

BOND FUNDS:

Understanding The Recent Performance

What's Driving the Recent Movement in Bond Funds?

Think of bonds like a seesaw. When bond yields (interest rates) rise, existing bond prices generally fall, and vice versa. Bond prices have come under pressure due to:

- Higher market yields
- Interest rate movements

Why Are Domestic Bond Yields Rising?

1. Global Bond Market Developments

US bond yields have risen due to inflation concerns, higher oil prices, and increased US government borrowing. This has added upward pressure on Malaysian bond yields.

2. Increased Supply of Bonds

More bonds are being issued globally and locally. With more supply, investors generally demand higher yields.

3. Expectations of Overnight Policy Rate (OPR) Increase

Strong domestic economic growth has raised expectations that the OPR may gradually rise from current levels.

What Does It Mean For Bond Fund Investors?

Rising yields can reduce bond fund prices (net asset value) in the short term, but they also allow the funds to seek better returns for the long term by:

- Investing in bonds at higher yields.
- Gradually raising the portfolio's overall yield and future income potential.

How Are We Preparing for Higher Bond Yields?

We remain selective, focusing on high-quality bonds. We maintain sufficient liquidity while looking for opportunities to invest at attractive yields.

Investors are advised to adopt a long-term investment horizon, allowing time for the funds' investments to grow while riding out the market volatility.

Contact your servicing Unit Trust Consultant for more information.

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