# Global Managed Income Fund

## Market context

Markets performed strongly in the third quarter, but not without volatility. Increasingly weak US labour data and a hawkish move by the Bank of Japan (BoJ) which raised short-term rates to 0.25%, sparked a sharp global reaction and unwind of carry trades. Additionally, lacklustre earnings from big-tech companies contributed to a risk-off move, with the VIX hitting its highest intraday level since March 2020. However, sentiment improved as the quarter progressed, helped by central banks' dovish pivot including the US Federal Reserve's (Fed) decision to cut rates by 50bps and the BoJ's indication that further tightening would depend on financial stability. US economic data also improved, while China unveiled its most substantial stimulus package since the pandemic to boost its ailing economy.

Against this backdrop, global equities delivered a positive mid-single-digit return, with emerging markets outperforming developed markets. Chinese equities posted the best quarterly performance since Q2 2009, returning c.20% following significant stimulus announcements from the People's Bank of China (PBoC). Within developed markets, following a strong Q3, US equities recorded their strongest year-to-date performance of the 21st century. However, mid-quarter turmoil arose as disappointing earnings results cast doubt on big-tech company valuations and the 'Magnificent 7' momentarily moved into correction territory. While US equities did recover, there was a rotation away from tech stocks, with utilities the strongest performing sector. European and UK equities also advanced, albeit by a smaller magnitude. Japanese equities, however, were the exception as they fell back for a second quarter following the initial rate hike by the BoJ and the subsequent Japanese yen appreciation.

Global high-yield corporate bonds also benefitted from the risk-on shift as spreads compressed and prices rose. The US dollar weakened against all G10 currencies, driven by the Fed's rate cut, which supported emerging market debt, particularly local currency bonds, which gained almost 10% during the quarter. In commodities, the oil price fluctuated, ending Q3 down 17% at $71.77/bbl – the lowest monthly closing level since Q121. Conversely, copper prices hit their strongest level in 10 weeks following China's stimulus.

Within defensive assets, developed market sovereign bonds had a strong quarter as investors priced in more rapid rate cuts. US and euro sovereigns advanced, as did global investment-grade corporate bonds, which benefitted from falling rates and tighter spreads. Following the BoJ's rate hike, the yen strengthened by +12% against the US dollar, enjoying its strongest quarter since Q4 2008.

Gold prices have continued to rally to new record highs, as several factors helped boost the precious metal, not least the Fed's decision to institute the first interest rate cut in 4.5 years.

## Performance

The Fund delivered a positive return in US dollars, net of fees.

Equity positions helped returns, especially our stock selections, as well as our options positions and a small holding in Chinese equities. Our government bond holdings benefitted from falling yields in developed and emerging markets, especially in the US and South Africa and Hungary. Other exposures also generally added to returns. Currency exposure was a small drag.

An analysis of the portfolio with reference to the extent to which it has or has not adhered to its policy objective.

Past performance does not predict future returns; losses may be made.

## Portfolio activity

Within fixed income, exposure to developed market and emerging market sovereign bonds was increased at the margin, while that to corporate bonds (both high-yield and investment grade) was broadly consistent with the previous month. Within emerging market debt, there is scope for yields to fall in select regions. There is a preference for those regions where there are continued downward revisions in inflation and growth is soft; South Africa, Colombia and Indonesia are examples of regions where the market has not sufficiently priced the number of cuts that could materialise. Our duration was reduced as we took profits in the rally during the quarter, ending the review period at 3.0 years. In terms of the composition of the underlying duration, we see better opportunities outside of the US, such as New Zealand and the UK, where rate expectations are less extended. The portfolio's credit quality continued to be A rated on average, in line with the previous month. Within currency, our small net long in the US dollar was increased.

Net equity was increased but is managed within a cautious range, ending the quarter at c.19%. As at the end of the review period, equity options represented almost half of our hedged equity exposure. While consensus seems to be shifting toward a soft-landing scenario and markets push higher—sometimes reaching historically expensive levels—we believe downside data trends still point to elevated risks of recession and increased volatility. Options allow us to navigate these volatile, uncertain markets, offering exposure to rising markets while also providing quick downside protection by enabling us to cut risk quickly.

## Outlook

Our outlook remains cautious, particularly given the valuations of many pro-cyclical asset classes. While consensus continues to lean toward a soft-landing scenario, there are signs that downside risks could emerge. Tighter monetary policy has yet to fully take effect, and various economic and geopolitical uncertainties—such as softening labour demand and the potential implications of a Trump presidency—pose additional risks. As a result, we are closely monitoring evolving data.

In Europe, where policy remains tight and growth indicators are weak, we see an elevated risk of a disinflationary period in the eurozone, with interest rates likely to fall further as inflation expectations stabilise. In emerging markets, several central banks have already cut rates, and while China faces near-term challenges, its policy stance remains accommodative, albeit not aggressively so. This approach may allow the Chinese economy to achieve a more benign outcome than the bearish consensus suggests. Overall, we believe this environment may lead to greater differentiation in asset class performance. While uncertainty is likely to persist—especially regarding the timing and extent of rate cuts—there are pockets of opportunity. Certain assets are attractively valued, offer solid income sources, carry less uncertainty, and may prove more defensive in an economic downturn. Although we still view a soft landing in the US as the most likely outcome, we have slightly increased the probability of a recession, given the elevated downside risks. Accordingly, the portfolio is positioned relatively cautiously.

We are finding most opportunities across government bond markets where yields are still elevated, and we see good value. Our exposure is split between the US and other high quality developed markets such as New Zealand, where the transmission of monetary policy into a slowing economy that requires lower rates seems clear. We see better value generally in emerging markets, where banks raised rates earlier, got inflation under control and have more investor friendly issuance trends. Ultimately, we see scope for larger rate cuts than the market expects, which should benefit higher quality fixed income returns in select markets. The portfolio's duration reached a high of c.4 years earlier this year; we have recently taken profit into rallies, with duration reaching 3.0yrs by the end of the of the quarter. However, we continue to utilise optionality and will look to add into weakness. We believe actively managing duration will be key to managing the environment ahead. Additionally, our fixed income exposure continues to be high quality on average (A).

Broadly, markets are priced for limited risks, with the risk premia offered by growth sensitive assets such as equities and high yield corporate bonds low as valuations and risk appetite have stretched. Our corporate bond exposure is at all-time lows as the yields do not reflect the risks; even short duration corporates could experience significant drawdowns in risk-off scenarios. Our physical equity exposure is also at an all-time low, below 10%. Within equities, we are finding businesses that are growing their earnings and passing on higher prices, particularly within the consumer staples sector. Overall, our positions are relatively defensive, and our focus on resilient income leaves us well placed to navigate the high inflation environment, with our equities typically characterised by low leverage, high profitability, strong pricing power. We have conviction in the sustainability and growth potential of the income supporting our holdings' dividends. Additionally, many resilient higher dividend equities are attractively valued, which should support medium-term return potential. Nearly half of our net equity exposure is represented by equity options, providing an attractive and flexible hedge against economic uncertainties while retaining potential to capitalise on growth opportunities should a soft landing materialise.

Overall, the backdrop is evolving, necessitating a nimble approach to investing. We remain cautiously positioned in terms of equity and credit risk, while seeking attractively valued, resilient income-generating securities which offer compelling cash flows and returns.

## Specific risks.

Currency exchange: Changes in the relative values of different currencies may adversely affect the value of investments and any related income. Default: There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. Derivatives: The use of derivatives is not intended to increase the overall level of risk. However, the use of derivatives may still lead to large changes in value and includes the potential for large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. Equity investment: The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. Interest rate: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise. Liquidity: There may be insufficient buyers or sellers of particular investments giving rise to delays in trading and being able to make settlements, and/or large fluctuations in value. This may lead to larger financial losses than might be anticipated.

## Important information

All information is as at 30.09.2024 unless otherwise stated. Where applicable, the distribution yield reflects the amount that may be expected to be distributed over the 12 months, as a percentage of the mid-market unit price of the Fund. The yield is not guaranteed, will vary over time and take no account of any preliminary charge. This communication is not for general public distribution and is for general information only. If you are a private investor and receive it as part of a general circulation, please contact us on +44 (0)20 7597 1800. The value of this investment, and any income generated from it, can go down as well as up and will be affected by changes in interest rates, exchange rates, general market conditions and other political, social and economic developments, as well as by specific matters relating to the assets in which it invests. The Fund's investment objective will not necessarily be achieved and there is no guarantee that these investments will make profits; losses may be made. This Fund may not be appropriate for investors who plan to withdraw their money within the short to medium term. Performance shown is that of the Fund and individual investor's performance may differ as a result of initial fees, actual investment date, date of any subsequent reinvestment and any dividend withholding tax. All the information contained in this communication is believed to be reliable but may be inaccurate or incomplete. Any opinions stated are honestly held but are not guaranteed and should not be relied upon. This is not a buy, sell or hold recommendation for any particular security. It is not an invitation to make an investment nor does it constitute an offer for sale. Before making an investment, please read the Prospectus and Key Investor Information Document, which sets out the fund specific risks and is available from Ninety One SA (Pty) Ltd ("Ninety One SA"). The portfolio may change significantly over a short period of time. The Fund is traded at the ruling price and can engage in borrowing, up to 10% of the portfolio net asset value to bridge insufficient liquidity, and scrip lending and may be closed in order to be managed in accordance with the mandate. The Fund is a sub-fund of the Investec Global Strategy Fund, which is a UCITS organised as a Société d'Investissement à Capital Variable under the law of Luxembourg. For further information on the Fund including application forms and a schedule of fees and commissions, please contact Ninety One SA. Fund prices and English language copies of the Prospectus, Report & Accounts and Articles of Incorporation and local language copies of the Key Investor Information Documents may be obtained from our website and free of charge from the following country specific contacts: Luxembourg – Investec Global Strategy Fund, 49 avenue J.F. Kennedy, L-1855 Luxembourg. In South Africa, Ninety One SA is an authorised financial services provider. Those sub-funds offered for public sale in South Africa are approved under the South African Collective Investment Schemes Control Act.

Indices

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