

SHORT N SWEET

Expressions of Interest

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Recent interest rate cuts by central banks – in the US, the UK, Canada, New Zealand and elsewhere – have sparked speculation about when the Reserve Bank of Australia (RBA) will follow suit, as well as questions from investors about the implications for their bond portfolios.

On the speculation about rate cut timing, the truth is nobody – including perhaps the bank itself – can say for sure at this point as the economic data is forever changing. On the implications for portfolios, it's hard for investors to draw actionable conclusions based on watching the RBA.

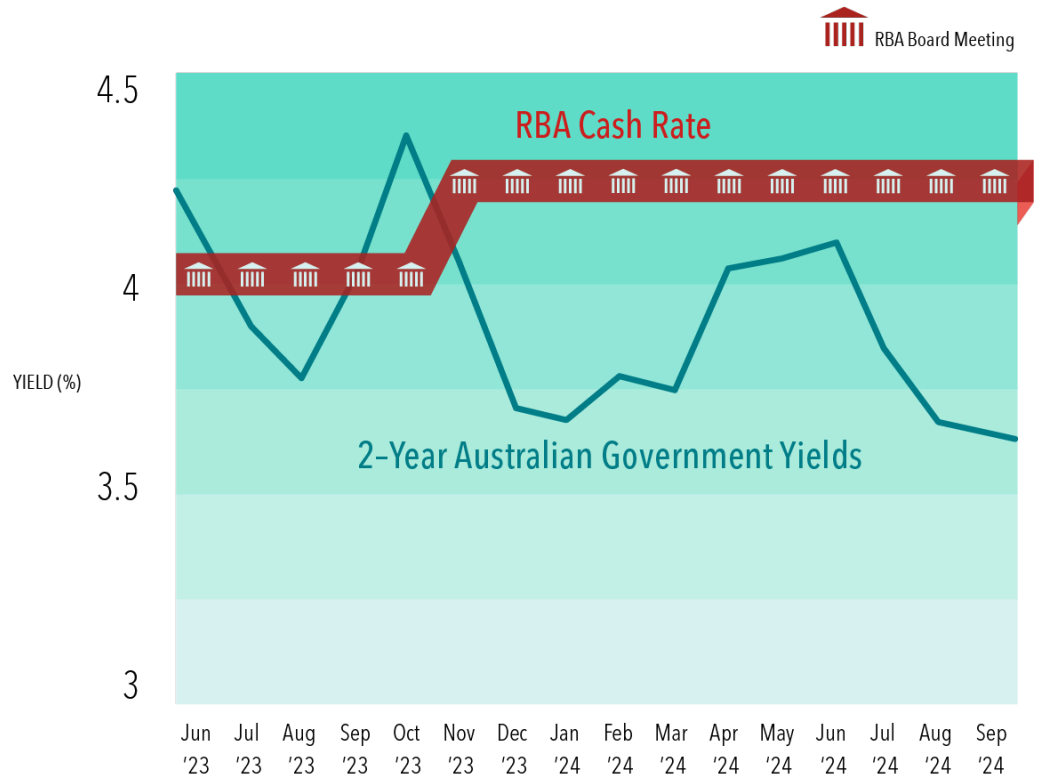
This is because the central bank's expected actions are already reflected in market prices, which change every day. So by the time the RBA does get around to cutting rates the markets may not react that much because they already will have had time to price the move in.

It's also important to note that the interest rates set by the market vary on factors unrelated to how the RBA sets policy. The bank's board has sat a dozen times since mid-2023 and has raised the official cash rate only once, to 4.35% last November. Now look at the chart below. It shows you how the Two-Year Australian Treasury yield has varied over that same period.

This is a good example of how markets constantly make their own judgements about the timing and size of official rate decisions and why there is little point in second guessing them. As to the returns on your bond portfolio, these are likely not that closely correlated with the RBA cash rate in any case.

Exhibit 1**2-Year Australian Government Yields and RBA Cash Rate**

July 2023 - September 2024

**Past performance is not a guarantee of future results.**

Actual returns may be lower. RBA cash rate data and Two-Year Australian Government bond data from Bloomberg.

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