

A photograph of a dripstone wall at Wallenstein Palace in Prague. The wall is covered in numerous stalactites that resemble hands, which is the source of the term 'pareidolia'. The wall is dark grey and textured, with green foliage visible at the top and bottom edges.

FIXED INCOME DYNAMICS

PAREIDOLIA

Presented by: **Sidney McKinnon**

May 2026

Dripstone Wall - Wallenstein Palace, Prague

“PAREIDOLIA”

The psychological phenomenon where the *brain perceives familiar patterns*—most commonly faces—in random, vague, or inanimate objects.



The world is dealing with complex, noisy data.

- Macro Signals
- Geo-political tensions
- Central Bank Language

- Inflation Expectations
- Yield Curves
- Credit Spreads

This creates room for “**Pareidolia-like**” mistakes.



Humans are wired to find patterns, even when they don't exist.

- False Pattern Recognition in Yield Movements - “Patterns can be coincidental”.
- Overinterpreting Market Signals - “Assigning meaning to noise”.
- Narrative Bias in Macro Analysis - “Recession is coming”.
- Curve Shape Misinterpretation - “Not every inversion leads to recession”.
- Backtesting Illusions - “Finding ‘patterns’ in past data that don't persist”.



FRED — 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity



Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

fred.stlouisfed.org

The False Recession Signal – 2019 Yield Curve Inversion

cadiz
ASSET MANAGEMENT



— Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis



Source: Board of Governors of the Federal Reserve System (US) via FRED®
Shaded areas indicate U.S. recessions.

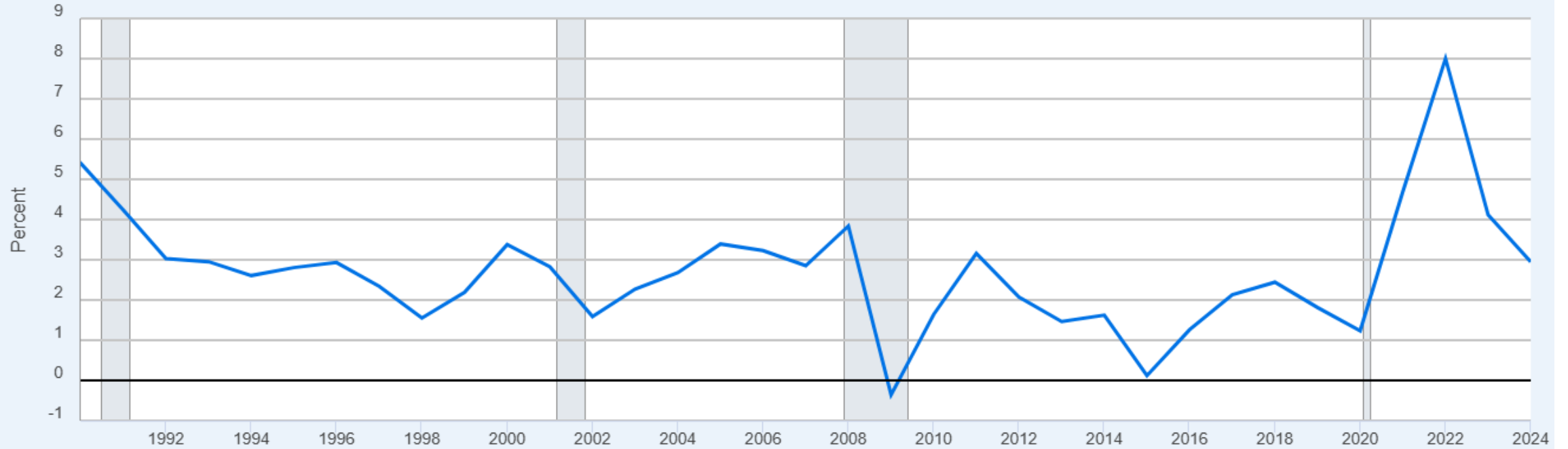
fred.stlouisfed.org

The “Taper Tantrum” Misread - 2013





— Inflation, consumer prices for the United States



Source: World Bank via FRED®
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

“Inflation is Transitory” – 2021

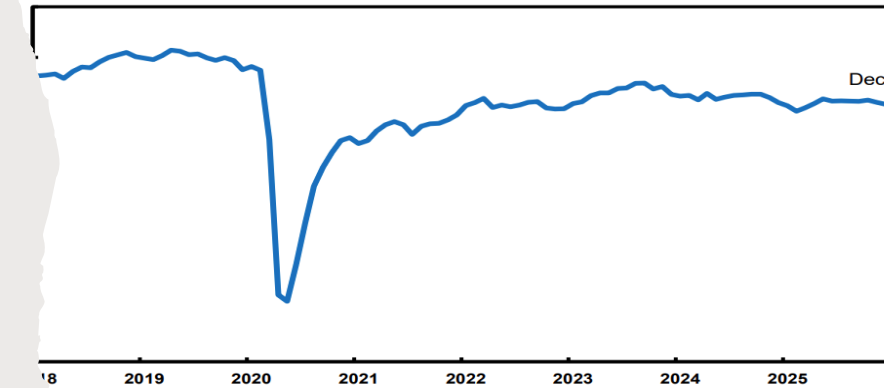
cadiz
ASSET MANAGEMENT

The “Everything Predicts Rates” Problem.

- Oil predicts yields.
- Currencies predict bonds.
- The coincident business cycle indicator always leads rates.

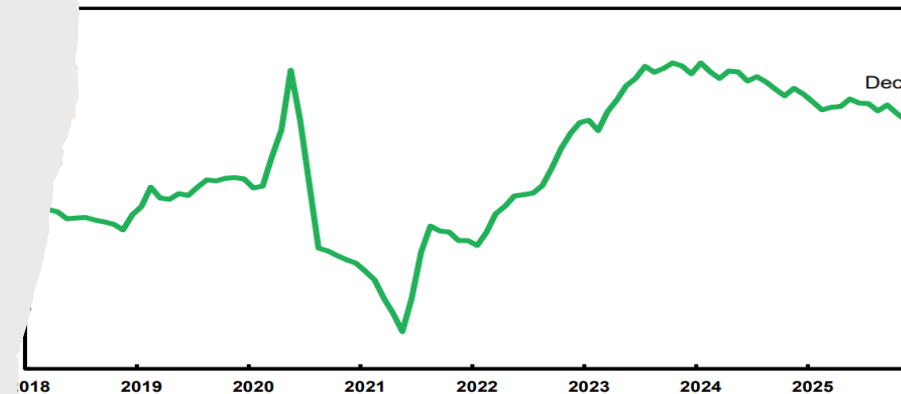
Composite coincident business cycle indicator

Index: 2019 = 100



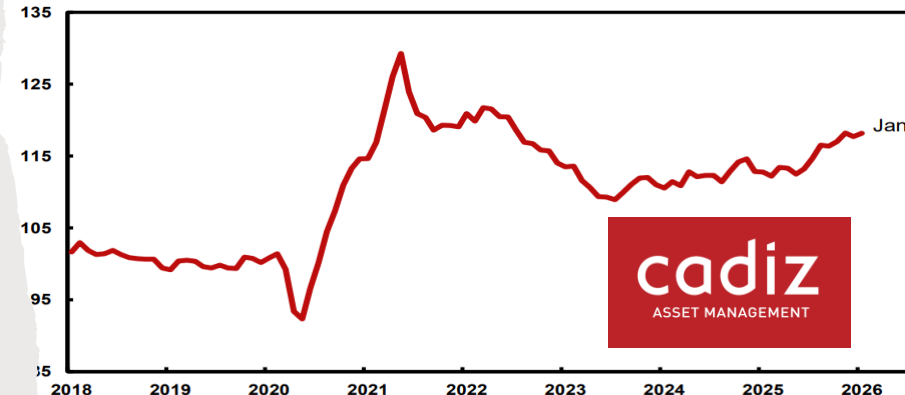
Composite lagging business cycle indicator

2019 = 100

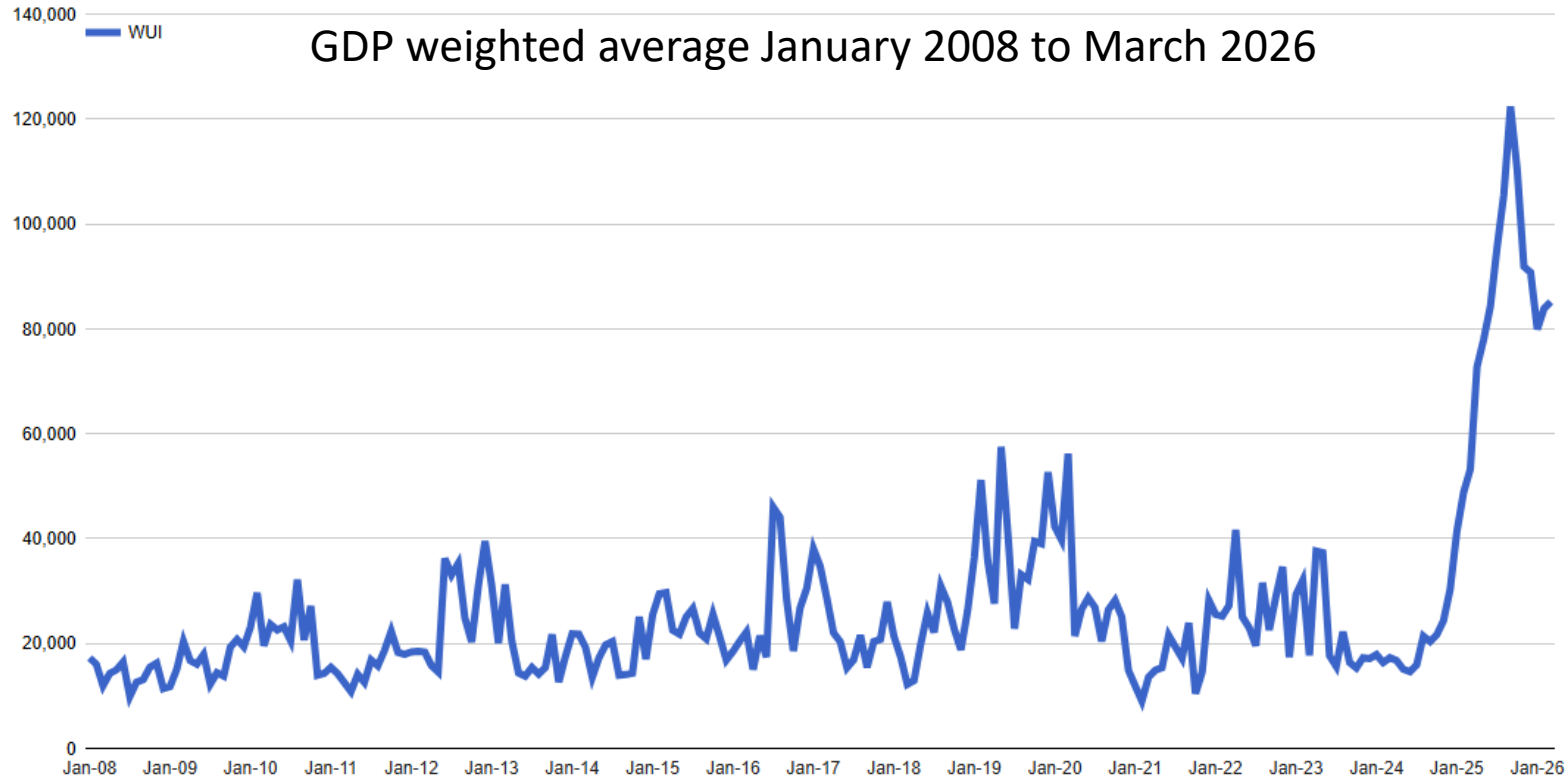


Composite leading business cycle indicator

Index: 2019 = 100



World Uncertainty Index (WUI): Global



Note: The WUI is computed by counting the percent of word "uncertain" (or its variant) in the Economist Intelligence Unit country reports. The WUI is then rescaled by multiplying by 1,000,000. A higher number means higher uncertainty and vice versa. For example, an index of 200 corresponds to the word uncertainty accounting for 0.02 percent of all words, which—given the EIU reports are on average about 10,000 words long—means about 2 words per report.



CNN Fear and Greed Index

Previous close

Greed 68

1 week ago

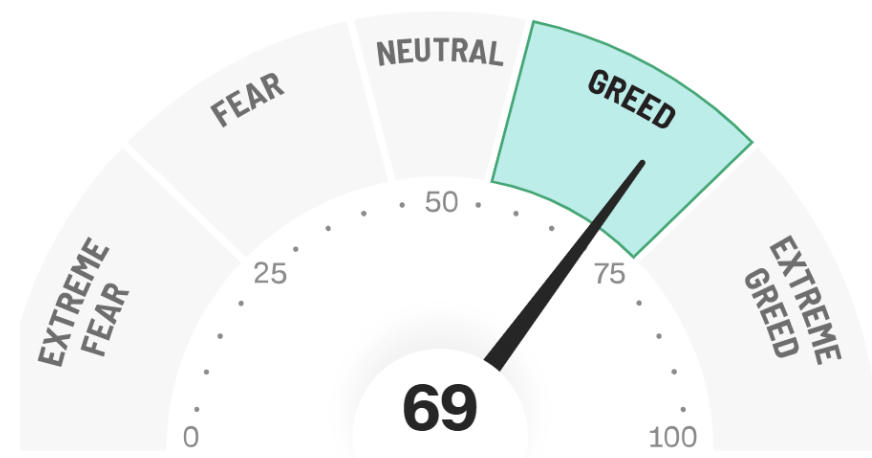
Greed 63

1 month ago

Extreme Fear 14

1 year ago

Extreme Fear 21

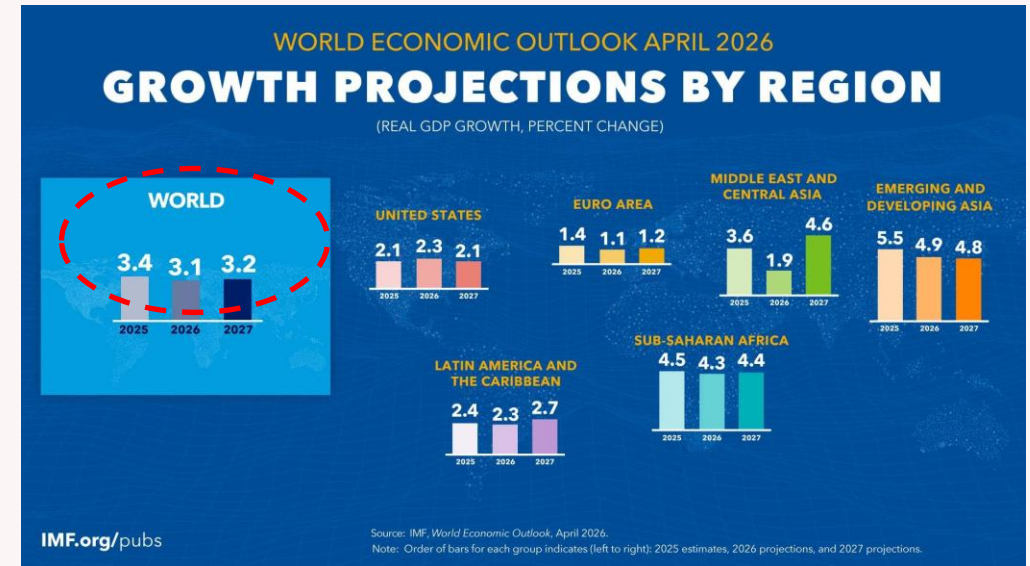
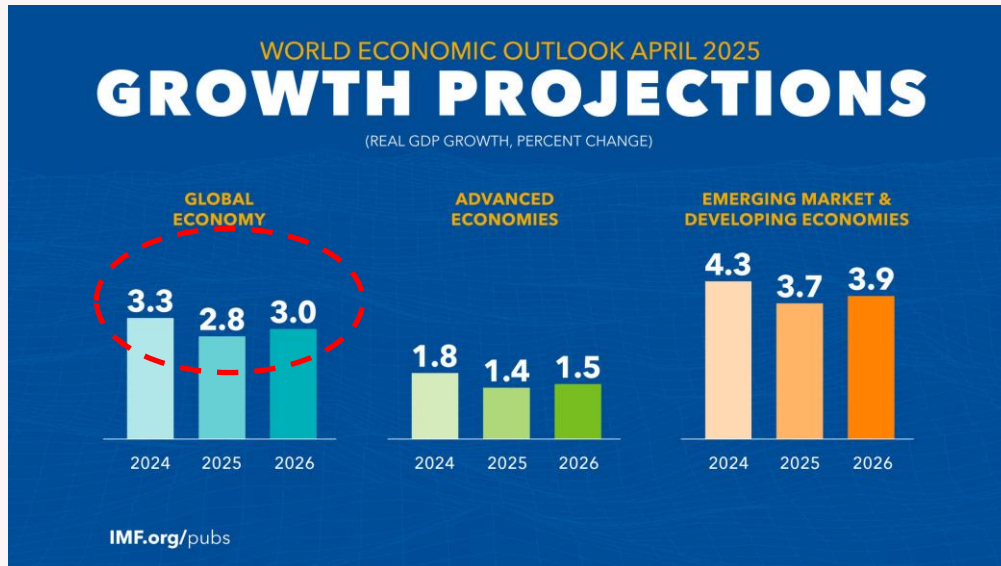


- Market Momentum
- Stock Price Strength
- Stock Price Breadth
- Put and Call Options
- Market Volatility
- Safe Haven Demand
- Junk Bond Demand



Global Growth

“Global Economy in the Shadow of War”



The **downward revisions** for 2026 largely reflects the disruptions from the conflict in the Middle East.

The global economy might look **relatively stable on paper**.

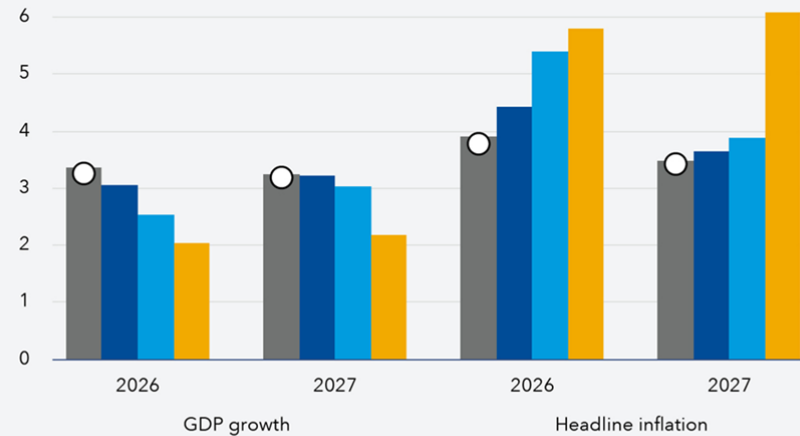
A few countries (ones that depend on imports) are facing much more **severe economic damage**.

Global Inflation

The duration and scale of the conflict will shape the global outlook

Percent

- April 2026 WEO (pre-conflict)
- April 2026 WEO (reference forecast)
- January 2026 WEO
- Adverse scenario
- Severe scenario

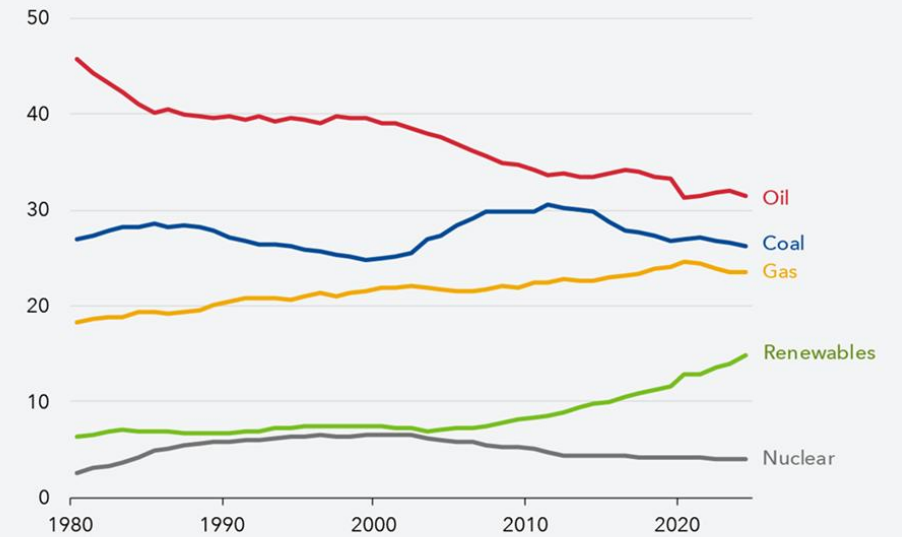


Sources: IMF, April 2026 World Economic Outlook; and IMF staff calculations.



The world's energy mix still relies heavily on fossil fuels

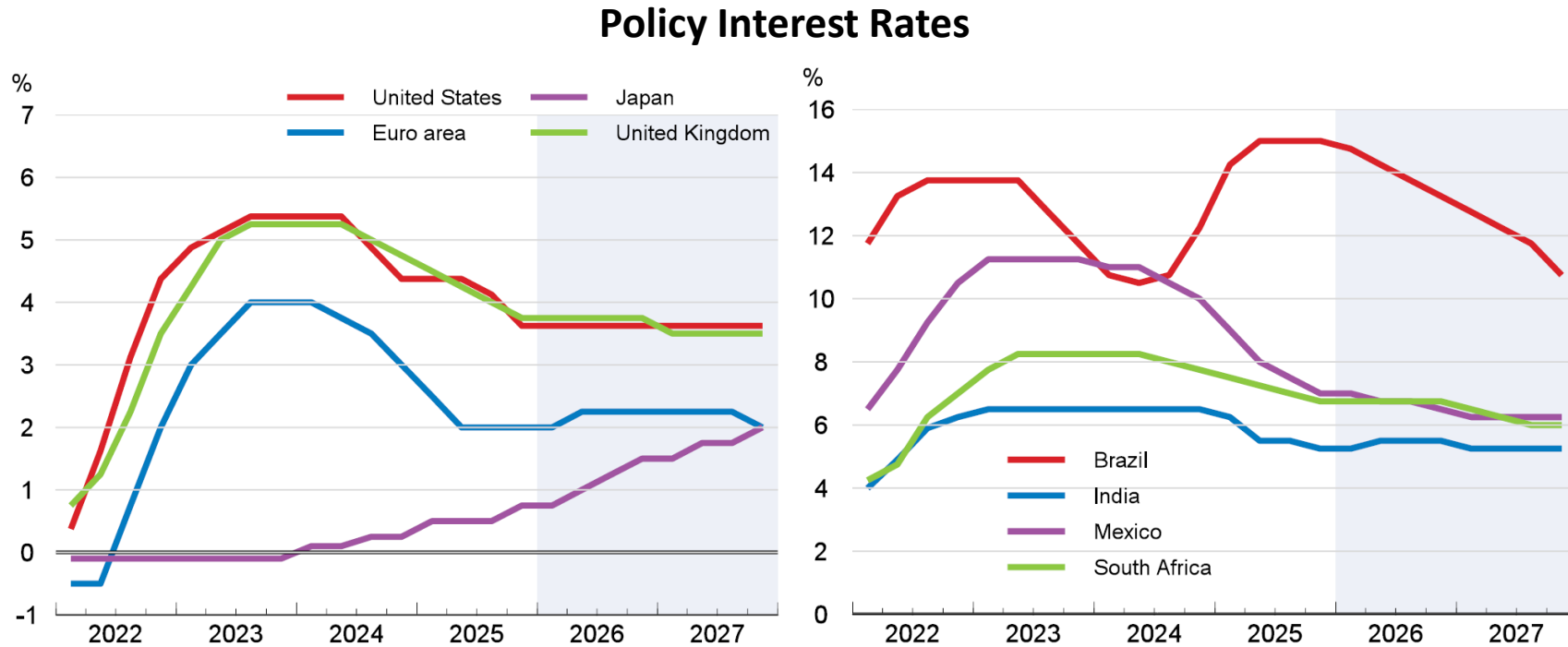
Percent of global energy consumption by source



Sources: Energy Institute; and IMF staff calculations. Note: Renewables includes hydropower, wind, solar, biofuels, geothermal, biomass, and waste energy.



Global Monetary Policy



- Policy rate paths are **diverging** across countries.
- Central banks need to remain vigilant and attentive to shifts in the **balance of risks**.
- The current supply-induced rise in global energy prices can be looked through provided **inflation expectations** remain well-anchored.

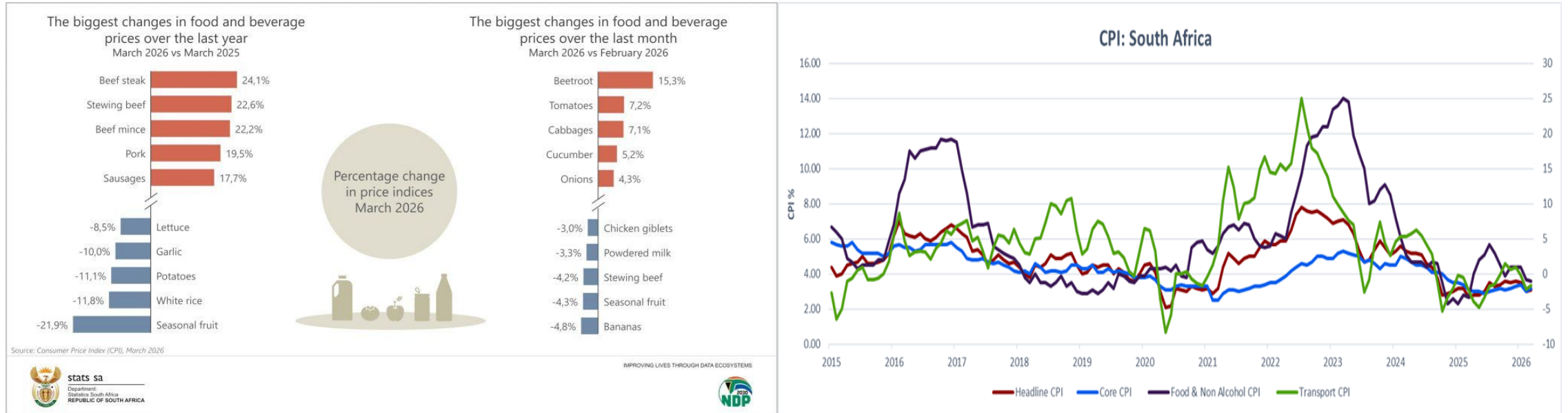
Local Growth

Domestic **GDP was up 0.4% QoQ** for the 4th quarter of 2025.



- **Gains** in growth spurred by:
 - Improvement in freight passage at **Transnet**.
 - End of rolling **blackouts**.
 - Removal from the **Grey List**.
 - An **upgrade** by S&P.
- Significant progress has been made in a number of key areas of the economy, with **Operation Vulindlela** phase 2 launched in May.
- **Unemployment** remains high.
- Business and consumer **confidence remains weak**.

Local Inflation

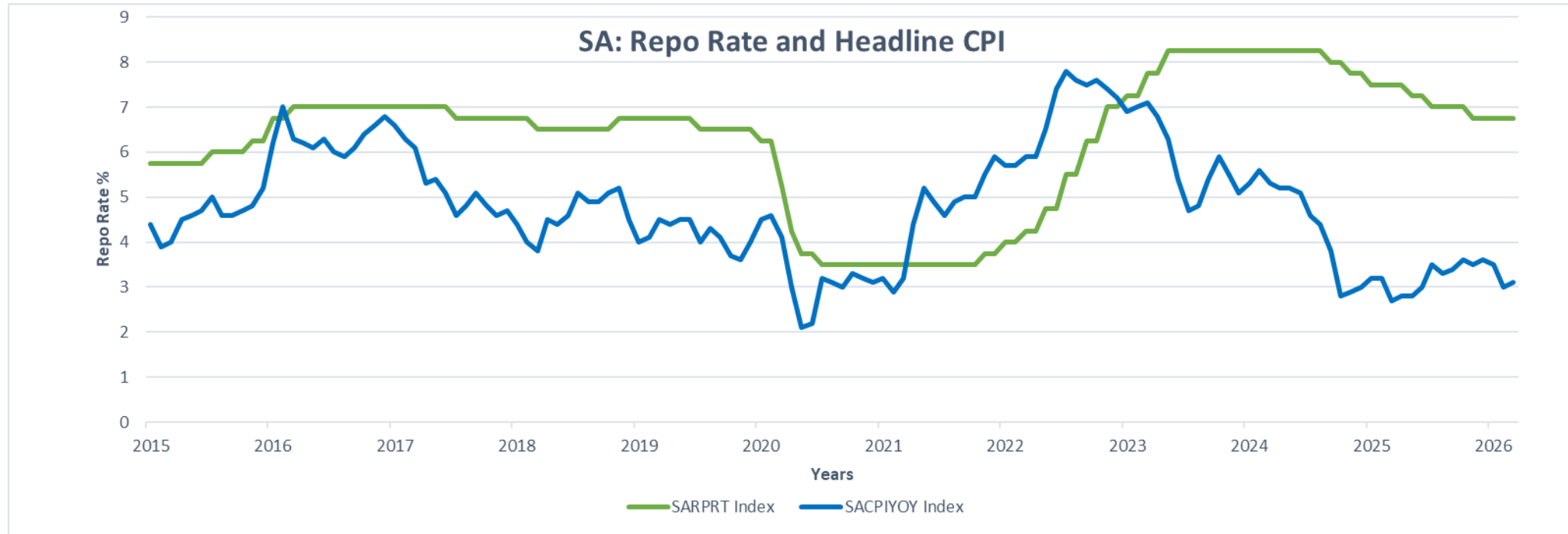


- **Inflation expectations** are critical to the inflation outlook.
- **Oil price shock** only coming through in April's CPI inflation data.

- The effects on inflation will be **less quick to disperse**.

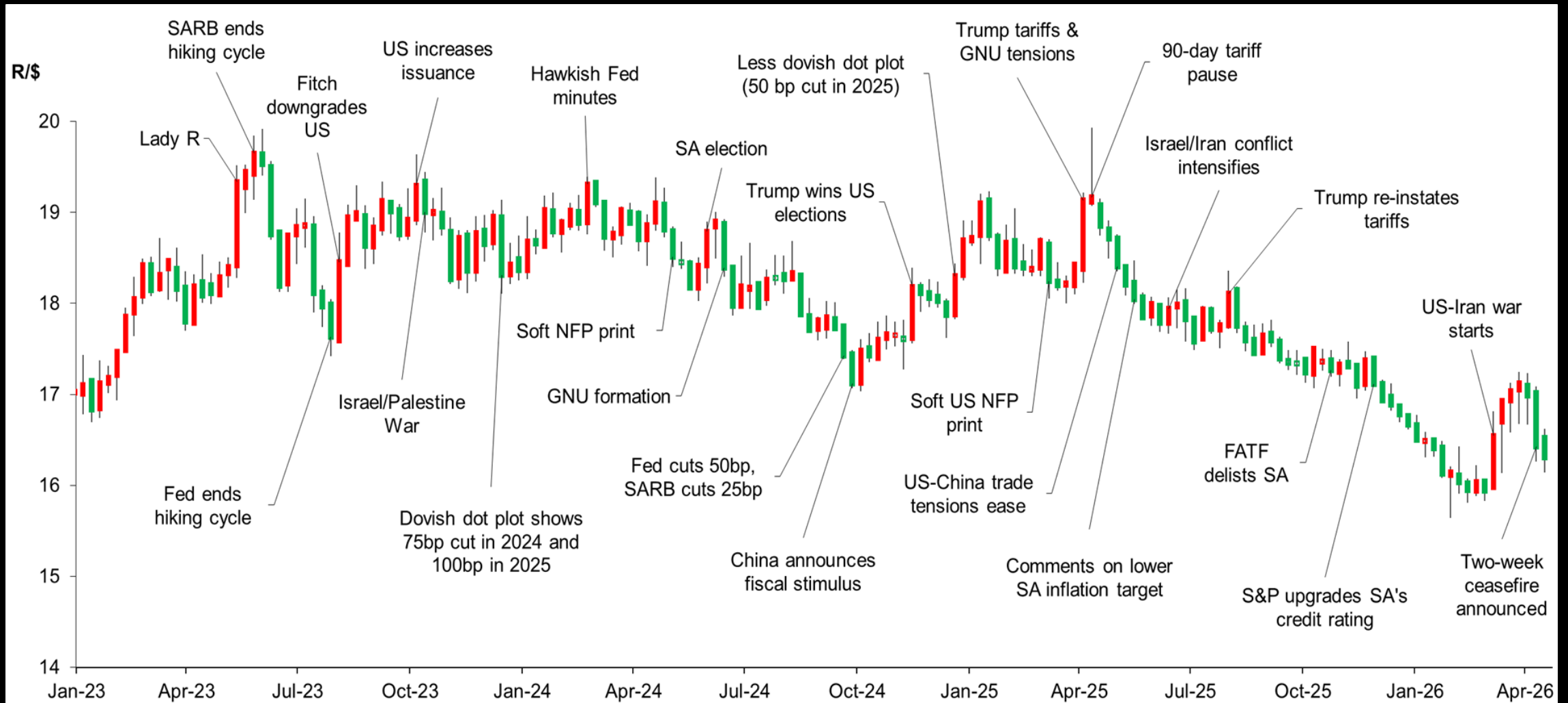
Local Monetary Policy

The upcoming months will be critical “for assessing the longer-term inflation consequences”. - SARB

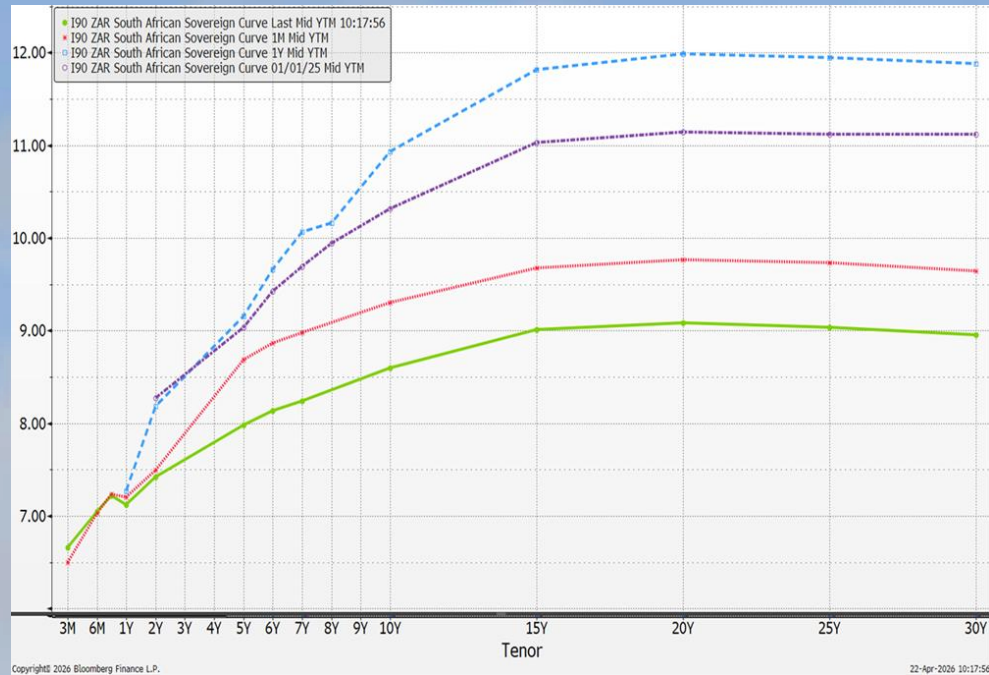


- **SARB QPM** indicating rates to remain unchanged for longer.
- The SARB assess the **risks to the inflation outlook** now to the **upside**.
- The **Middle East conflict** complicates the outlook for inflation and policy.

Rand Reaction To Past Events



Yield Curve Positioning

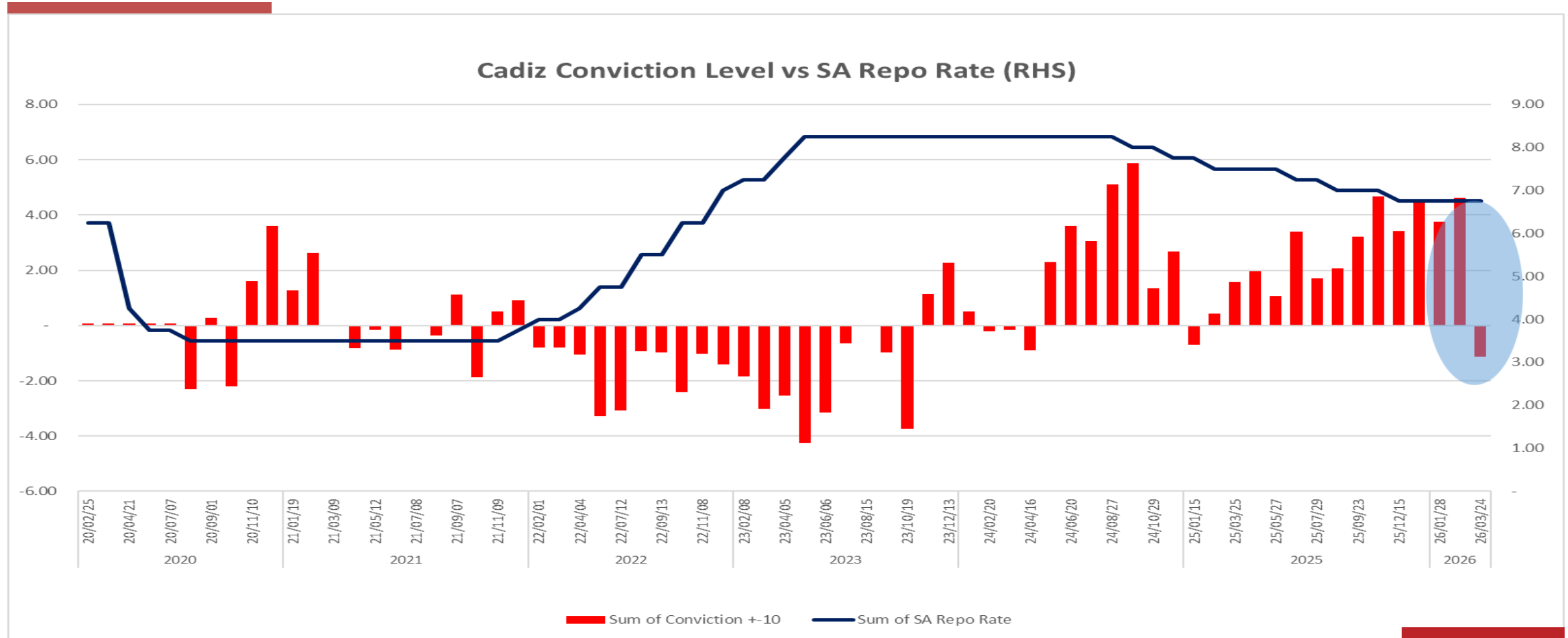


Further **rate cuts** no longer imminent.

Fundamental analysis indicate **yields are overvalued in the back end.**

Has **monetary policy** peaked?

Cadiz Conviction



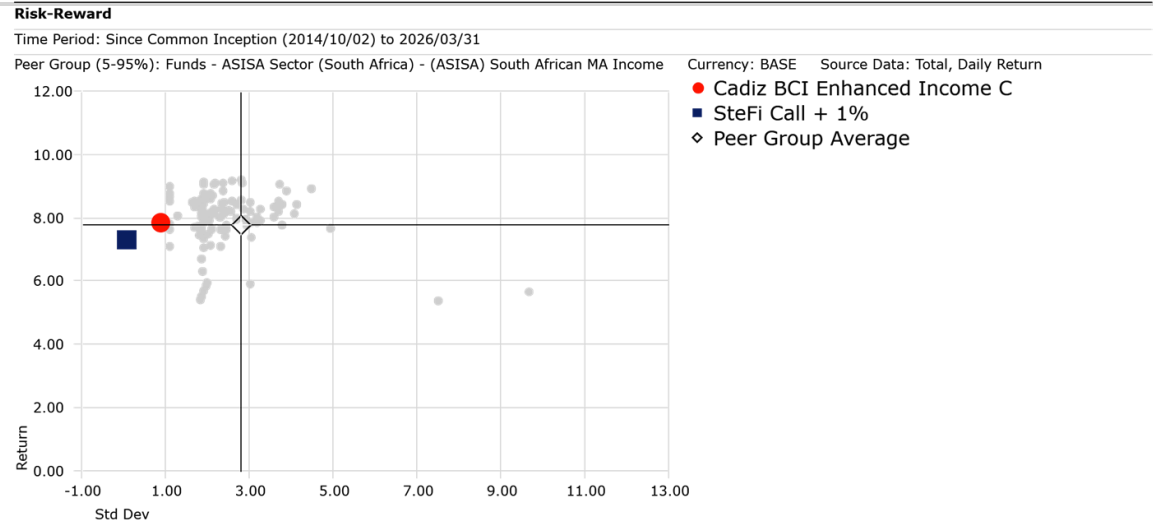
Source: Bloomberg / Cadiz Asset Management



Cadiz BCI Enhanced Income Fund

- Benchmark: STeFI Call Deposit + 1% p.a.
- Regulation 28: Compliant
- Fund Size: R2.75bn
- Uses credit to enhance return
- More than 200 counters across more than 40 issuers
- No equity, property or international fixed income holdings
- Designed for all market conditions – short duration positioning
- Low variability of returns, only 3 negative months since inception (11/2014)

Source: Morningstar Direct



Correlation Matrix
 Time Period: Since Common Inception (2014/10/02) to 2026/03/31
 Currency: BASE Source Data: Total, Daily Return

	Cadiz BCI Enhanced Income C	SteFi Call + 1%	(ASISA) South African MA Income
Cadiz BCI Enhanced Income C	1.00	0.09	0.51
SteFi Call + 1%	0.09	1.00	0.04
(ASISA) South African MA Income	0.51	0.04	1.00

Legend for Correlation Matrix:
 1.00 to 0.80 (Dark Blue), 0.80 to 0.60 (Medium Blue), 0.60 to 0.40 (Light Blue), 0.40 to 0.20 (Very Light Blue), 0.20 to 0.00 (White)
 0.00 to -0.20 (Light Orange), -0.20 to -0.40 (Medium Orange), -0.40 to -0.60 (Dark Orange), -0.60 to -0.80 (Red-Orange), -0.80 to -1.00 (Red)

Morningstar performance reported for C Class net of fees in ZAR as at 31/03/2026 (ASISA) South African MA Income.

Annualised return is the weighted compound growth rate over the period measured.

Benchmark: STeFI Call +1% pa ZAR from 01/10/2014.
 Highest Calendar Year Return 10.29%; Lowest Calendar Year Return 5.25%; Standard Deviation 1.29% (1 Year) & 1.00% (3 Years)

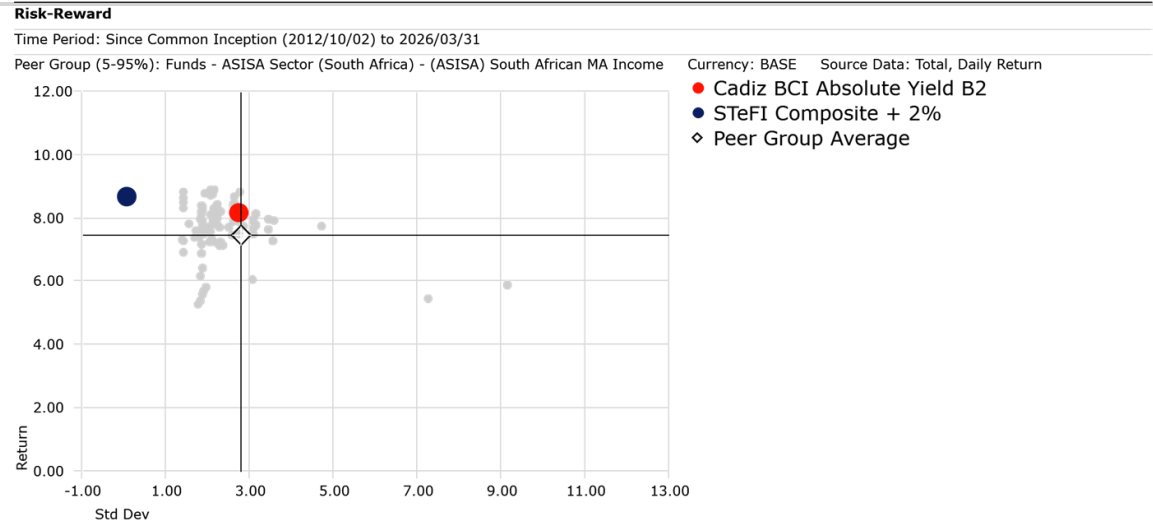
10-year Annualised Return - Fund (C class): 8.04%
 10-year Annualised Return - Benchmark: 7.37%



Cadiz BCI Absolute Yield Fund

- Benchmark: STeFI Composite + 2% p.a.
- Regulation 28: Compliant
- Fund Size: R2.07bn
- Actively managed duration positioning via fixed and floating rate exposure
- High liquidity
- No equity, property or international fixed income holdings
- Maximum 5% in USD
- Highly competitive performance relative to peers

Source: Morningstar Direct



Correlation Matrix
 Time Period: Since Common Inception (2012/10/02) to 2026/03/31
 Currency: BASE Source Data: Total, Daily Return

	Cadiz BCI Absolute Yield B2	STeFI Composite + 2%	(ASISA) South African MA Income
Cadiz BCI Absolute Yield B2	1.00	0.03	0.62
STeFI Composite + 2%	0.03	1.00	0.04
(ASISA) South African MA Income	0.62	0.04	1.00

Legend for Correlation Matrix:
 1.00 to 0.80 (Dark Blue), 0.80 to 0.60 (Medium Blue), 0.60 to 0.40 (Light Blue), 0.40 to 0.20 (Very Light Blue), 0.20 to 0.00 (White)
 0.00 to -0.20 (Light Orange), -0.20 to -0.40 (Medium Orange), -0.40 to -0.60 (Dark Orange), -0.60 to -0.80 (Very Dark Orange), -0.80 to -1.00 (Black)

Source: Morningstar Direct

Morningstar performance reported for B2 Class net of fees in ZAR as at 31/03/2026 (ASISA) South African MA Income. Annualised return is the weighted compound growth rate over the period measured

Benchmark: STeFI Composite +2% pa ZAR from 01/07/2017 (SA CPI + 3% to 30/06/2017), Highest Calendar year Return 13.62%; Lowest Calendar Return 5.24%; Max drawdown -2.20% (3 Years); Standard Deviation 3.58% (1 Year) & 3.02% (3 Years)

10-year Annualised Return - Fund (B2 class): 8.82%
 10-year Annualised Return - Benchmark: 8.92%



The biggest risk isn't just being wrong.....

It's being confidently wrong because a ***pattern looks real.***



THANK YOU NDZA KHENSA

T: 0800 02 23 49

E: info@cadiz.co.za

Alphen Estate, Alphen Drive,
Constantia Cape Town, South
Africa

www.cadiz.co.za

cadiz
ASSET MANAGEMENT

IMPORTANT INFORMATION

Physical Address:

Alphen Estate
Alphen Drive
Constantia, 7708
Cape Town
www.cadiz.co.za

This document is confidential and issued for the information of the addressee and clients of Cadiz only. It is subject to copyright and may not be reproduced in whole or in part without the written permission of Cadiz. The information, opinions and recommendations contained herein are and must be construed solely as statements of opinion and not statements of fact. No warranty, expressed or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such recommendation or information is given or made by Cadiz in any form or manner whatsoever. Each recommendation or opinion must be weighed solely as one factor in any investment or other decision made by or on behalf of any user of the information contained herein and such user must accordingly make its own study and evaluation of each strategy/security that it may consider purchasing, holding or selling and should appoint its own investment or financial or other advisers to assist the user in reaching any decision. Cadiz will accept no responsibility of whatsoever nature in respect of the use of any statement, opinion, recommendation or information contained in this document.

This document is for information only and do not constitute advice or a solicitation for funds. Investors should note that the value of an investment is dependent on numerous factors including, but not limited to, share price fluctuations, interest and exchange rates and other economic factors. Performance is further affected by uncertainties such as changes in government policy, taxation and other legal or regulatory developments. Past performance provides no guarantee of future performance.

Cadiz Asset Management (Pty) Ltd (Reg. No. 2013/118580/07) is an authorized financial services provider (FSP 45442)

Boutique Collective Investments (RF) (Pty) Ltd ("BCI") is a registered Manager of the Boutique Collective Investments Scheme, approved in terms of the Collective Investments Schemes Control Act, No 45 of 2002 and is a full member of the Association for Savings and Investment SA. Collective Investment Schemes in securities are generally medium to long term investments. The value of participatory interests may go up or down and past performance is not necessarily an indication of future performance. The Manager does not guarantee the capital or the return of a portfolio. Collective Investments are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees, charges and maximum commissions is available on request. BCI reserves the right to close the portfolio to new investors and reopen certain portfolios from time to time in order to manage them more efficiently. Additional information, including application forms, annual or quarterly reports can be obtained from BCI, free of charge.

Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Actual annual figures are available to the investor on request.

Investments in foreign securities may include additional risks such as potential constraints on liquidity and repatriation of funds, macroeconomic risk, political risk, foreign exchange risk, tax risk, settlement risk as well as potential limitations on the availability of market information.

Boutique Collective Investments (RF) Pty Ltd retains full legal responsibility for the third party named portfolio.

Although reasonable steps have been taken to ensure the validity and accuracy of the information in this document, BCI does not accept any responsibility for any claim, damages, loss or expense, however it arises, out of or in connection with the information in this document, whether by a client, investor or intermediary. This document should not be seen as an offer to purchase any specific product and is not to be construed as advice or guidance in any form whatsoever. Investors are encouraged to obtain independent professional investment and taxation advice before investing with or in any of BCI/the Manager's products.

Income funds derive their income from interest-bearing instruments in accordance with Section 100(2) of the Act. The yield is a current yield and is calculated daily.

Access the BCI Privacy Policy and the BCI Terms and Conditions on the BCI website (www.bcis.co.za).