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Don't Judge a Bond by Its Price Tag

Bond investors have had little reason to celebrate lately. As interest rates have risen, bond prices have fallen, leaving investors facing negative returns on investments traditionally viewed as a source of stability.

The relationship is straightforward: when interest rates rise, bond prices fall. But focusing only on the immediate price decline misses an important part of the story. The same rise in rates that hurts the value of bonds already in a portfolio also means that new bonds can be bought at higher yields.

Consider a simple example. An investor buys a bond for R100 when market yields are 7%. If yields subsequently rise to 9%, the value of that bond will fall. On paper, the investor has lost money. But the bond continues to pay its coupon and, if held to maturity, the investor can still receive the R100 face value, assuming no default.

More importantly, the investor can now reinvest coupons and maturing capital at 9% rather than 7%. The initial price loss happens immediately, while the benefit of higher reinvestment income builds gradually. At first, the additional income is small, but over several years it compounds and can eventually offset the initial decline in the bond's value.

This is where the investment horizon matters. For an investor who needs to sell after rates rise, the price loss is real. But for one who can remain invested, it is only a part of the total return. As bonds mature, their capital can be reinvested at the higher rates available, allowing the additional income to build over time.

This does not mean higher rates are automatically good for bond investors, particularly when longer-maturity bonds experience significant price declines. But looking only at today's bond price can give an incomplete picture. The better question is not simply, "How much have my bonds fallen?" but "What can I earn on my money from here?"

That is the part of rising rates that is easy to miss. Higher rates create a short-term price headwind, but they can also create a long-term reinvestment tailwind. For the patient bond investor, what looks like bad news today may ultimately provide a better starting point for tomorrow's returns.



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Aliya is a Fund Operations Analyst at New Road Capital, where she supports the investment team through transaction processing, data analysis, and operational oversight. She joined New Road Capital after completing her BCom Honours in Investment Management, where she developed strong analytical skills and a keen interest in investment operations and investment analysis. She is currently pursuing an MPhil specialising in Finance and Investments. Outside of work, Aliya enjoys hiking and reconnecting with nature on weekends. In her spare time, she also loves baking and sharing meals with friends and family.