Beyond the traditional: Seeking diverse income opportunities across asset classes

Jason Borbora-Sheen and Darpan Harar

Target audience

Audience

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General risks

The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments.

Past performance does not predict future returns. Investment objectives may not necessarily be achieved; losses may be made.

Target returns are hypothetical returns and do not represent actual performance. Actual returns may differ significantly.

Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

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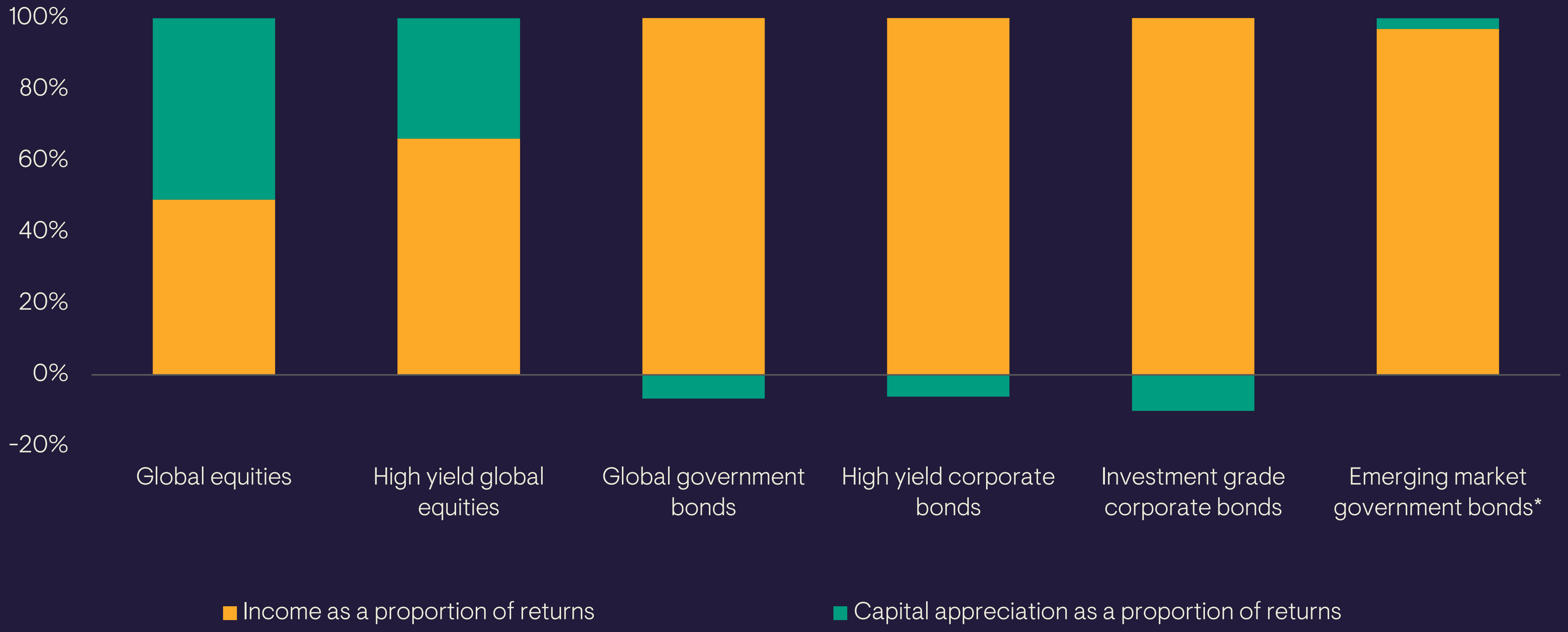
Jason Borbora-Sheen

Income is key to returns

Income explains more than half of returns across all asset classes

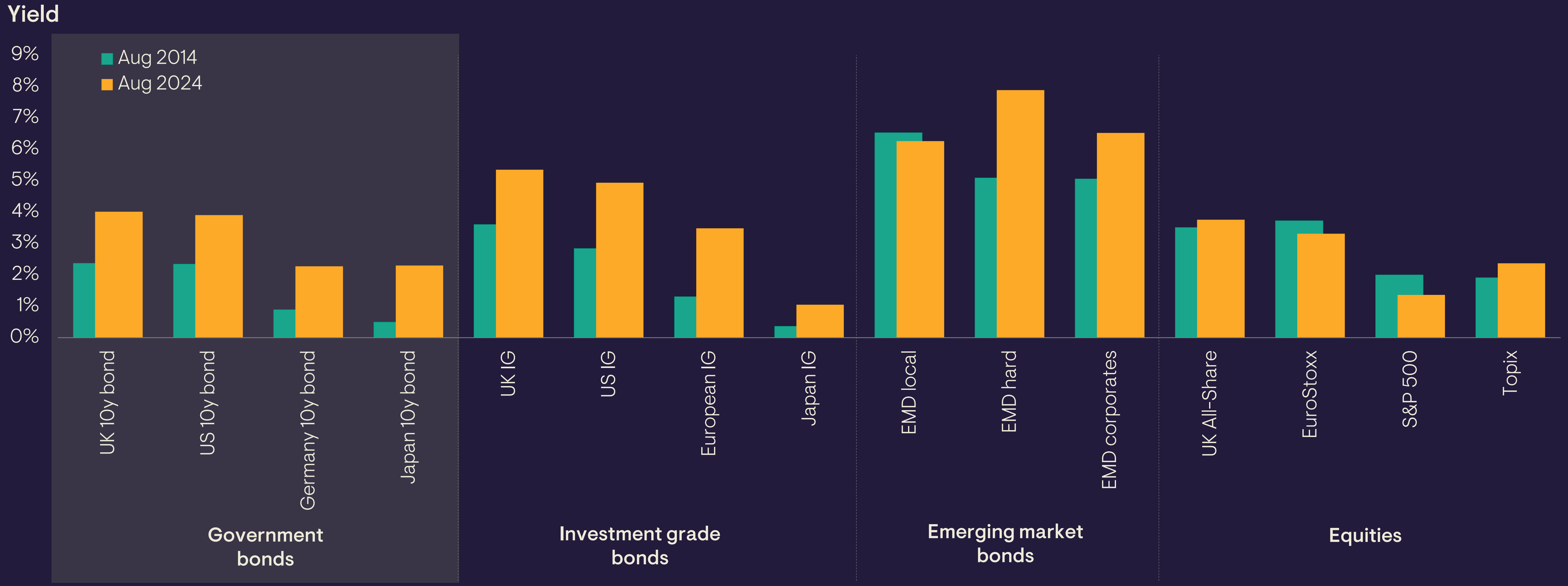


Past performance is not a reliable indicator of future results, losses may be made.

Source: Ninety One, Bloomberg 20 year returns to 31 December 2023. Data since 31 December 2003. *Since Inception: 31 December 2005.

Global equities = MSCI AC World (USD), High yield global equities = MSCI World High Dividend Yield Index, Global gov't bonds = ICE BofAML Global Government Index (Local), High yield corporate bonds = ICE Global High Yield Bond Index (Local), Investment grade corporate bonds = ICE BofA, Global Corporate Index, Emerging market government bonds = ICE BofAML Global Emerging Markets Bond Index (Local).

Where do we find it today?



Forecasts are inherently limited and are not a reliable indicator of future results.

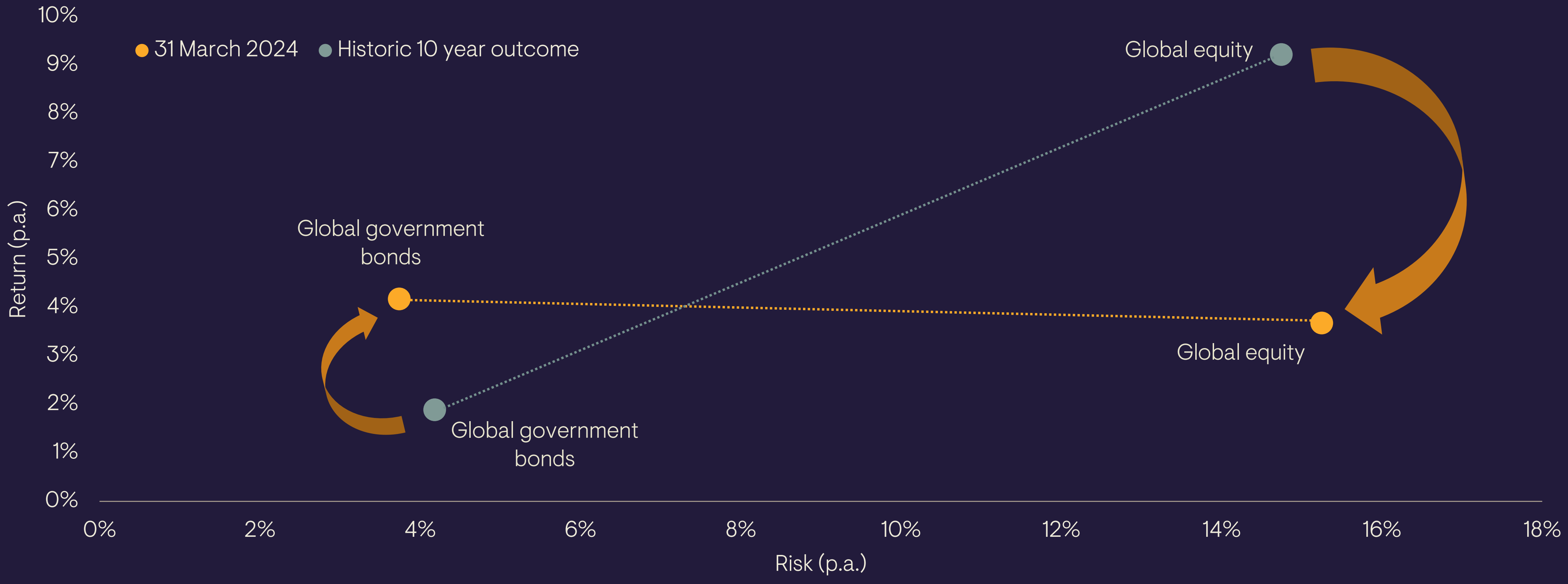
Source: Bloomberg, BofAML, yields as at 31 August 2014 and 31 August 2024.

1 month deposit rates for cash; 10yr Government bonds – generic sovereign yields; Investment grade bonds: BofAML Sterling Corporate & Collateralised All Stocks Index; BofAML US Corporate Index; BofAML Euro Corporate & Pfandbrief Index; BofAML Japan Corporate Index; High yield bonds: BofAML Asian Dollar High Yield Corporate Index; BofAML US High Yield Index; BofAML Sterling High Yield Index; BofAML Euro High Yield Index; Emerging market bonds: JP Morgan GBI-EM Global Diversified Index; JP Morgan EMBI Global Diversified Blended Index; JP Morgan CEMBI Diversified Broad Composite Index; Equity indices as stated. For further information on indices please see the Important Information section.

GMI may benefit from significant tailwinds in the future

Prospective asset class returns may look very different to the past

Forecasted versus historic 10-year outcomes (USD)



Forecasts are inherently limited and modelling involves risks, assumptions and uncertainties, they are forward looking and are not guarantees nor a reliable indicator of future results. Actual returns could be materially higher or lower than projected. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. Source: Ninety One proprietary capital market assumptions as at 31 March 2024. Estimates are nominal, hedged into USD, gross of fees and ignore alpha. Forecast volatilities are based on the 15-year annualised volatility, based on monthly data. Modelling involves risks, assumptions and uncertainties. These estimates reflect the view of Ninety One's multi-asset team, while the views of other teams across Ninety One may differ. Performance does not guarantee future results. Actual returns could be materially higher or lower than projected. For information on our Capital Markets Assumptions methodology, please see Important Information.

Why not just cash or short-duration?

You are here

US Treasury Returns Since 1947 — **Starting Yield**

	0 - 2.5%	2.5 - 5.0%	5.0 - 7.5%	7.5%+
Average 12 month	-1%	4%	6%	12%
Chance of an annual loss	57%	23%	15%	11%
Worst month	-5.1%	-7.2%	-4.5%	-7.9%
% of time negative	49%	43%	38%	37%

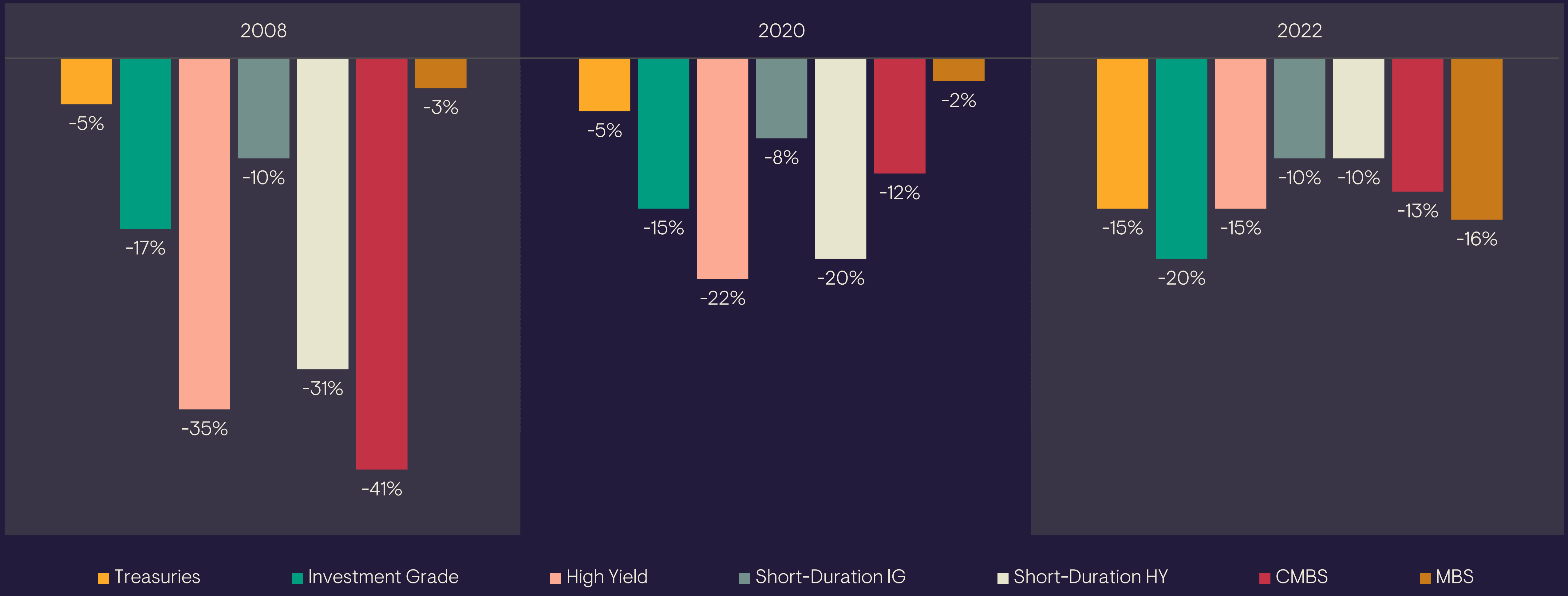
Past performance does not predict future returns; losses may be made

Source: Ninety One Swinkels, L. (2023) Data: International Government Bond Returns Since 1947. figshare. Dataset, Bloomberg September 2024.

Fixed-income is riskier than it seems

Drawdowns in risk-offs can be significant

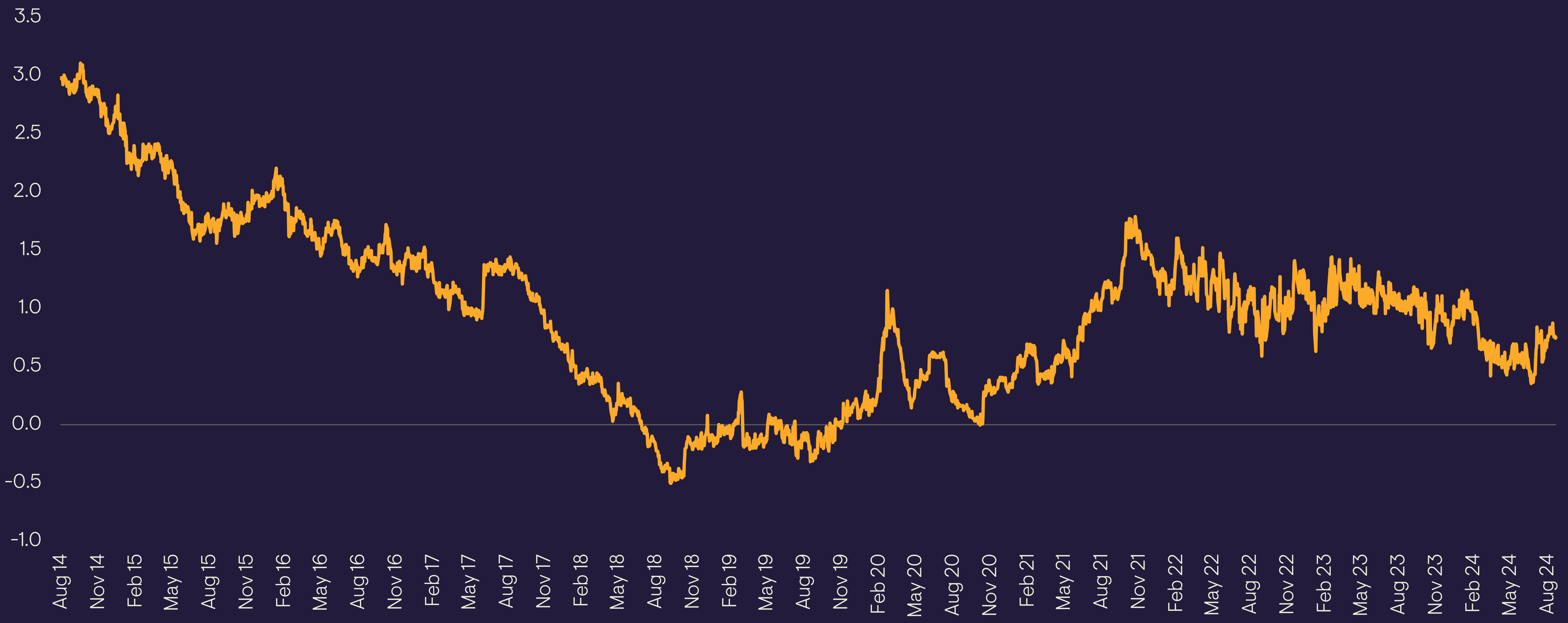
Fixed income performance in major equity drawdowns



Source: Bloomberg, Ninety One, August 2023. Max drawdown shown for each calendar year shown for US Treasuries, Global Agg, Corp High yield, SD IG, SHD HY , US Non-agency CMBS, US MBS

Think widely

Difference between New Zealand LGFA 5yr and US Treasury 5 yr



This is not a buy, sell or hold recommendation for any particular security.

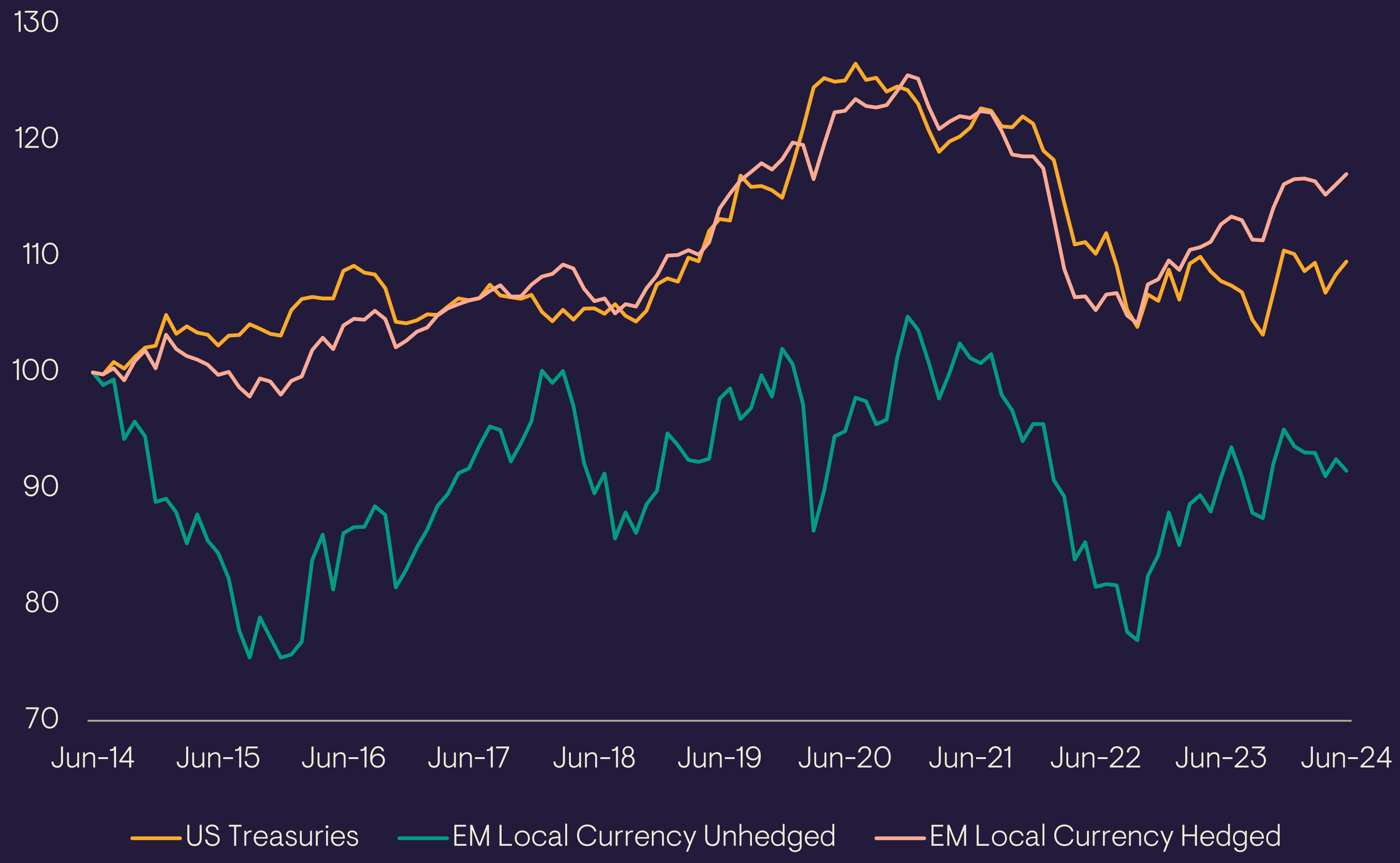
For further information on specific portfolio names, please see the Important information section.

Source: Ninety One, Bloomberg, September 2024

Benefit from being bottom-up

When a conservative approach is applied, EMD can seek to improve risk-adjusted returns

EM Hedged, EM Unhedged and US Treasury 10 Year Total Returns



10 Year Characteristics	Max d/d (%)	Annualised Return (%)	Sharpe	Vol (%)
Global equities	-27	6	0.4	15
EM Gov't Bonds	-26	-1	-0.1	11
US Treasuries	-18	1	0.2	5
EM Gov't Bonds USD Hedged	**-17**	**2**	**0.4**	**4**

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

Source: Ninety One, Bloomberg 30 June 2024. Global equities = MSCI ACWI TR; EM Government Bonds = JPMorgan GBI-EM Global Diversified; US Treasuries = 10 year US Treasuries.
Based on monthly data

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Darpan Harar

Huge variation in outcomes across the credit spectrum

Asset return snapshot

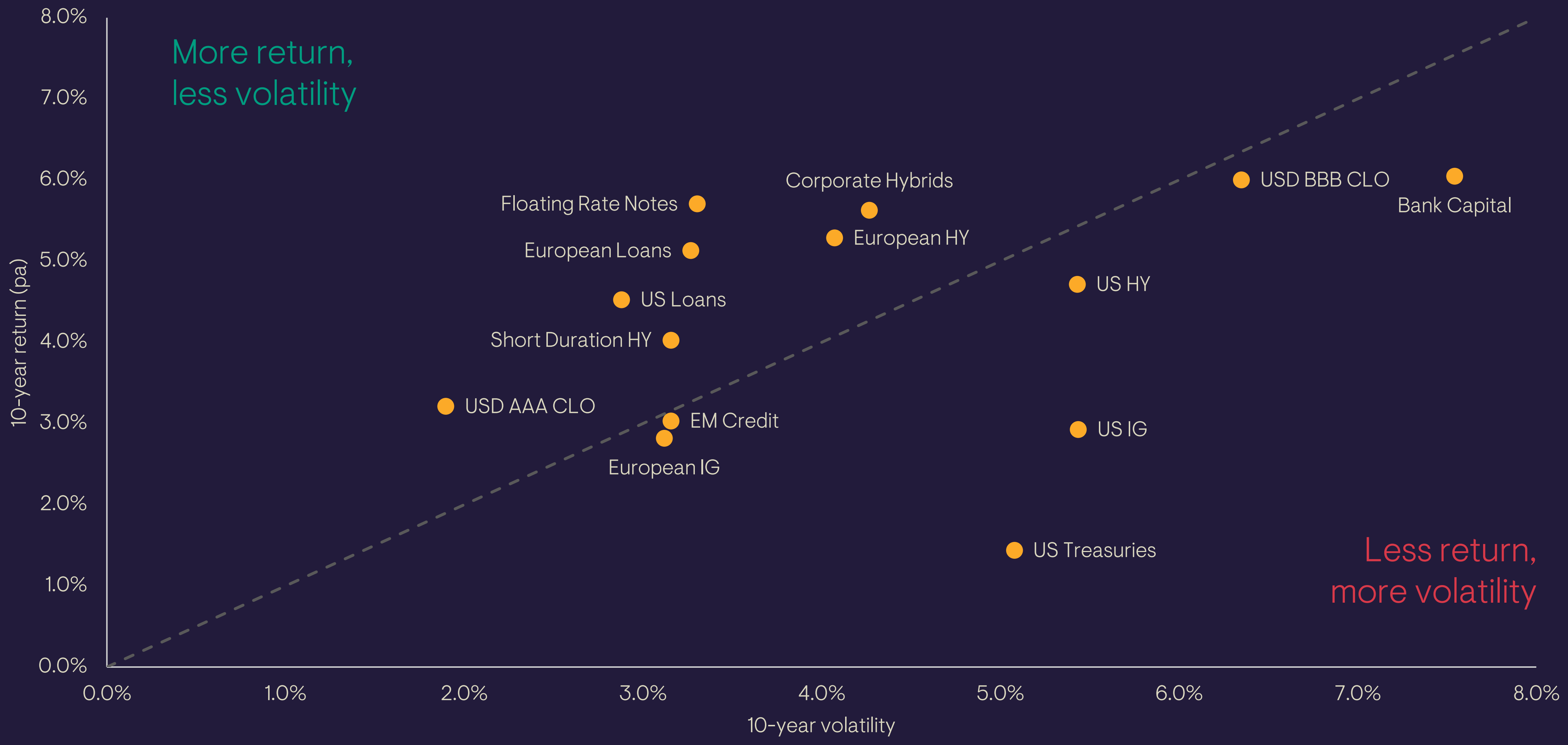
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
US HY	58.1%	15.1%	4.4%	15.5%	7.4%	2.5%	-4.6%	17.5%	7.5%	-2.3%	14.4%	6.1%	5.3%	-11.2%	13.5%
European HY	79.8%	15.7%	-2.6%	28.6%	10.3%	5.4%	1.6%	9.3%	6.9%	-3.3%	11.5%	2.9%	3.4%	-11.4%	12.4%
EM Credit	39.1%	12.4%	4.1%	15.7%	-0.9%	3.6%	1.1%	9.6%	6.9%	-1.3%	12.4%	7.1%	-1.4%	-14.4%	7.7%
US IG	19.8%	9.5%	7.5%	10.4%	-1.5%	7.5%	-0.6%	6.0%	6.5%	-2.2%	14.2%	9.8%	-1.0%	-15.4%	8.4%
European IG	14.9%	4.8%	2.0%	13.0%	2.4%	8.3%	-0.4%	4.8%	2.4%	-1.1%	6.3%	2.6%	-1.0%	-13.9%	8.0%
European Loans	43.4%	9.8%	0.7%	9.7%	8.6%	4.5%	5.5%	3.8%	3.6%	1.3%	4.9%	2.4%	5.2%	-3.4%	13.3%
US Loans	51.6%	10.1%	1.5%	9.7%	5.3%	1.6%	-0.7%	10.2%	4.1%	0.4%	8.6%	3.1%	5.2%	-0.6%	13.1%
Corporate Hybrids	31.2%	12.7%	3.8%	15.3%	6.4%	7.8%	-1.7%	8.5%	10.3%	-3.9%	12.7%	2.7%	1.8%	-13.3%	10.2%
Floating Rate Notes	60.0%	12.6%	-9.2%	22.3%	7.7%	3.7%	4.0%	5.0%	1.9%	-1.8%	7.1%	1.8%	6.3%	-2.5%	13.6%
Short Duration HY	44.3%	12.0%	2.7%	13.1%	6.5%	0.9%	1.2%	14.0%	5.3%	0.6%	8.7%	5.0%	-3.3%	-8.6%	9.5%
Bank Capital	-	-	-	-	-	5.8%	6.9%	7.3%	14.4%	-3.7%	17.6%	6.8%	4.7%	-11.4%	5.7%
Differential (best/worst)	**64.9%**	**10.9%**	**16.7%**	**19.0%**	**11.7%**	**7.3%**	**11.5%**	**13.7%**	**12.5%**	**5.2%**	**12.7%**	**8.0%**	**9.6%**	**14.8%**	**7.9%**

Past performance is not a reliable indicator of future results, losses may be made.

Source: Bloomberg, 31 December 2023.

US HY: The BofA Merrill Lynch US High Yield Constrained Index; Europe HY: The BofA Merrill Lynch European Currency High Yield 3% constrained Index; US Loans: Credit Suisse Leveraged Loan Index; Europe Loans: Credit Suisse Western European Leveraged Loan Index; US IG: The BofA Merrill Lynch US Corporate & Yankees Index; Europe IG: The BofA Merrill Lynch Euro Corporate Index; EM Corps: The BofA Merrill Lynch Emerging Markets Corporate Plus Index; Global IG Hybrids: The BofA Merrill Lynch Global Hybrid Corporate Index; IG Sub Fins: Bloomberg Barclays US Corp IG Subordinated Bank Index; Short Duration HY: The BofA Merrill Lynch 1-3 year Global High Yield Non-Financial 2% Constrained Index; FRN: The BofA Merrill Lynch Euro Floating Rate High Yield Index; Bank Capital: Bloomberg Barclays Contingent Capital Global Index. For further information on indices and investment process, please see the important information section.

Specialist credit offers strong risk/return opportunities...



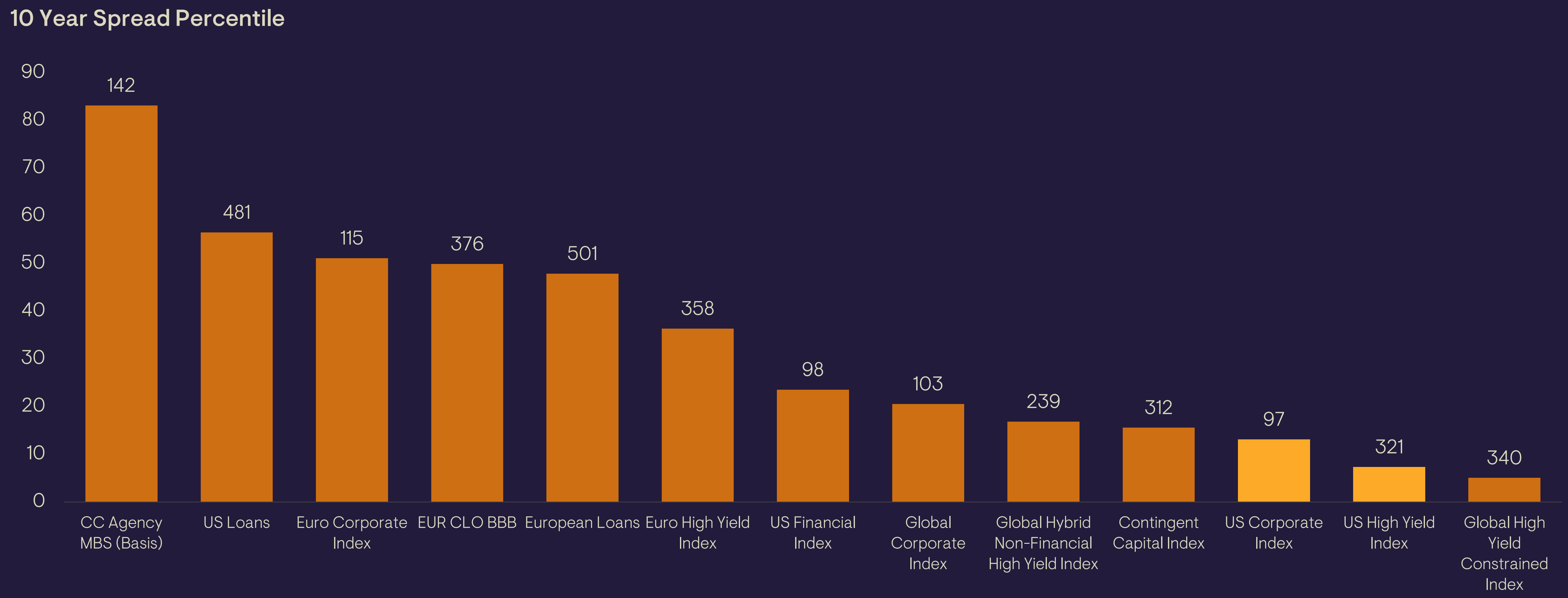
Source: Ninety One, JP Morgan, ICE. As of 12 September 2024

...and provides strong diversification to US Treasuries

	10-year correlation to US Treasuries
US HY	0.02
European HY	-0.05
EM Credit	0.36
US IG	0.87
European IG	0.50
European Loans	-0.12
US Loans	-0.05
Corporate Hybrids	-0.04
Floating Rate Notes	-0.10
Short Duration HY	-0.05
Bank Capital	-0.07
USD AAA CLOs	-0.02
USD BBB CLOs	-0.07

Source: JP Morgan, ICE BofA Merrill Lynch. As of 12 September 2024

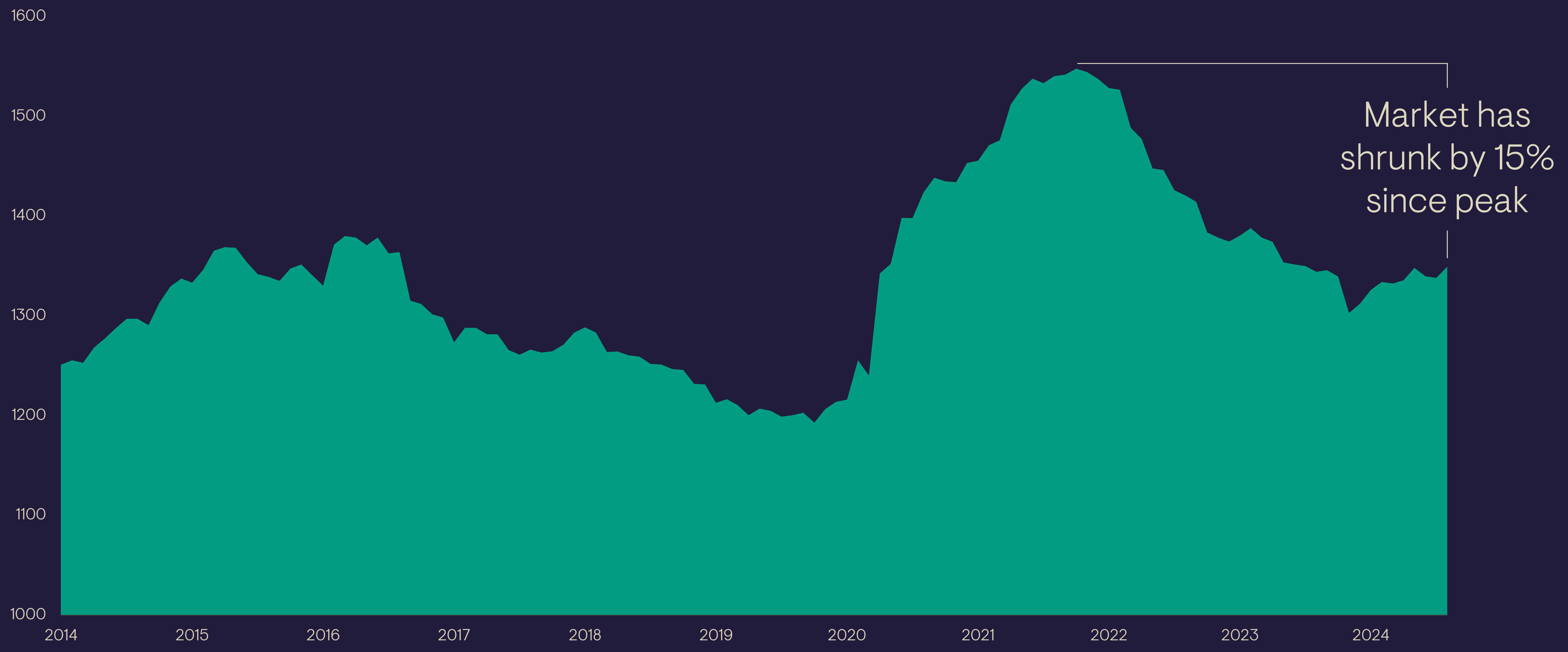
Valuations in US Dollar credit look extremely tight



Source: Ninety One, Citi, JP Morgan, ICE. As of 22 August 2024

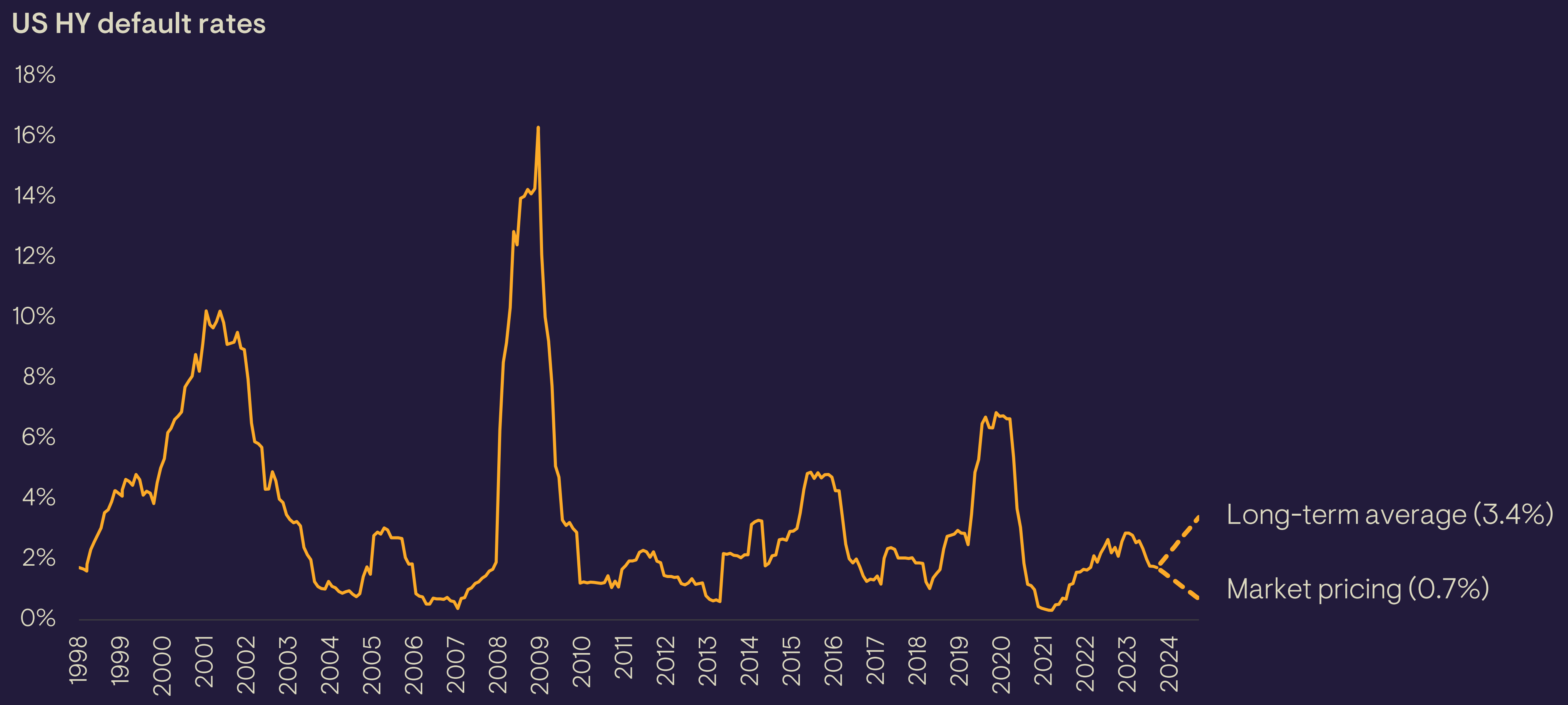
Traditional credit has benefited from extremely favourable technicals

US High Yield Market Size $bn



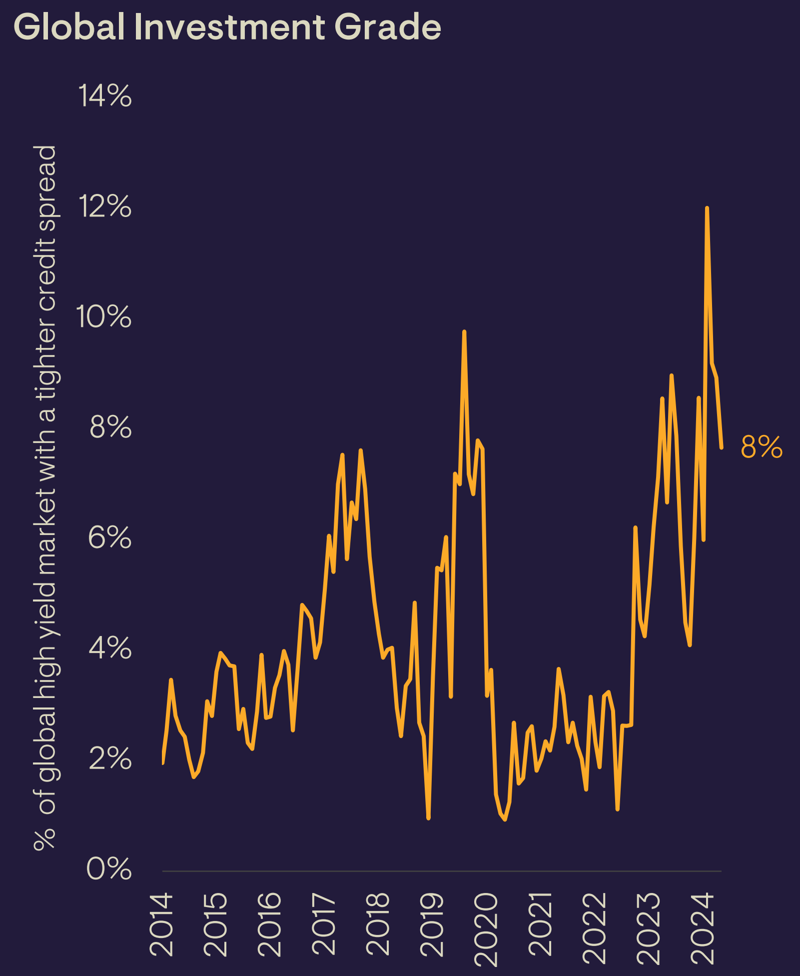
Source: Ninety One, ICE . As of August 2024

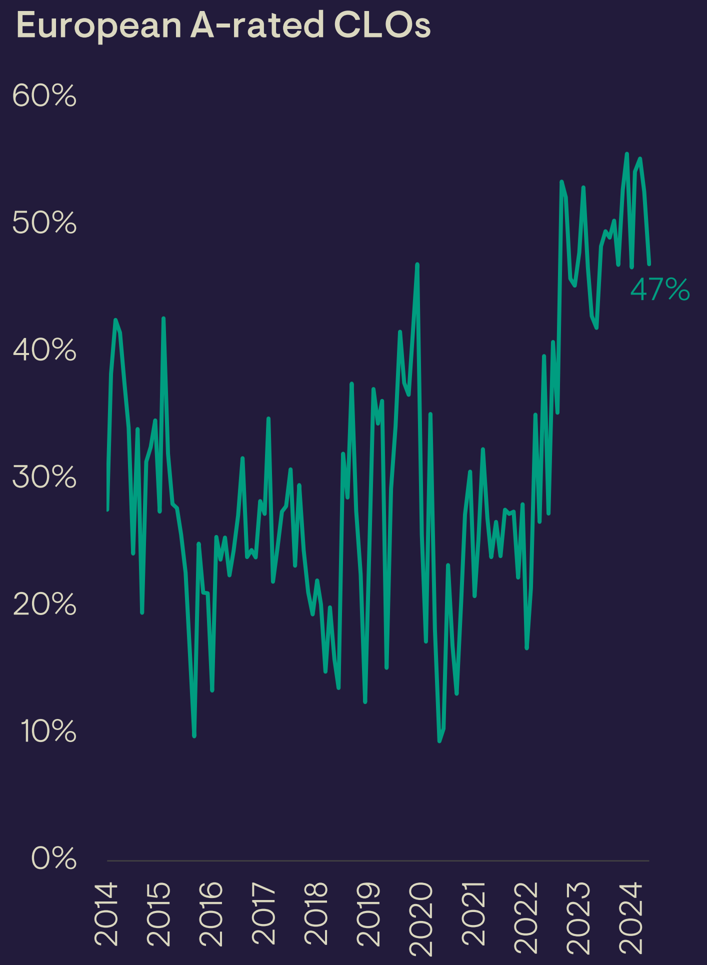
Fundamentals have been supportive but the market is pricing an overly optimistic scenario

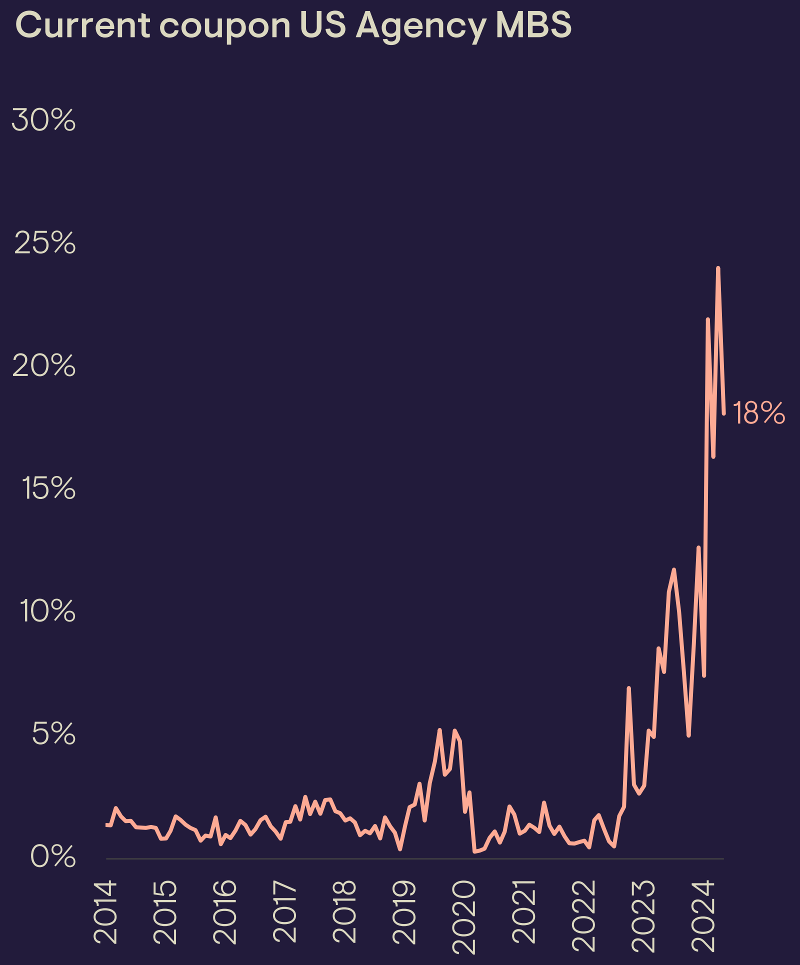


Source: JP Morgan . As of August 2024

A broader horizon brings better value





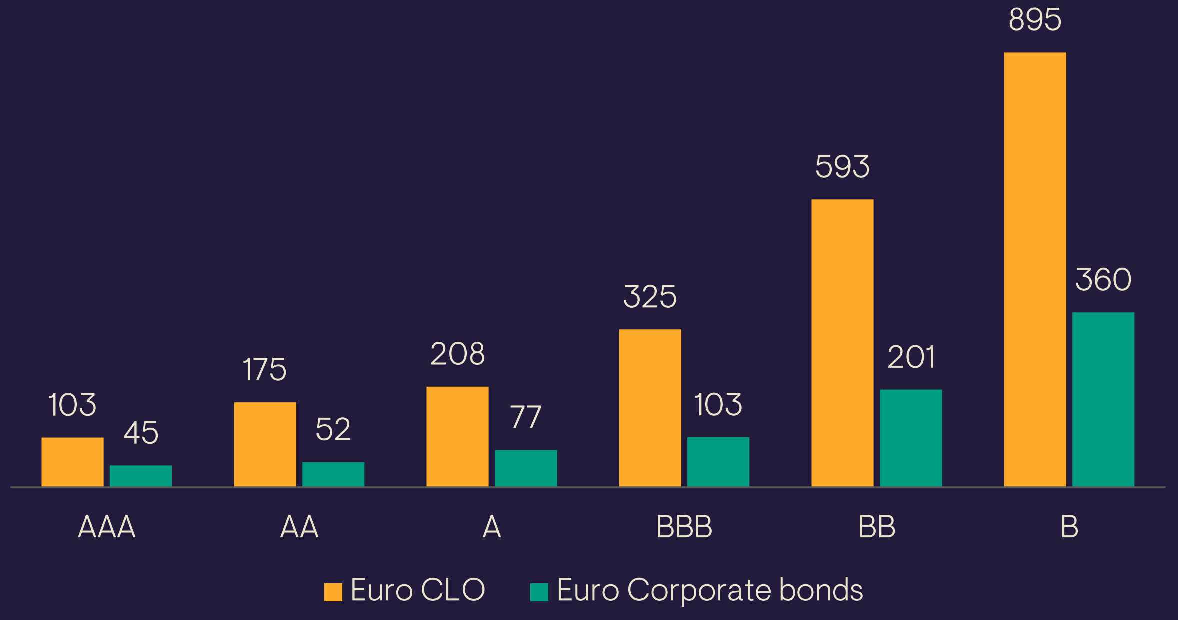


Source: ICE BofA, Bloomberg, JP Morgan, Citi, 31 May 2024. The percentage is the proportion of outstanding debt within the ICE BofA Global High Yield index that trades at a tighter spread than the headline spread of the respective indices. We use swap OAS and discount margins for Global Investment Grade (IG) and CLOs respectively and compare against Global High Yield (HY) swap option-adjusted spread (OAS). We use the spread over a 5/10yr Treasury blend for Agency MBS and compare against Global HY Government OAS. Global IG and HY data are from the ICE BofA Global Corporate Index (G0BC) and Global High Yield Constrained Index (HW0C) respectively. CLO discount margins are from Citi, and Agency MBS spreads are from JP Morgan

CLOs offer attractive risk-adjusted spreads

- CLOs offer higher spreads than equivalently rated corporate bonds, despite comparable historical loss rates
- Liquidity is arguably lower for CLOs, and structural complexity higher, but CLO investors are well compensated for these risks
- We factor CLOs historical trading characteristics into our relative value analysis

Euro CLO vs. Euro corporate bond spreads by rating



Euro CLO vs. European corporate bond annualised loss rates*

Source: Ninety One, ICE, Citi, Moody's. Spread data as of 18st September 2024. *Using 10yr cumulative loss rates for Global CLOs (1993-2021 and annualising). For corporates, we annualise 10yr default rates (1983) and apply the long term average (1987-2019) recovery rate for senior unsecured bonds of 47%

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