
Floating Strong To Finish In 2023

Q4 2023 was a volatile quarter for most asset classes. Senior unsecured floating rate AUD bank debt continued to perform impressively over the period as bonds rallied markedly following a US Treasury rally.



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The last quarter of 2023 was again positive for investment grade senior unsecured AUD bank debt. Outside of the marked change in sentiment in rates markets globally, both the primary and secondary FRN (Floating Rate Notes) market was very well supported over the period. As mentioned above, there was a marked rally in US rates over the quarter that drove many yield curves to post impressive gains over the quarter. It is becoming apparent that many central banks globally have managed to take the wind out of the inflationary sails that were concerning bond investors for the last 18 months. Leading and lagging economic indicators are indicating that the Federal Reserve has constrained inflation whilst potentially engineered an economic soft landing. A goldilocks scenario of sorts that drove equity markets higher and bond yields lower on expected lower inflation and easier monetary policy at some point. This made sense if bonds were rallying on good news and equity markets were embracing risk on potential economic soft-landing scenarios and looser monetary policy that credit would do well. And it did.

Domestic and International banks tapped the primary market in maturities that ranged from 1-5yrs during Q4 and investor support was apparent. The Australian money market for most of the quarter in a risk on style mindset that was mirroring the US rally described above. Although it is yet to be seen if the RBA (Reserve Bank Australia) has driven inflation low enough over the medium term, whilst also increasing the unemployment level to mid-4ish% by the end of 2024 as per their explicit focus, money market participant were buoyed by the potential for central banks globally to be nearing or at an end to their respective tightening cycles. This led to both balance sheets and real money investors to heavily subscribe to investment grade bank issuance in AUD Floaters over the quarter. Banks issued substantial deals that were both heavily oversubscribed and that also had eventual deals price at spreads well inside original indications of interest when deals first launched. All strong signs of a credit market looking for good quality names paying a spread well above 3-month BBSW (Bank Bill Swap Rate).

As at the end of 2023 the portfolio had posted impressive gains versus its requisite benchmark over the year. Given both the economic and rate environment expected for 2024 domestically and globally, it seems fair to anticipate that investment grade AUD issued bank floating rate debt will again post palatable returns in 2024.

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