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Investing for a
world of change

Staying ahead of global rate cuts: capturing yield in uncertain times



Adam Furlan
Portfolio Manager



Jason Borbora-Sheen
Portfolio Manager

The fast view

- Over the long run, holding cash exposes investors to inflation and eroded purchasing power. In the near term, they may also miss out on securing compelling yields should central banks cut interest rates amid slowing growth.
- Regional and asset-class diversification remains crucial for preserving capital and locating attractive yield in uncertain times.
- Conservative income-seeking investors with an investment horizon of at least 12 months should consider a high-quality mix of bonds through strategies such as the Ninety One Global Diversified Income Fund.
- This global fixed income portfolio targets a return of 1.5% above US dollar cash (gross of fees) over a rolling 12-month period, and no negative returns – also over rolling 12 months.
- By investing across global government debt, credit and currency markets, we seek to maximise income and mitigate risk.

A challenging environment for fixed income investors

Global markets have been turbulent this year amid escalating tariff tensions and concerns around inflation and growth. Risk assets, particularly equities, have experienced sharp declines as investors grapple with policy uncertainty. Even traditionally stable developed bond markets – which have historically offered shelter during volatile periods – have exhibited unexpected price swings. We've seen an aggressive sell-off in longer-dated bonds, reflecting deeper structural shifts and changing fiscal dynamics in developed economies.

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April vividly illustrated this unusual market behaviour as traditional correlations expected during risk-off episodes broke down. Equities fell sharply, yet the US dollar weakened against the euro, and the 10-year US Treasury yield rose, clearly diverging from typical risk-off dynamics.

This complex backdrop presents distinct challenges for fixed income investors, with sentiment globally having taken a knock. Conservative investors – especially those holding substantial positions in dollar cash – may instinctively favour caution, choosing to remain on the sidelines until clearer signals emerge. However, this perceived safety could mask hidden risks.

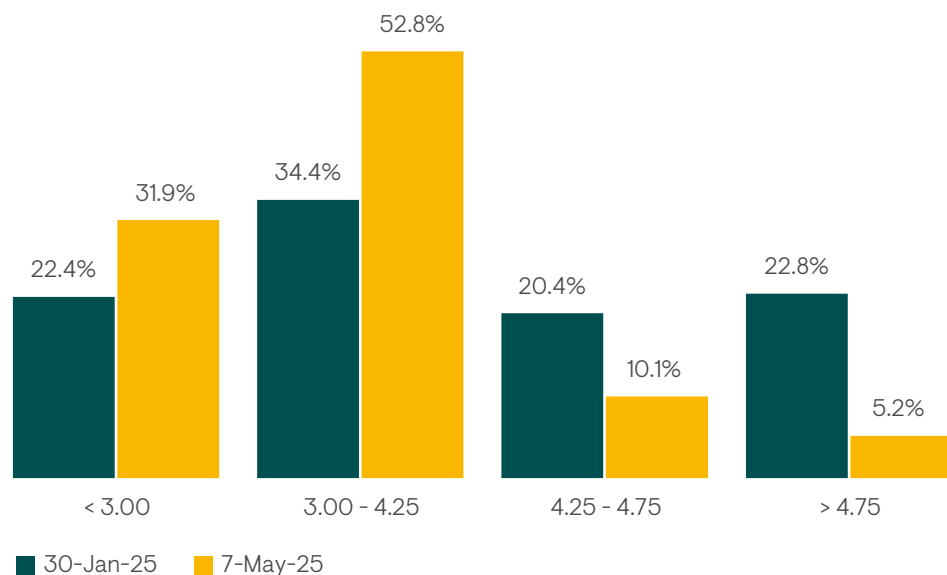
Global growth fears

Tariff measures introduced by US President Trump have injected inflationary pressures into global markets. Although some of these tariffs – including key ones involving China – have recently been reduced as trade negotiations resume, several remain in effect. These tariffs are effectively inflationary – raising prices of imported goods – but crucially, their indirect impacts dampen economic growth.

We expect short-term inflationary effects to give way to substantial growth challenges. However, the outlook for the US could be different than many other countries impacted by tariffs. Our current assessment suggests the US faces stagflation risks – higher inflation followed by slower growth. Conversely, other countries and regions, including Europe, the UK and New Zealand, might experience deflationary pressures due to currency strength and exposure to reduced global trade.

Market dynamics are shifting as global economies enter late-cycle territory and policymakers grapple with how best to respond to tariffs. With countries and regions diverging in interest rate responses and economic outlooks, diversification across markets is more important than ever.

Figure 1: Market expectations of the federal funds rate by the end of 2025



Source: Bloomberg and Ninety One.

Market expectations have moved significantly more dovish. The probability of rates being cut further in 2025 in the US (implied by the options markets) has increased from 50% to 80%.

Strategies to avoid FOMI (Fear Of Missing Income)

Markets are pricing in more interest rate cuts, leaving cash investors exposed to both eroding purchasing power and the likelihood of much lower yields when reinvesting. Locking in current attractive yields through diversified fixed income instruments mitigates these risks, helping to secure a stable income stream.

While the US path of interest rate cuts will likely be shallow due to persistent inflationary pressures, we anticipate more aggressive interest rate cuts in markets like the UK, Canada and New Zealand. These three countries currently have relatively restrictive monetary policies, positioning them for deeper rate reductions than markets currently anticipate. Our proactive stance in these regions aims to lock in yields at attractive levels, which could also provide potential capital gains as interest rates decline.

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For instance, we have reduced the Ninety One Global Diversified Income Fund's exposure to longer-duration US and European bonds, redirecting capital to shorter-duration and higher-yielding positions in Canada, New Zealand and the UK. Such targeted moves illustrate our responsiveness to shifting market conditions and our commitment to safeguarding investor capital while enhancing yield.

Our cautious stance extends to credit markets, where we maintain a strong preference for shorter-duration high-quality, investment-grade corporate bonds. This selective approach has minimised the portfolio's exposure to recent volatility in credit spreads. We distinguish between temporary market dislocations and deeper systemic issues through rigorous analysis, choosing assets resilient to economic stress. Additionally, structured credit products like mortgage-backed securities (MBSs) and collateralised loan obligations (CLOs) further diversify and enhance the portfolio's yield, offering stability beyond traditional corporate paper.

Dynamic and nimble management

Currency strategy is another important component of our approach. While predominantly holding US dollars, we dynamically manage currency exposure – for example, recently taking positions in the yen to mitigate volatility and strengthen capital protection. This flexibility enables us to swiftly adjust to changing market conditions, ensuring resilience during turbulent periods.

Offering a yield of around 4.9%,¹ the Ninety One Global Diversified Income Fund embodies our balanced investment philosophy. We focus on robust capital preservation and yield enhancement through prudent duration management, targeted credit exposure and tactical geographic diversification.

Ultimately, our fund aims to provide conservative investors with an attractive alternative to holding dollar cash, carefully balancing risk and return. Amid ongoing market uncertainty, prudent diversification, flexibility and active management remain crucial in today's challenging global fixed income landscape.

1. Source: Ninety One, as at 30 April 2025.

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Contact information

36 Hans Strijdom Avenue
Foreshore, Cape Town
8001

Telephone: +27 (0)219011000
Client service support: 0860 500 100
Email: clientservice@ninetyone.com

Please contact our Advisor Service Centre on telephone: 0860 444 487.

Alternatively, please contact your Ninety One investment consultant.

www.ninetyone.com