

An aerial photograph of a tropical island with lush green vegetation and a small sailboat on the water in the foreground. The island is surrounded by clear blue water, and other smaller islands are visible in the distance under a bright sky.

# FIXED INCOME Q2 2021

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NAVIGATING  
CHANGE



# THE GREAT BOND ROUT

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World Business Markets Breakingviews Video More

BUSINESS NEWS FEBRUARY 26, 2021 / 1:18 PM / UPDATED 2 MONTHS AGO

## Analysis: Global bond rout turns up the heat on central banks

## Daily Market Comment – Bond market meltdown devastates stocks, resurrects dollar

Posted on February 26, 2021 at 9:26 am GMT

Marios Hadjikyriacos, XM Investment Research Desk

Bloomberg

Markets

## Hedge Funds Nailed Treasuries Rout With \$100 Billion in Sales

## The Bond Market Is in Meltdown Mode

Posted by [Michael Carr](#) | Mar 22, 2021 | [Chart of the Day, Markets](#)

2 minute, 27 second read

# US 10 YEAR BOND YIELDS



Source: Anchor / ThompsonReuters

# THREE FACTORS

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FACTOR 1

# INFLATION

This stacked area chart illustrates the composition of GDP by sector from December 1970 to June 2020. The Y-axis represents the percentage contribution to GDP, ranging from 0% to 100% in 10% increments. The X-axis shows time in quarters, with labels every 11 months (e.g., Dec 70, Nov 71, Oct 72, etc.).

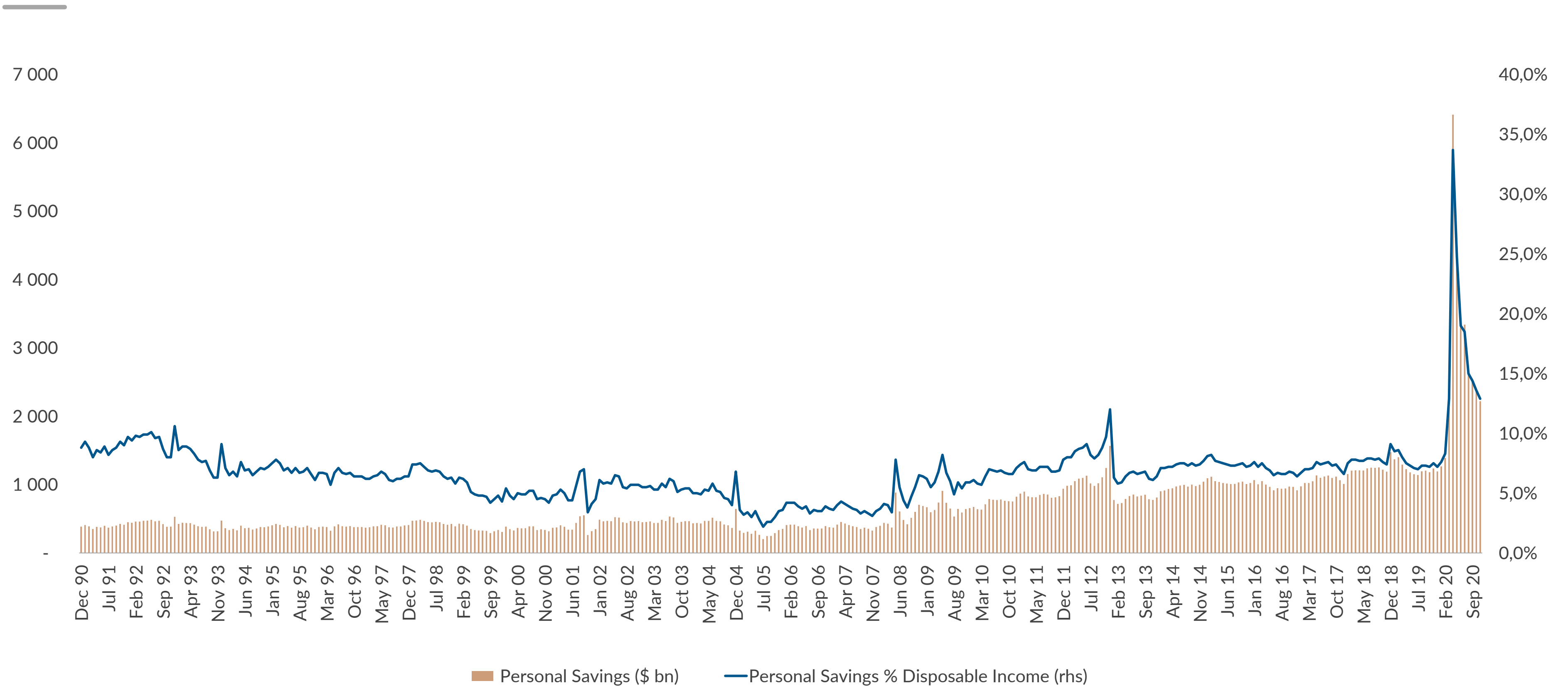
The sectors and their approximate percentage contributions are:

- Services (Core):** Represented by the bottom-most dark blue area, starting at approximately 48% in 1970 and rising steadily to about 65% by 2020.
- Durable Goods (Core):** Represented by the light blue area above Services, contributing about 15% in 1970 and growing to approximately 12% by 2020.
- Non-durable (Core):** Represented by the medium blue area, contributing about 15% in 1970 and remaining relatively stable around 12-13% through 2020.
- Food:** Represented by the tan area, contributing about 15% in 1970 and slightly declining to about 7% by 2020.
- Energy:** Represented by the top-most red area, contributing about 6% in 1970 and fluctuating between 3% and 5% by 2020.

Overall, the chart shows a long-term shift from a more diversified economy in 1970 to one dominated by the Services (Core) sector by 2020. The Energy sector's contribution has also shown significant volatility, particularly in the early 1980s and around 2014-2015.

PAGE 5

# US INFLATION – PERSONAL SAVINGS



Source: Anchor / ThompsonReuters



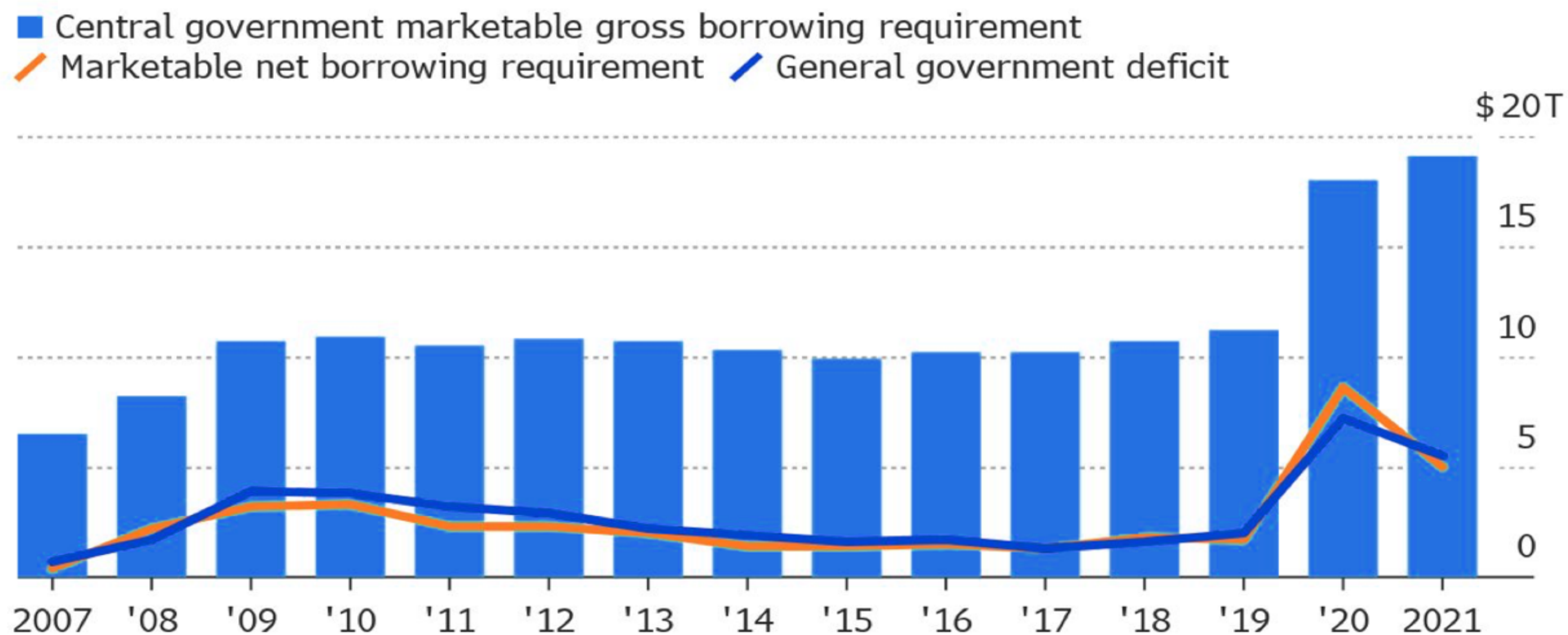
# THREE FACTORS

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FACTOR 2

## SHORT SELLING

## THREE FACTORS



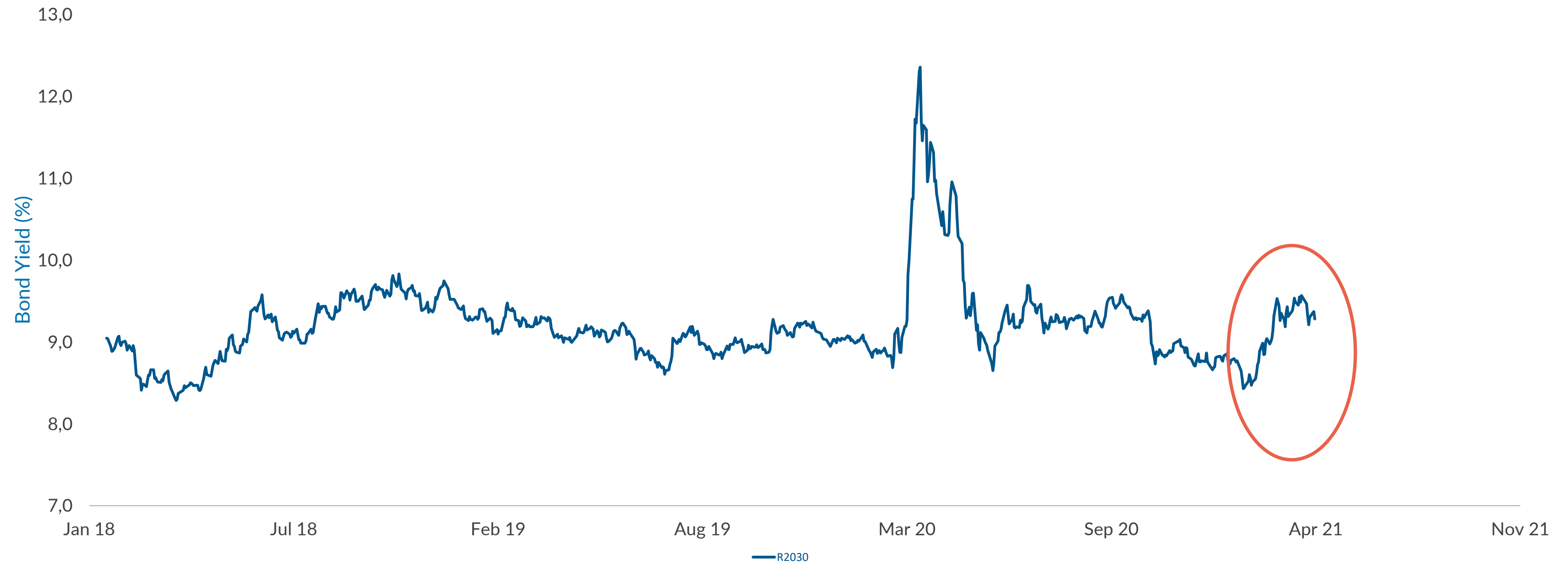
Source: 2020 Survey on Central Government Marketable Debt and Borrowing; OECD Economic Outlook (December 2020); IMF World Economic Outlook Database (October 2020); Refinitiv, national authorities' websites and OECD calculations

**Bloomberg**



# IMPACT ON SOUTH AFRICAN BONDS

## R2030 Bond Yield



Source: Anchor / ThompsonReuters



# ITS GOING TO BE OK...



Portfolio	Year to date returns to 22 April 2021
Anchor BCI Core Income A	1.40%
Anchor BCI Flexible Income A	1.40%
Anchor BCI Bond A	1.49%

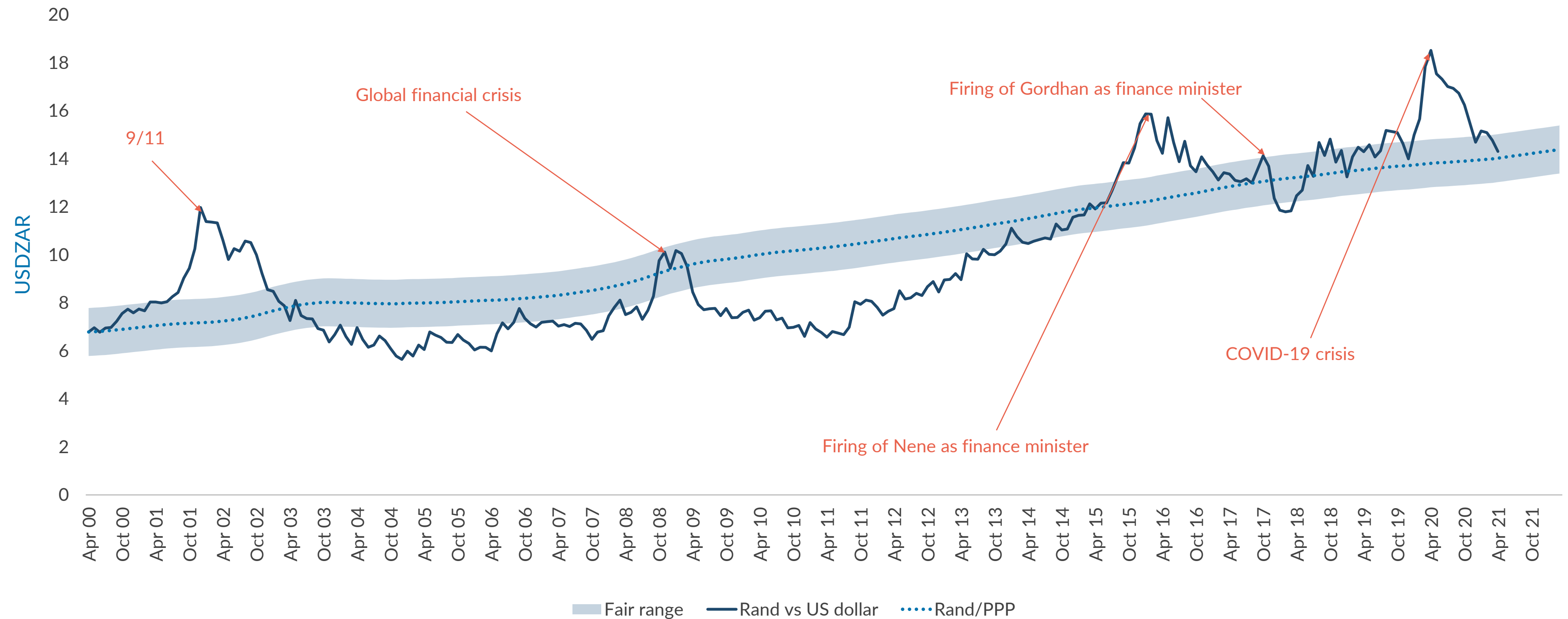
Source: Morningstar





# THE RAND IS FAIR

## Actual ZAR/USD vs ZAR PPP Model

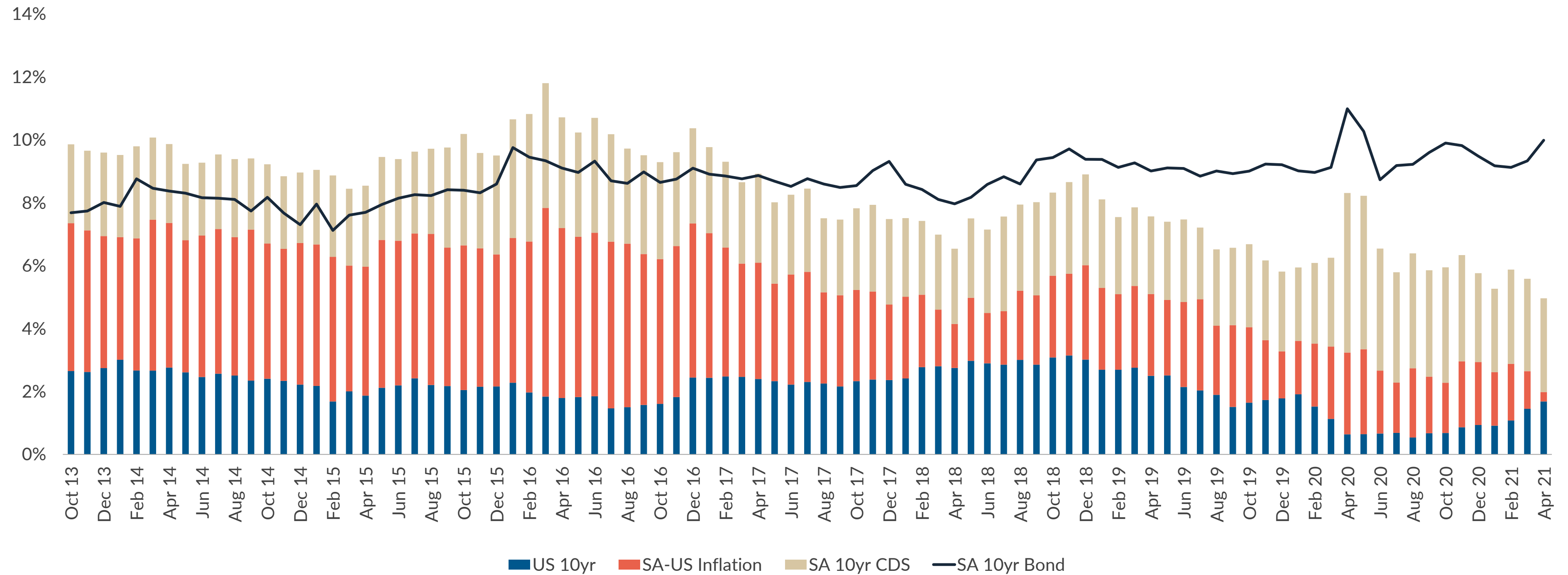


Source: Anchor / ThompsonReuters



# SOUTH AFRICAN BONDS ARE CHEAP

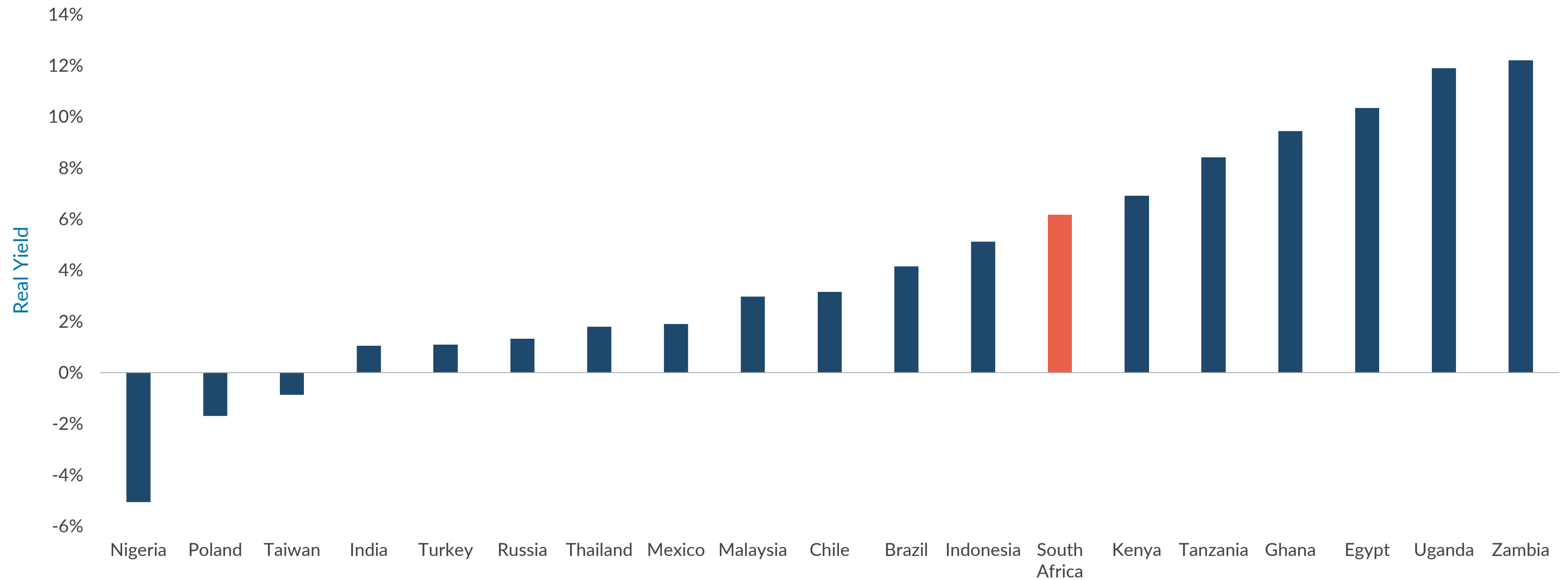
## South Africa Government 10yr



Source: Anchor / ThompsonReuters

# SOUTH AFRICAN BONDS ARE ATTRACTIVE GLOBALLY

## Real Yield



Source: Anchor / ThompsonReuters



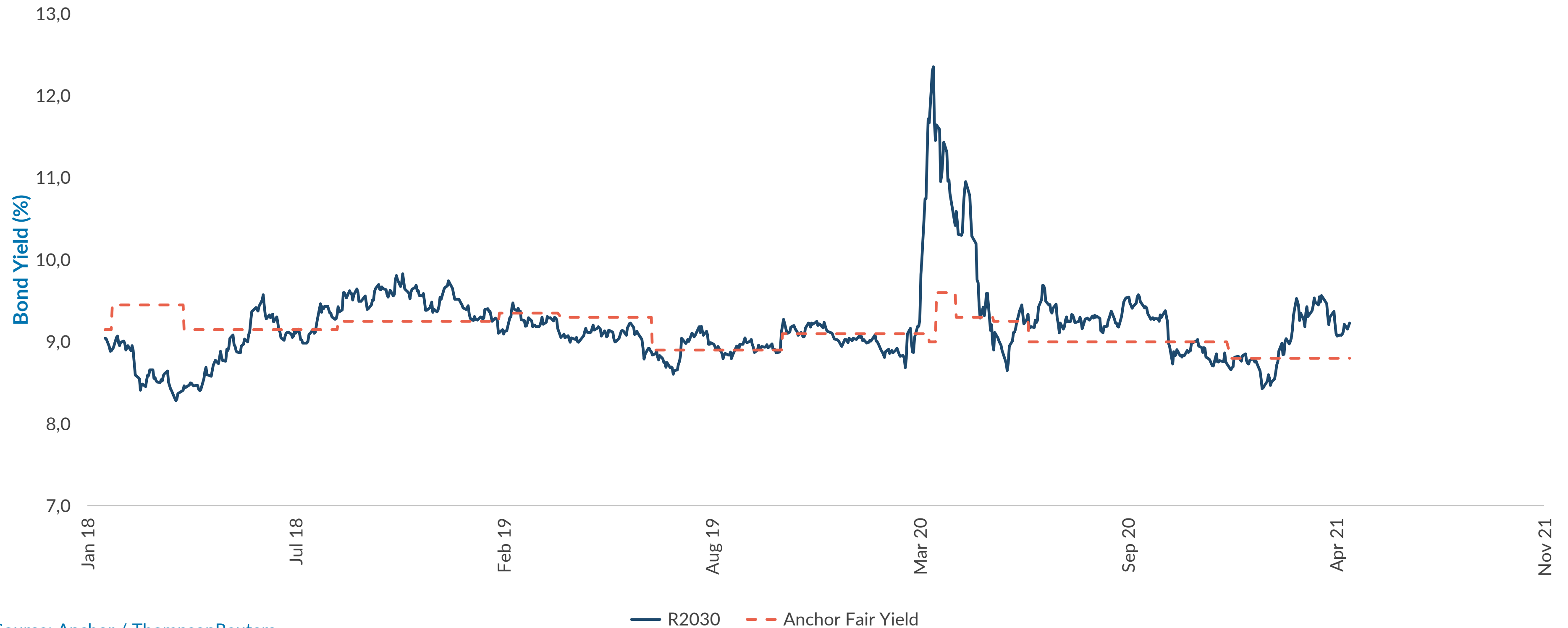
# MEANWHILE SOUTH AFRICA IS IN A GOLDILOCKS ENVIRONMENT





# FAIR YIELD ON SA 10 YEAR BOND

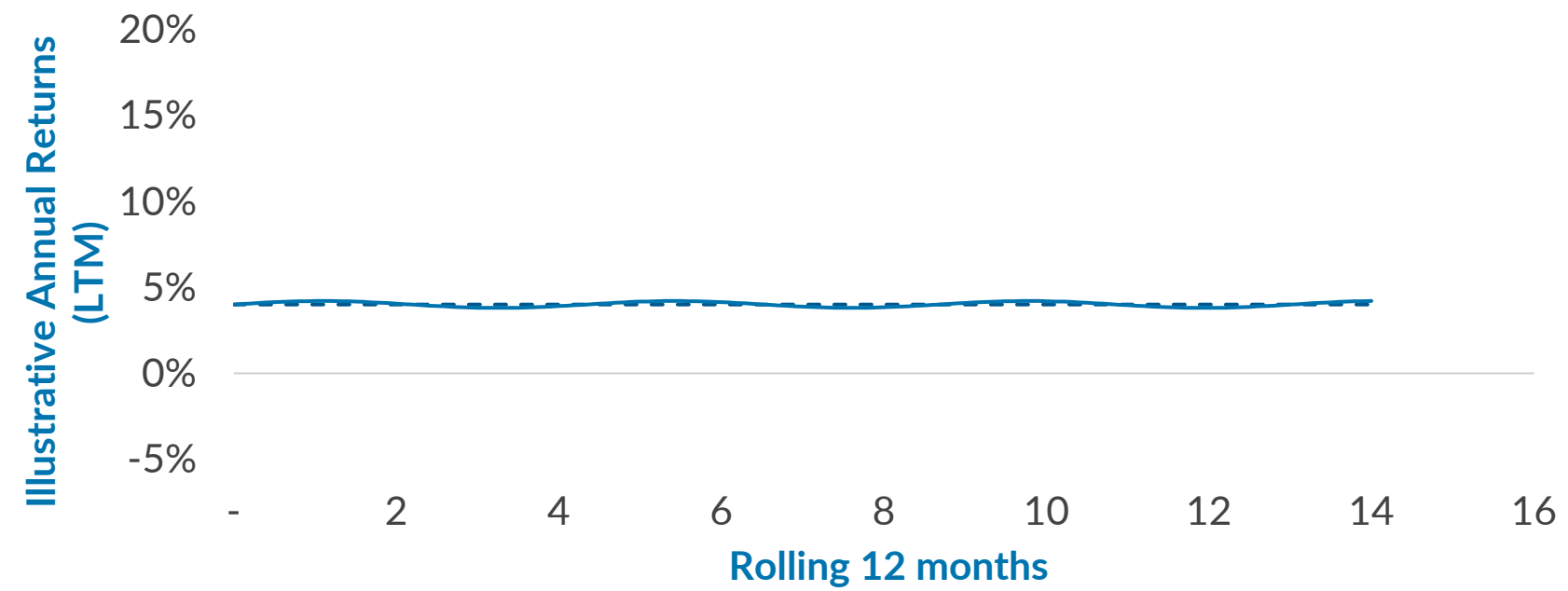
## Anchor SA Bond Yield Monitoring - R2030 Bond



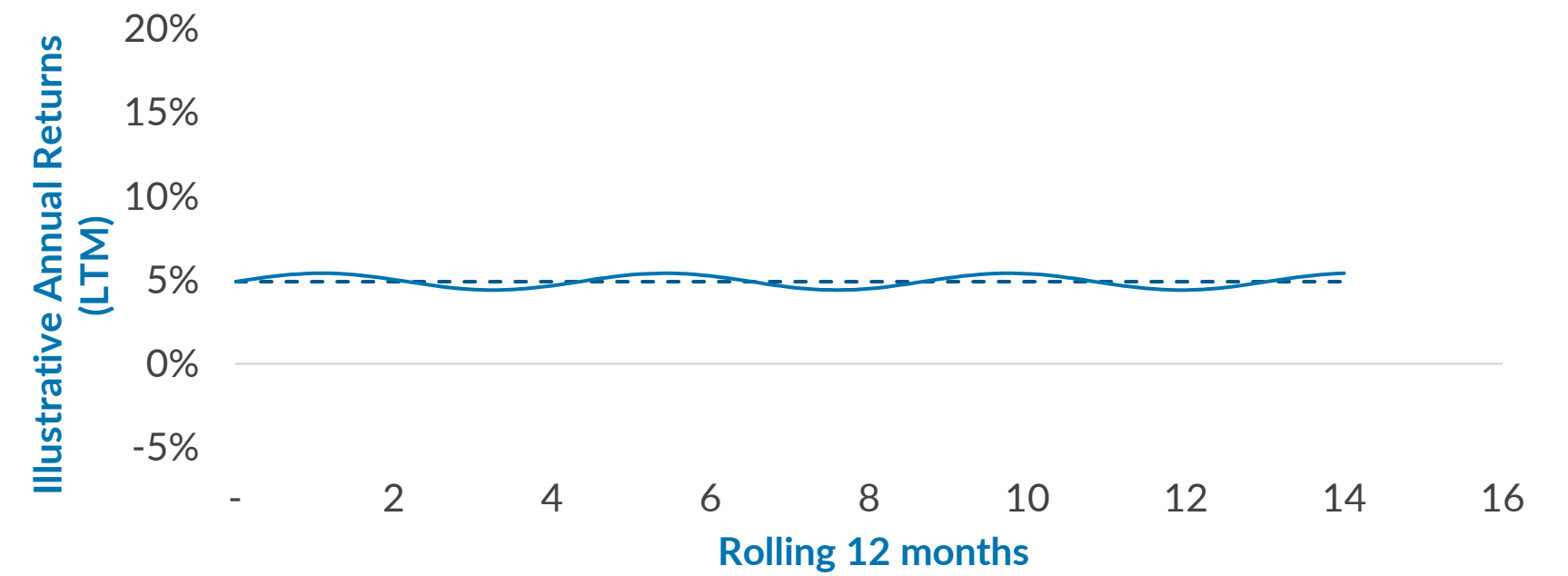
Source: Anchor / ThompsonReuters



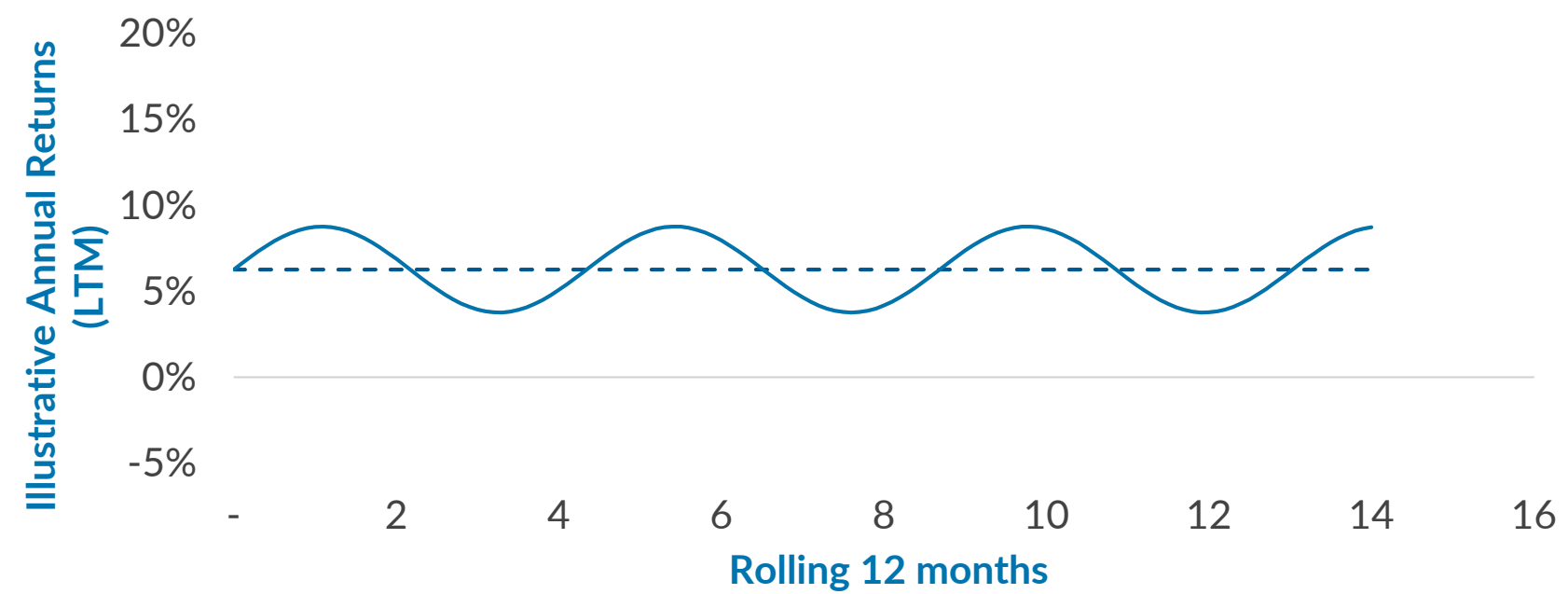
Money Market - Ave = 4.0%



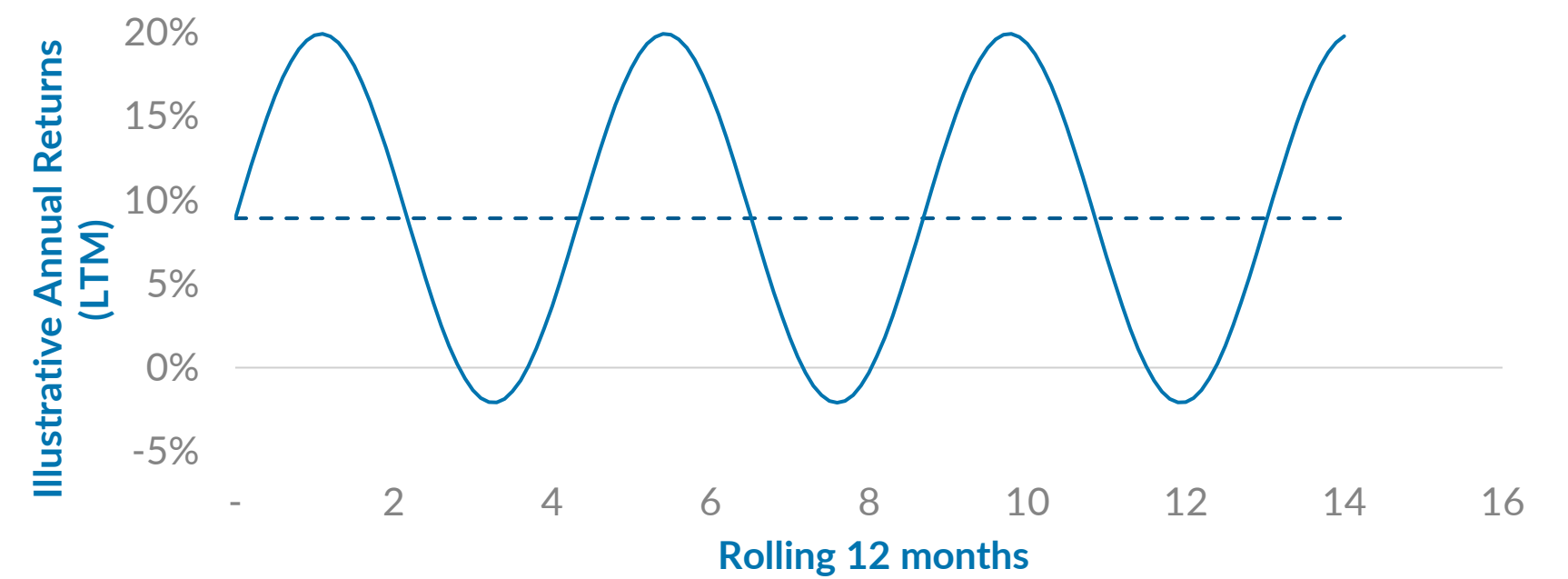
Core Income - Ave = 4.8%



Flex Income - Ave = 6.3%



Bond Fund - Ave = 9.1%











































*Sorry*  
THIS FUND IS  
**CLOSED**

COMMENTARY ON  
Absa Money  
Market Fund  
Closure

# ASSET ALLOCATION

Asset class	Current stance			Expected returns (local currency) (%)
	Negative	Neutral	Positive	
LOCAL				
Equity				12.6
Bonds				9.8
Flexible income				6.3
Listed property				8.5
Core income				5.0
Alternatives*				10 – 15
Rand/US\$ (rand marginally stronger)				-2.5
GLOBAL				
Equity				5.0
Government bonds				0.4
Corporate credit				1.0
Listed property				3.0
Cash				0.1
Alternatives*				5 – 10

\*Alternatives includes hedge funds, protected equity structured products, and physical property.



# WHERE WILL THE MONEY BE MADE

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## Domestic Equity

## Domestic Fixed Income

- Bonds are cheap
- Slight overweight risk to capture possible capital gains and higher yields
- Domestic bonds are still attractive

## Global Equity

## Global Fixed Income

- Bonds have moved dramatically and yields are becoming interesting again.
- Risk of an inflation overshoot in the near term.
- Longer terms corporate tax hikes and a normalisation of growth are positive for bonds.
- Shorter duration bonds are useful as a repository for cash if you don't want maximum equity exposure.



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