NEW ROAD CAPITAL
INVESTMENT MANAGEMENT

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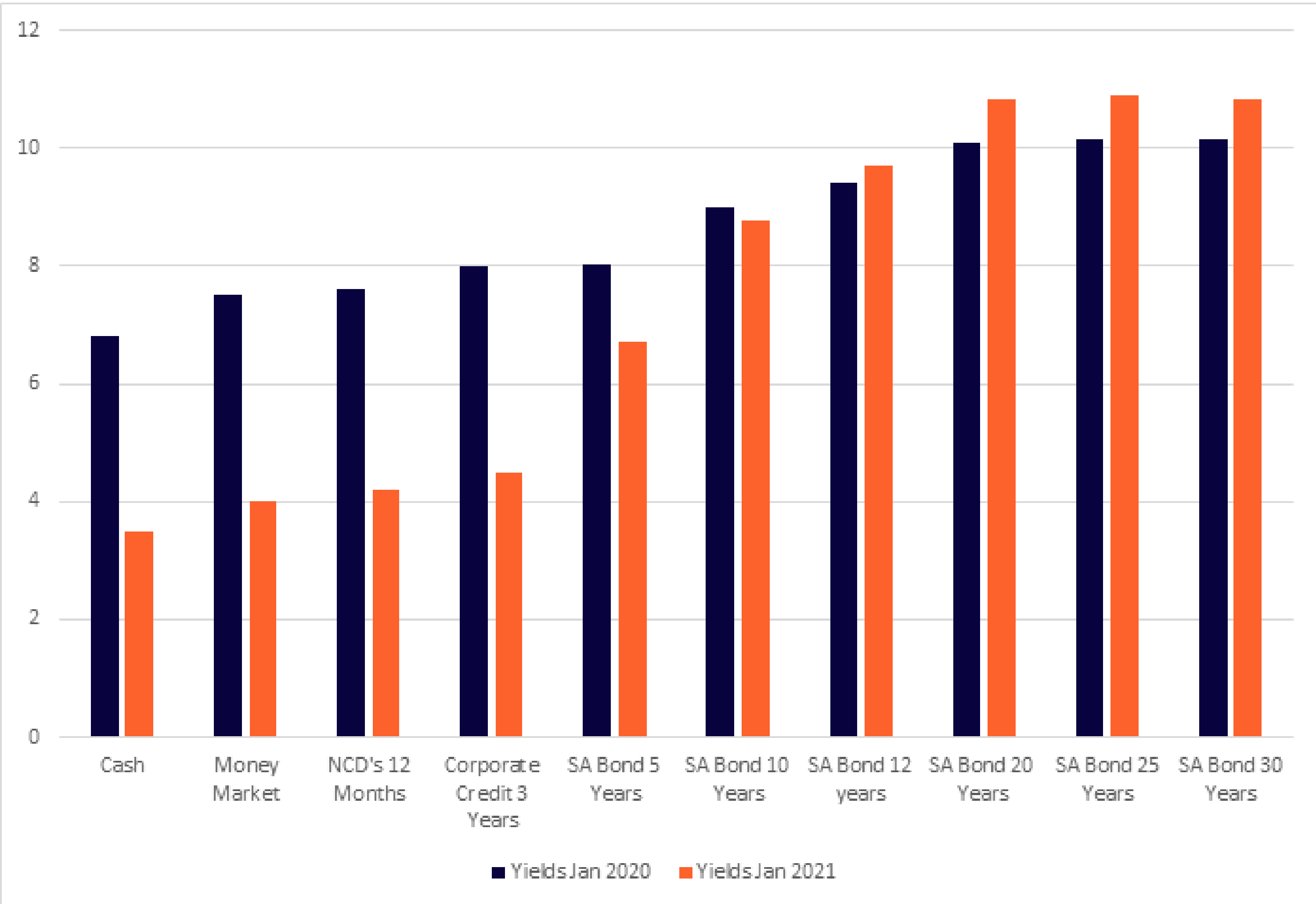
# THE WEEKLY CHART

## Short Term Yields Now Offer Much Lower Returns




SOURCE: EW ROAD CAPITAL, WWW.WORLDGOVERNMENTBONDS.COM, SARB

The above chart compares the yields available to investors in various income generating assets in SA. The blue bars illustrate what the yields were in January 2020 and the orange bars show what those same yields are currently.

The yields in the short term have become a lot lower as a result of the SA government reducing the REPO rate by 3% during the course of 2020. Previously it was possible to generate a decent yield in the shorter end of the yield curve by owning Money Market, Negotiable Certificates of Deposit (NCD's) and short-term corporate credit, which is the allowable investment universe for Interest Bearing - Short Term funds. This could be done without surrendering much yield compared to the longer-term SA sovereign bonds on offer.

Currently however, the landscape has changed as the disparity between yields has increased dramatically over the last year. The yield differential between the SA 30-year bond and cash has increased from around 3.4% a year ago to a whopping 7.3% today. The Interest Bearing - Short Term funds would need to take on much higher credit risk in order to generate the yields they were able to a year ago. Alternatively, the returns in these funds won't be anything like the levels investors have become accustomed to over the last few years.

This is where Multi-Asset Income Funds add a lot of value. MA Income funds are able to own any interest-bearing instrument and are not limited to the shorter end of the curve. They can hold a balanced portfolio of instruments with significantly higher yields at longer maturities combined with shorter maturity instruments and higher-grade corporate credit. This enables them to earn significantly higher yields without having to take on more credit risk in the corporate bond market.