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IN FOCUS

MOVING BEYOND CASH: THE CASE FOR 3–5-YEAR PESO FIXED INCOME INVESTMENTS

KEY POINTS

- **Staying short carries reinvestment risk.** T-bills and TDs may remain attractive during the BSP's tightening cycle, but investors could miss the opportunity to lock in current yields before rates eventually decline.
- **The 3–5Y segment is the curve's sweet spot.** It captures attractive yields without taking on the higher duration risk of longer-dated bonds.
- **Current yields offer an attractive entry point.** The 3–5Y segment yields around 7.04%–7.40%, roughly 200 basis points above 10-year averages.
- **The strategy is primarily an income play.** Investors should focus on yield pick-up and holding to maturity rather than relying on near-term capital gains, given potential price volatility.

Staying Short Could Mean Missing Attractive Yields

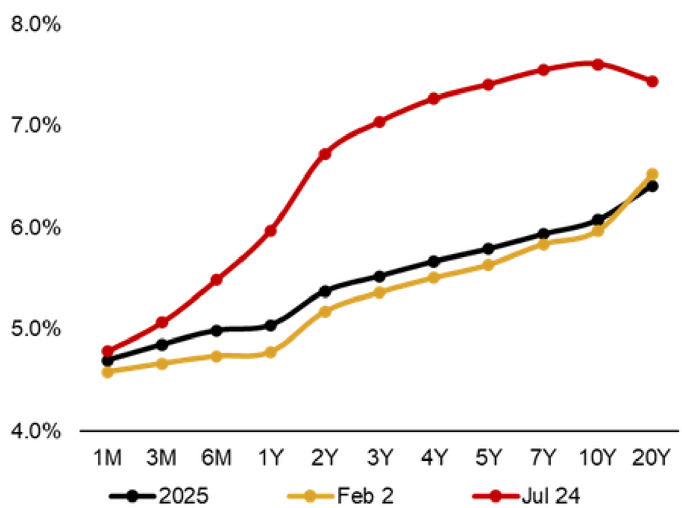
Treasury bills and time deposits offer liquidity and limited marked-to-market price risk, with yields likely to remain supported while the Bangko Sentral ng Pilipinas (BSP) tightens policy to curb inflation. However, keeping an excessive share of the portfolio in short-dated instruments may carry potential opportunity cost. Investors are subject to reinvestment risk, as proceeds from maturing short-term securities must be reinvested at prevailing market interest rates, which may be lower in the future. While further BSP tightening could support short-term yields, **investors who remain invested primarily in the short end risk missing the opportunity to lock in attractive yields before inflation eases and the tightening cycle eventually ends.**

The Curve's Sweet Spot

The shape of the curve supports an allocation to securities on the belly of the yield curve. As seen in Figure 1, the curve is considerably steep from the short end up to the 3-year tenor but becomes considerably flatter thereafter.

The yield pick-up from the 3-month to the 3-year is approximately 198 basis points, compared to only around 21 basis points from the 5-year to the 10-year, despite the greater duration risk associated with the 10Y paper. **The 3- to 5-year segment thus allows investors to capture enhanced yield while limiting interest rate risk.**

Figure 1. Peso Bond Yield Curve



Source: Benchmark rates from Bloomberg as of July 24, 2026

An Improved Entry Level

	1M	3M	6M	1Y	2Y	3Y	4Y	5Y	7Y	10Y	20Y
2025	4.69%	4.85%	4.99%	5.04%	5.37%	**5.52%**	**5.67%**	**5.79%**	5.93%	6.07%	6.41%
Feb 2, 2026	4.58%	4.66%	4.74%	4.78%	5.17%	**5.36%**	**5.51%**	**5.63%**	5.84%	5.97%	6.52%
Jul 24, 2026	4.78%	5.06%	5.48%	5.97%	6.72%	**7.04%**	**7.26%**	**7.40%**	7.54%	7.61%	7.44%
10-year average	3.61%	3.74%	4.05%	4.30%	4.69%	4.88%	5.10%	5.24%	5.46%	5.64%	6.00%

Source: Benchmark rates from Bloomberg as of July 24, 2026

Peso bond yields have risen sharply since the escalation of the Middle East conflict in March 2026, as higher inflation and tighter BSP monetary policy prompted markets to price in higher yields.

Current yields are attractive relative to historical levels. Today's yields of 7.04%–7.40% in the 3- to 5-year segment stand approximately 200 basis points above their long-term averages.

For new investors, this repricing provides an attractive opportunity to lock in yields at levels near the upper end of their historical range. Nevertheless, the recent pattern of temporary resolutions followed by further re-escalation suggests that volatility is likely to persist. In this environment, investors should place greater emphasis on the carry and income earned from holding investments to maturity, rather than depending on capital gains.

Real Returns and Key Risks

Based on BPI's forecasts, average inflation is projected to come in at 6.4% in FY2026 and remain above the BSP's target through 2027. While real returns remain modest, 3- to 5-year bonds yielding around 7.20%–7.275% offer enhanced real returns compared to T-bills and TDs while locking in current yields for longer.

Elevated inflation, rising geopolitical risks, further policy tightening, and higher government borrowing could still push yields higher in the near term. We therefore favor gradually building exposure across the 3- to 5-year tenors while retaining sufficient T-bills and TDs for liquidity.

	Yield	Projected FY26 Average Inflation	Real Return
1M TD	5.00%		-1.40%
3M TD	5.125%		-1.28%
1Y T-bill	5.85%		-0.55%
3Y bond	7.20%	6.40%	0.80%
4Y bond	7.25%		0.85%
5Y bond	7.275%		0.87%
10Y bond	7.45%		1.05%

Source: Bloomberg, Quoted rates as of July 27, 2026.
Note that all rates are indicative and subject to change.

Actionable Insights

We recommend gradually shifting maturing short-term placements into securities such as FXTN 07-68 (maturing 10/13/2029), FXTN 07-70 (maturing 7/27/2030), and FXTN 20-17 (maturing 7/19/2031), which provide exposure across the 3- to 5-year segment at yields of around 7.20%–7.275%. Given potential price volatility, these securities are best suited for clients who can hold them to maturity.

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