betashares

Defence for your portfolio

ASX: US10 ASX: GGOV

U.S. Treasury Bond 7-10 Year Currency Hedged ETF
U.S. Treasury Bond 20+ Year ETF – Currency Hedged

The case for U.S. Treasury Bonds

When it comes to defending one’s portfolio against share market declines, there are few more reliable ‘safe havens’ than bonds issued by the US Government.

US Treasury bonds carry an AA+ average credit quality, as the risks of default by the US Government is considered very low. And due to this high credit quality, US Treasury bonds typically form a core part of the asset allocation mix of most of the world’s major pension and sovereign wealth funds, as well as a key part of many countries’ central bank reserves.

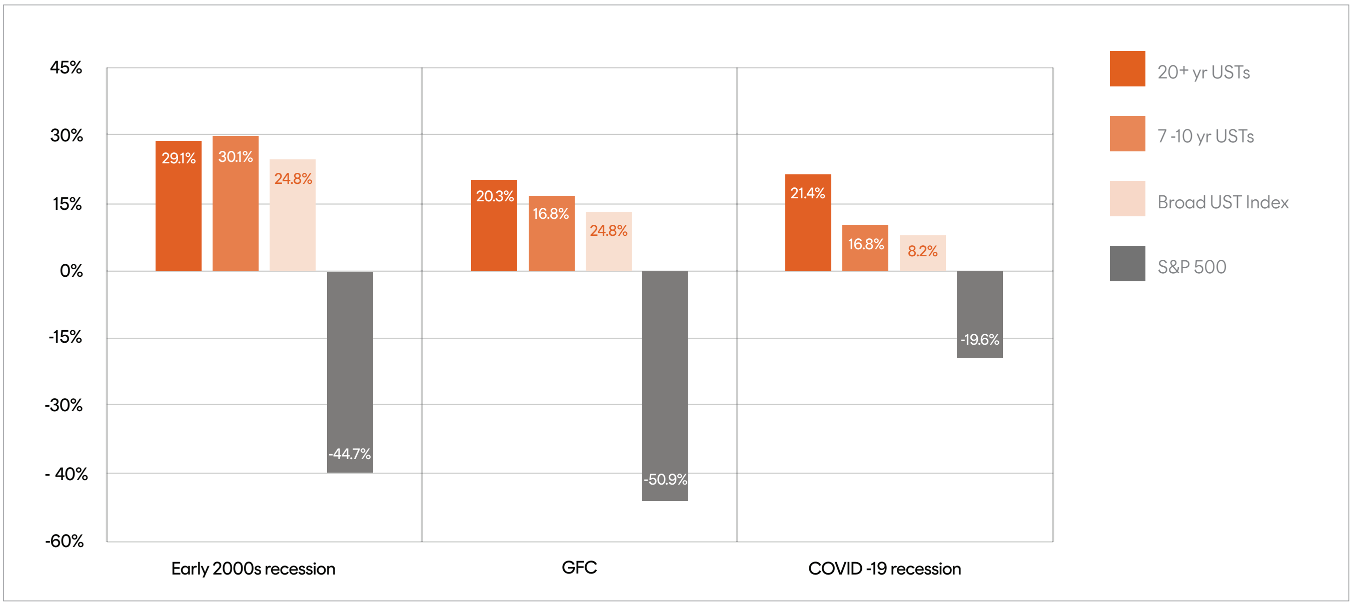
The 10-year Treasury yield is widely seen as a benchmark for global asset allocation and valuation across asset classes, in addition to the 10-year bond being the go-to flight to quality instrument during periods of heightened risk aversion, credit market stress and global economic weakness.

Defensive benefits and the case for long-term U.S. Treasury Bonds

US Treasuries are among the most liquid securities in global financial markets and have long been a key part of institutional portfolios, providing a portfolio ballast against deteriorating economic conditions and rising recession risk. Historically, long-term US Treasuries have been among the better performing assets during US recessions, owing to their long duration profile and sensitivity to expectations of declining interest rates, and are one of the few exposures that have tended to generate positive returns in such environments.

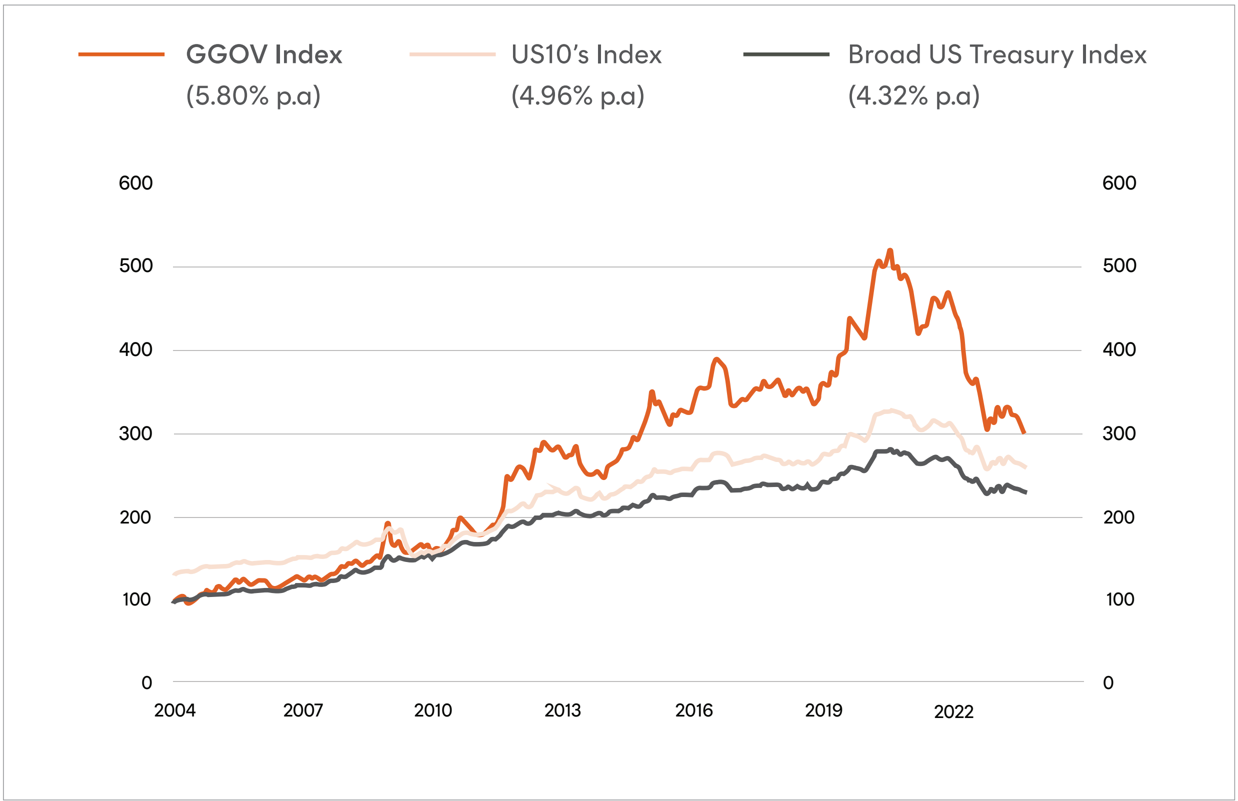
Long-term Treasuries, such as 10-year or 30-year bonds provide several advantages over short-term US government debt. Long-term Treasuries have historically offered higher yields on average in addition to higher expected return prospects over the long term. Furthermore, the worst drawdowns in Australian and global equity markets historically and US recessions have tended to coincide with declining long-term bond yields, and due to having more interest rate exposure, long-term Treasuries have tended to outperform short-term equivalents in such environments.

Figure 1: Bond index performance during recent US recessions



Source: Bloomberg. Past performance is not an indicator of future performance of any index or ETF. You cannot invest directly in an index. Chart shows performance of a 20+ year US Treasury Index, being the Bloomberg U.S. Treasury: 20+ Year Total Return Index Value Unhedged USD ('20+yr USTs'), performance of a 7-10 year US Treasury Index, being the Bloomberg U.S. Treasury: 7-10 Year Total Return Index Value Unhedged USD ('7-10yr USTs'), an unhedged version of US10's Index, the performance of a broad US Treasury bond Index, being the Bloomberg US Treasury Total Return Unhedged USD ('Broad UST Index'), and the S&P 500 Total Return Index ('S&P 500'). All indices shown are USD denominated. It does not show the actual past performance of US10 or US10's Index.

Figure 2: AUD-hedged performance of US Treasury indices since common inception; 30-Jan-2004 to 31-Aug-2023; Sources: Bloomberg, S&P



Source: Bloomberg, S&P. Total return performance over the time period shown within the chart, with the percentage p.a figure shown in brackets in the legend. Past performance is not indicative of future performance of any index or ETF and does not take into account relevant ETF fees and expenses. You cannot invest directly in an index.

Introducing the Betashares U.S. Treasury Bond 7-10 Year Currency Hedged ETF (US10) and the Betashares U.S. Treasury Bond 20+ Year ETF - Currency Hedged (GGOV)

Both US10 and GGOV offer access to the longer end of the US Treasury curve and while they can be seen as expressing the same economic view, they differ in the durations and magnitude of interest rate risk they are exposed to. US10 provides exposure to US Treasuries with maturities between 7 and 10 years, commonly seen as the benchmark tenor for asset allocators globally. GGOV offers exposure to long-term Treasuries with maturities of 20 years or more.

Figure 3: US10 and GGOV compared; as at 3-Oct-2023

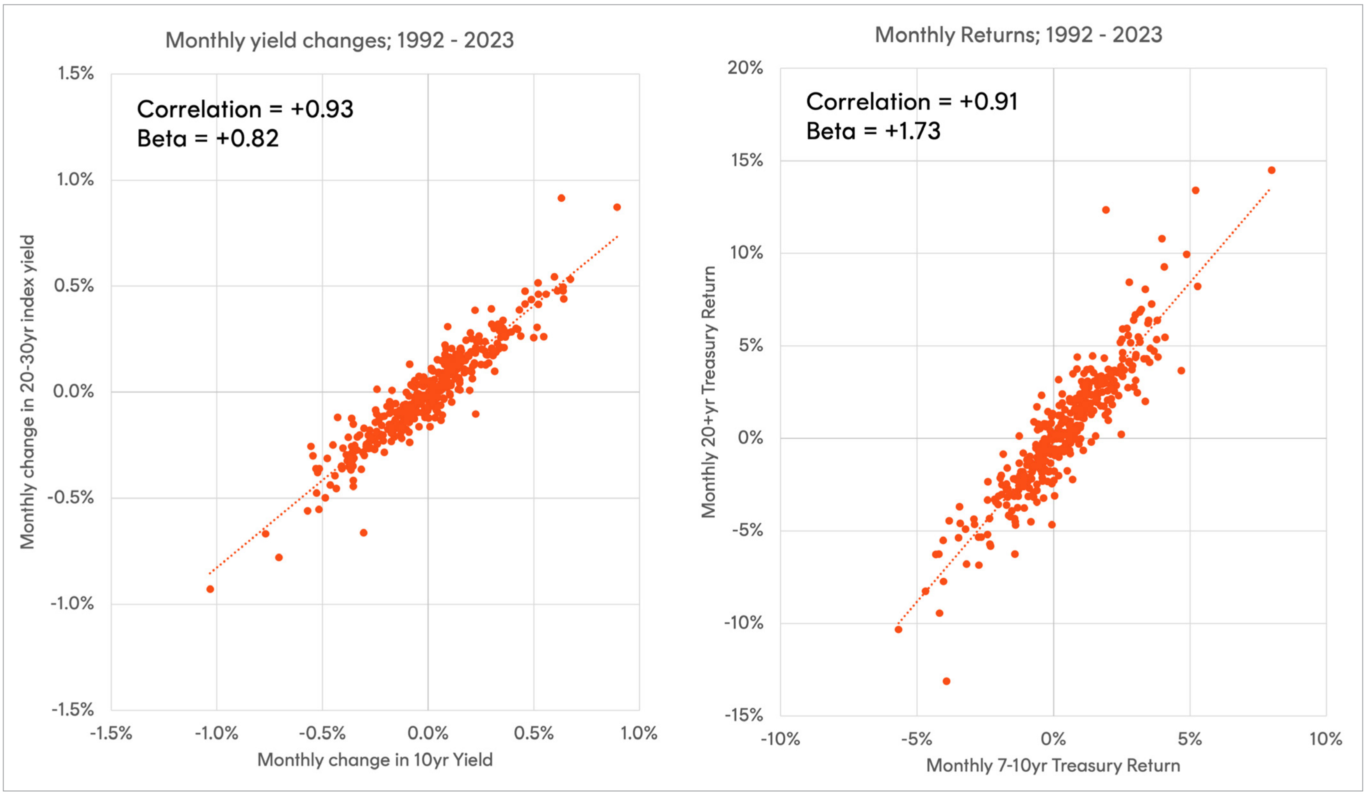
Fund name	ASX ticker	Target maturities	Average maturity	Modified Duration (yrs)	Yield to maturity
Betashares U.S. Treasury Bond 7-10 Year Currency Hedged ETF	US10	7-years to 10-years	8.4	7.4	4.75%
Betashares U.S. Treasury Bond 20+ Year ETF – Currency Hedged	GGOV	20-years or greater	25.9	16.5	4.97%

Source: Betashares. As at 3 October 2023. Subject to change.

US10 versus GGOV

Choosing between US10 and GGOV hinges on an investor's duration preferences and appetite for volatility. The returns of these ETFs will tend to move in the same direction, but GGOV will generally offer more upside and downside potential for the capital invested. Historical data from the past 30 years indicates that the correlation between changes in 20–30-year yields (GGOV's maturity range) and shifts in the 10-year yield stands at +0.90, with GGOV's average yield beta in response to 10-year yield changes being 0.80. Represented in terms of returns, GGOV's index has historically provided a beta of +1.7 to monthly returns of the 7-10-year Index. This positions GGOV as an amplified bet on 10-year yields, despite its specific aim towards the 20–30-year segment of the curve.

Figure 4: Correlation and beta between 10-year and 20-30-year yield movements and correlation between 7-10-year and 20+year US Treasury index returns; Source: Bloomberg to 31-Aug-2023; Sources: Bloomberg, S&P.



Sources: Bloomberg, S&P. Past performance is not indicative of future performance of any index or ETF and does not take into account relevant ETF fees and expenses. As at 31-Aug-2023

Conclusion

There are few more reliable 'safe havens' than U.S. Treasury bonds, particularly when it comes to providing diversification against share market declines. Commonly viewed as exceptionally high credit quality, US Treasuries are used as a core allocation by most of the world's major pension and sovereign wealth funds.

US10 allows asset allocators to express a view on the world's premier reserve asset and benchmark interest rate, the US 10-year Treasury yield.

GGOV is the most capital efficient way of adding duration to portfolios via an Australian ETF, for a more amplified way of expressing a view on long-term nominal Treasury yields.

Both US10 and GGOV can be bought and sold on the ASX in a single trade, providing ease of access to this important asset class.

There are risks associated with an investment in US10 and GGOV, including interest rate risk, credit risk and international investment risk. Investment value can go up and down. An investment in either Fund should only be considered as a part of a broader portfolio, taking into account your particular circumstances, including your tolerance for risk. For more information on risks and other features of the Funds, please see the respective Product Disclosure Statement and Target Market Determination, both available at www.betashares.com.au.