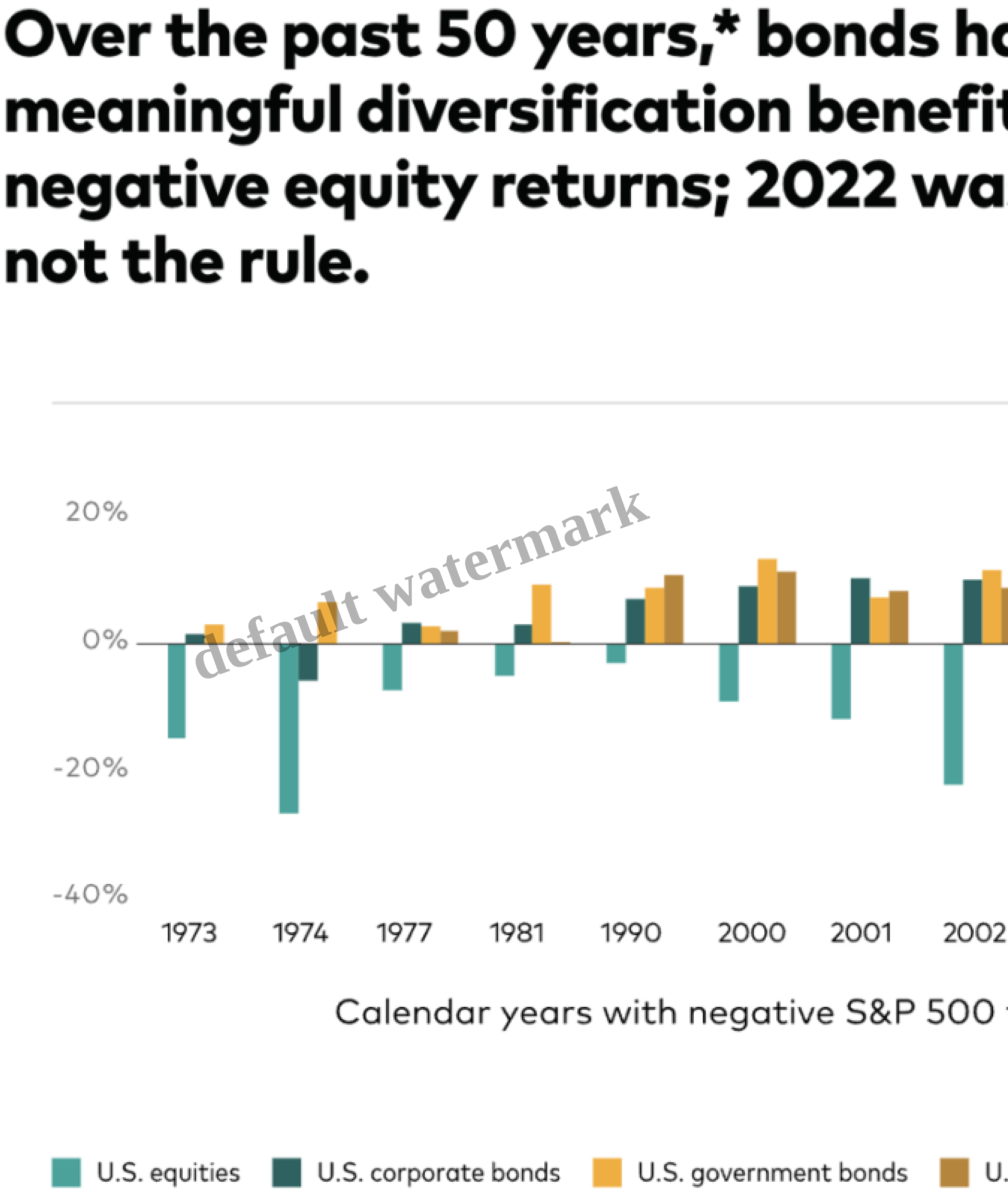
After all, **bonds perform better when interest rates start to decline**, which is a stark contrast from 2022 where rising rates led to significant losses for *both* bonds and equities.

Many finfluencers have been advocating the S&P 500 instead of bonds – especially given its recent historical returns – but if you think putting 100% of your portfolio into the S&P 500 is "safe", I suggest you think it through again.

Instead, I believe that the current bond market sell-off provides an attractive risk-reward trade-off with real yields now at multi-decade highs…provided you know where and how to look for it.

Why would investors put money in bonds?

Traditionally, bonds have always been a mainstay of defensive portfolios, given how it provides reliable income, help to cushion the volatility of stocks and ease the pain of a bear market (where stocks typically fall and bonds perform better relative to stocks).



Source: [Vanguard](#). ***Data for U.S. mortgage-backed bonds begins in 1976 and is not included in the 1973 and 1974 periods.

What's more, bonds generally come issued with fixed maturity dates, which also allows you as an investor to know when you can expect to receive your principal back.

Bonds tend to be redeemed at maturity and this gives you:

- **The certainty of fixed income**
- **The certainty of knowing when you'll get your principal back**

Bonds therefore not only provide you with fixed income payouts, but also allow you to match your capital redemption with any future planned expenses (e.g. buying a new house or welcoming a new baby).

Personally, I primarily invest in bonds to balance the risk from holding only equities in my portfolio. What's more, I'm cognisant that there's always the risk of a recession, where one could get laid off and see their equity investments go down at the same time.

Owning bonds for their fixed income and stability helps me to diversify against asset class risks that way. Some of you might even recall a few of my public blog posts from several years ago, where I mentioned finding a bond that would pay me a fixed interest rate of 4.35% p.a. every 6 months. As that bond has recently matured, I can confirm now that I not only got paid my passive (coupon) income for the last 5 years, but also received my principal back in full at the end of it.

Is this a good time to look at the bond markets again?

Even though younger investors may only remember reading the bad news about bonds in recent years, but what you may not realize is that given the inverse relationship between bonds and interest rates, bonds prices will rise when the Fed lowers interest rates.

You may already see this starting to play out in the markets.

And because of the recent sell-offs, there may be some great investments to be made in bonds – if you know where and how to look for it.

Individual bonds vs. Bond ETFs

Generally, interest rates have significantly adjusted from their low levels and are relatively attractive from a historical perspective. Bond investors now have a chance to lock in these high historical yields for themselves if they wish, where these higher current yields also support a much-improved outlook for bond returns going forward and may help provide a stronger base for future returns if the Fed begins cutting rates.

Individual bonds

Take a look at **DBSSP 3.980% Perpetual Corp (SGD)** – *an idea I got off from NikkoAM SGD Investment Grade Corporate Bond ETF's Top 10 Holdings* – as an example, which is still currently trading below par value (as of today) and pays out fixed income twice in a year until its maturity due date in 2025.

Top 10 Holdings

Holdings	Weight
TEMASEK FINANCIAL (I) LTD. 2.8% 17-AUG-2071	3.1 %
NTUC INCOME INSURANCE CO-OPERATIVE LIMITED 3.1% 20-JUL-2050	2.1 %
HSBC HOLDINGS PLC 5.3% 14-MAR-2033	2.1 %
DBS GROUP HOLDINGS LTD 3.98% PERP	2.0 %
HSBC HOLDINGS PLC 5.25% 27-JUN-2032	1.9 %

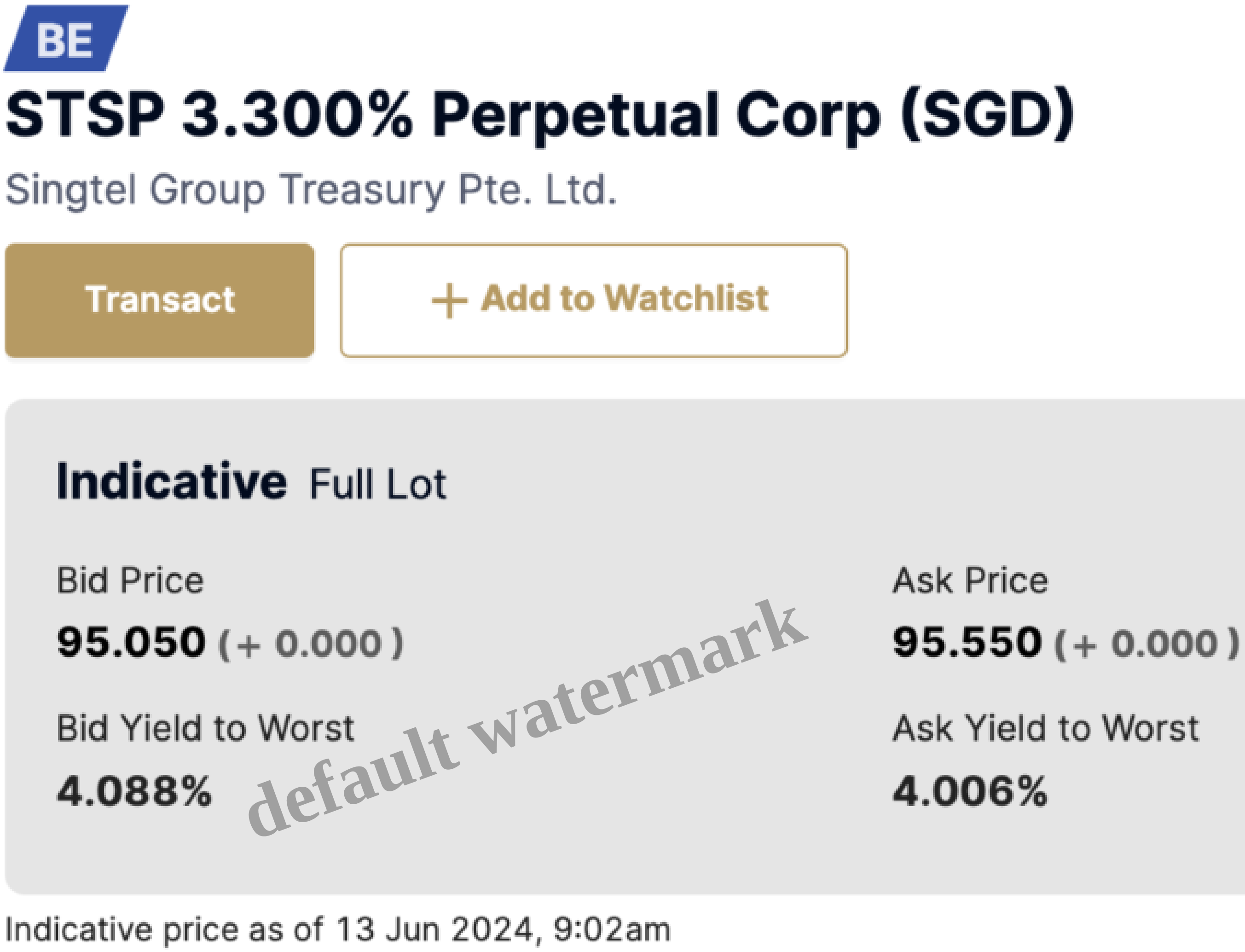
Holdings
ABN AMRO BANK N.V. 5.5
UNITED OVERSEAS BANK
CMT MTN PTE. LTD. 2.1%
SINGTEL GROUP TREASU
LAND TRANSPORT AUTH 30-JUL-2058

Source: Nikko Asset Management Asia Limited as of 31 March 2024.

Top 10 ETF holdings (screenshot on 10 May 2024)

That isn't the only bond trading below par either – here's another example of a bond I spotted as trading below its par value: the Singtel Group Treasury 3.3 Perpetual Corp (SGD).

FYI, "Yield to Worst" refers to the lowest possible yield that can be received on the bond in return for this shorter investment period (since you did not own the bond from Day 1).



Bond ETFs

But putting your money in individual bonds could still be seen risky for some, especially if the underlying bond issuer does not redeem the bond after the stated period. An easier way is to invest in a bond ETF, where you don't get paid directly by the bond or get your principal back at the end of a fixed period. Instead, the ETF manager is responsible for making your fixed income payments and managing a diversified bond portfolio.

Of course, you could continue to screen for undervalued bonds and analyse them individually, but if you prefer not to put your money in just 1 bond, the **NikkoAM SGD Investment Grade Corporate Bond ETF** allows you to diversify across these and several other investment-grade bonds at once.

This ETF tracks the iBoxx SGD Non-Sovereigns Large Cap Investment Grade Index, which is made up of investment grade bonds issued by a majority of Singaporean companies and Singaporean statutory boards. And in case you haven't noticed, **this fund is already up 6.20%* in the past year (as last reported on 30 April 2024)**

Returns are calculated on a NAV-NAV basis and assuming all dividends and distributions are reinvested, if any. Returns for period in excess of 1 year are annualised. Past performance is not

indicative of future performance.

Performance

	Return (%)	3 m	6 m	1 yr
SGD	NAV-NAV	0.82	4.39	6.20
	Benchmark	0.84	4.72	6.56

Source: Nikko Asset Management Asia Limited as of 30 April 2024
Returns are calculated on a NAV-NAV basis and assuming all dividends and distributions are reinvested, if any. Returns for period in excess of 1 year are annu

iBoxx SGD Non-Sovereigns Large Cap Investment Grade Inde

> *From here, you can see how interest rates have significantly adjusted from their low levels and are now relatively attractive from a historical perspective (especially when looking back at roughly 10 years of history).*

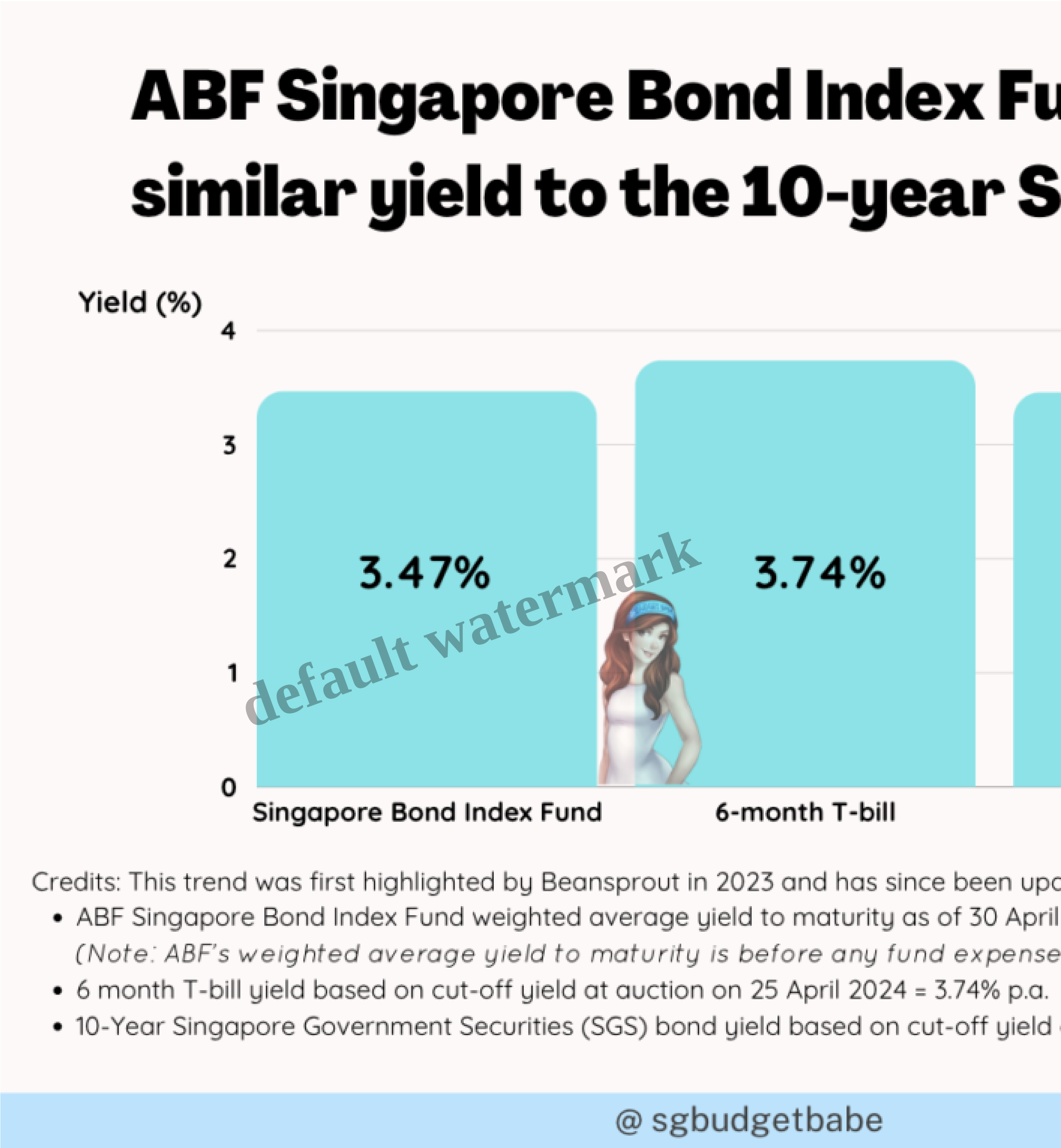
In fact, the higher yields and lower bond prices in the market today means that this can be an opportunistic time to look at bonds, especially investment-grade ones.

Government bonds ETFs vs. T-bills

Or, if you prefer a safer choice with SGD government bonds, another ETF you may want to look at would be the ABF Singapore Bond Index Fund.

The **ABF Singapore Bond Index Fund** is one example of a bond fund that may be interesting for investors who wish to earn passive income through a portfolio of Singapore government bonds (one of the highest rated in the world), and are also looking for some potential medium to long-term capital appreciation should – *or when* – interest rates start to fall.

Of course, the flip side is also true i.e. investors may suffer capital losses especially if interest rates continue to rise.



Average Yield to Maturity describes the average yield or return that an investor can expect from an issue each year if they (1) purchase it at its market value and (2) hold it until it matures.

If you're mainly looking for one that will help diversify your portfolio beyond equities, then you'd appreciate how historically, the index of this ETF has mostly performed well during periods of difficult market conditions.

As T-bills have captured plenty of investor attention lately, you'd probably be wondering how the ABF Singapore Bond Index Fund compares against it.

	T-bill	**ABF Singapore Bond Fund**
Net Yield	Higher yield currently, but may not always be the case. *	Lower yield
Minimum investment	S$1,000	As low as about S$1
Maximum individual holding	No limit	No limit
Term	6 or 12 months for T-bill	Current weighted average maturity of about 10 years, but will be reinvested by fund manager
Capital guaranteed	Receive principal amount at maturity. Potential interest rate risk if sold before maturity.	Not capital guaranteed
Capital appreciation potential	Receive principal amount at maturity. Potential for capital appreciation if interest rates fall and sold before maturity.	Potential for capital appreciation if interest rates fall
Flexibility	No early redemption but can be sold in secondary market	Trades on the SGX
Diversification	Have to build bond ladder to diversify holdings	Diversified holdings that will be reinvested by fund manager

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Even though T-bills are displaying higher yields currently, please be mindful

(An inverted yield curve means the interest rate on long-term bonds is lower t
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The key thing you should note is that **investing in T-bills require you to take on work of managing it by yourself**, i.e. building your own bond ladder of T-bills or SGS bonds to build your passive income**.** You'll need to actively monitor your own bond portfolio and rotate your money on a frequent basis (every 6 months for T-bills) as you keep reinvesting the funds.

So if you find that too much of a hassle, then what you'd get by buying **the ABF Singapore Bond Index Fund** is the same diversification through a portfolio of Singapore government bonds.

Conclusion: Don’t strike bonds off

With most of the online chatter currently focused on advocating for the S&P 500, I’ve seen many people – especially younger investors – go all-in with a 100% equities portfolio.

But remember, most investors will want to buy low and sell high. With the steep sell-off in the bond markets right now, this is when it might be worth taking another look at bonds again.

I hope this article serves as a good reminder for you to recalibrate your investment strategy and review your portfolio.

After all, investing in bonds can offer a balanced blend of income, safety, diversification, and risk management, which makes bonds a valuable asset class for a variety of investment strategies for investors.

Sponsor’s Message:

To find out more about the bond ETFs mentioned in this article, check out their fund pages here:
– NikkoAM ABF Singapore Bond Index Fund
– NikkoAM SGD Investment Grade Corporate Bond ETF
– Other ETFs by NikkoAM

Disclosure: This post is brought to you in collaboration with Nikko Asset Mana

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The performance of the ETF’s price on the Singapore Exchange Securities Trading Limited (“SGX-ST”) may b
The Central Provident Fund (“CPF”) Ordinary Account (“OA”) interest rate is the legislated minimum 2.5%

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