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Not all the forces pushing up global yields apply to New Zealand

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New Zealand bonds offer value as global yields climb

Global bond yields have risen sharply, driven by a combination of resilient economic growth, inflationary pressures and changing patterns of global investment. While New Zealand has been caught up in this repricing, not all the forces pushing global yields higher apply equally to its economy. This divergence is creating increasingly attractive opportunities in New Zealand fixed income. The Reserve Bank of New Zealand (RBNZ)'s decision to leave the Official Cash Rate at 2.75% may be viewed as a pause rather than a reversal of its tightening bias. The RBNZ continues to signal further increases, and we see the cash rate ultimately reaching around 3.5%, subject to incoming data. However, rising long-term interest rates and increased global uncertainty are already tightening financial conditions, giving policymakers reason to proceed cautiously.

Pressure felt from the global rise in bond yields, but a different picture at home

Several factors help explain the global rise in bond yields. Resilient US economic growth is one, but New Zealand's economy has been considerably weaker. Higher commodity prices present a more complicated picture. Strong export prices support New Zealand producers but can also feed relatively quickly into domestic food inflation, particularly through products such as dairy and beef. Developments in Japan have also contributed to the global bond sell-off. As Japanese interest rates have risen, domestic investors have greater incentive to invest at home and have become net sellers of foreign bonds. The impact is most evident in US Treasuries (USTs). Other global forces, including trade disruption, changing foreign ownership of USTs and a declining global savings glut, appear less relevant to New Zealand. Household deposit balances, for example, have continued to increase. New Zealand's fiscal position also compares relatively favourably with many developed markets, limiting some of the sovereign debt concerns that have contributed to higher yields elsewhere.

Higher yields strengthen the case for quality bonds

Against this backdrop, the rise in New Zealand yields has made bonds increasingly attractive. Higher yields are also changing the credit landscape. Heavy bond issuance by hyperscalers to fund AI investment could push borrowing costs higher and create greater competition for capital. When high-quality investment-grade debt already offers attractive yields, investors have less incentive to move into lower-grade or private credit simply to obtain additional income. Credit spreads in New Zealand have widened only modestly, while demand for high-quality issuers remains strong. In our view, the combination of historically attractive yields, relatively sound fiscal fundamentals and robust demand for quality credit strengthens the case for New Zealand bonds.

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