

# Methodical Investment Management Fixed Income

The new 'new normal' and the impact on fixed income  
returns



# Methodical Investment Management

## Introduction

### *Firm background*

- Established Jan 2016: Independent, specialist boutique asset manager
- Majority owned by Management and employees
- Offering a broad range of Unit Trust funds across the risk spectrum - Fixed Income, Multi-Asset, Equity and Global

➤ Total AUM: R8.2bn

### *Fixed Income franchise*

- Launched January 2021
- Grown from R600m to R2,5bn in AUM
- Income and Bond mandates as well as bespoke Segregate mandates

# JP du Plessis

- 25+ years in financial markets
- 12 yrs in London looking at global fixed income in long only and hedge funds
- 13 years managing fixed income in SA
- 10 years at Prescient - deputy head of fixed income
- 3 years head of FI franchise at Methodical

**S&P Global Ratings**

American credit rating agency

**S&P**  
Ratings

**Schroders**

Asset management company



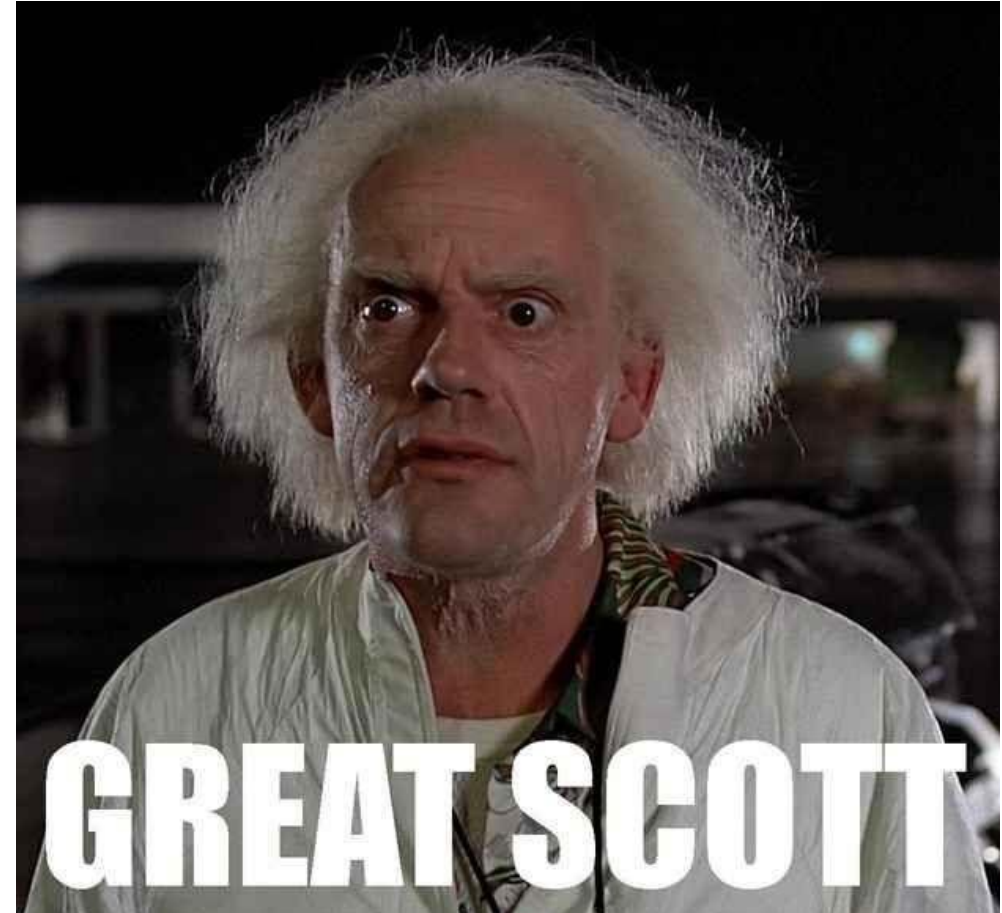
**Prescient**



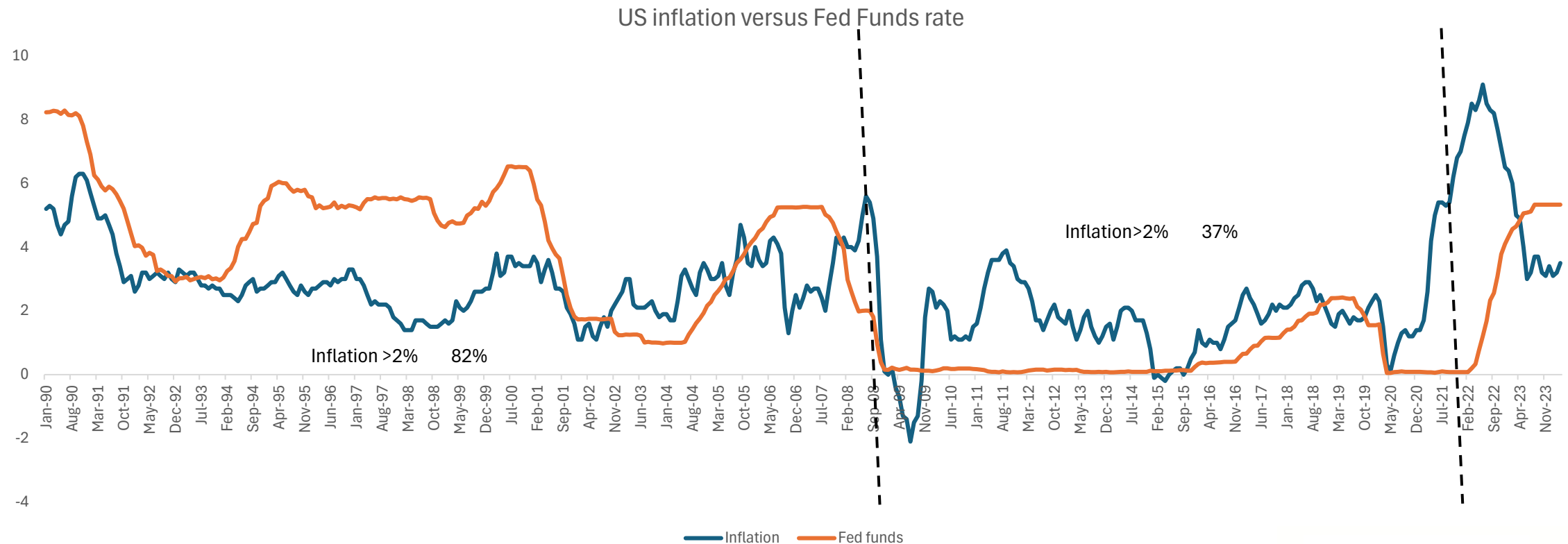
# The new 'new normal' and the impact on fixed income returns

Have we gone back in time?

- Is the 'new normal' post GFC over?
- What does this new regime look like?
- What does this mean for investors?

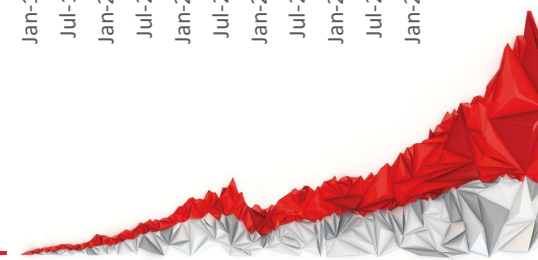
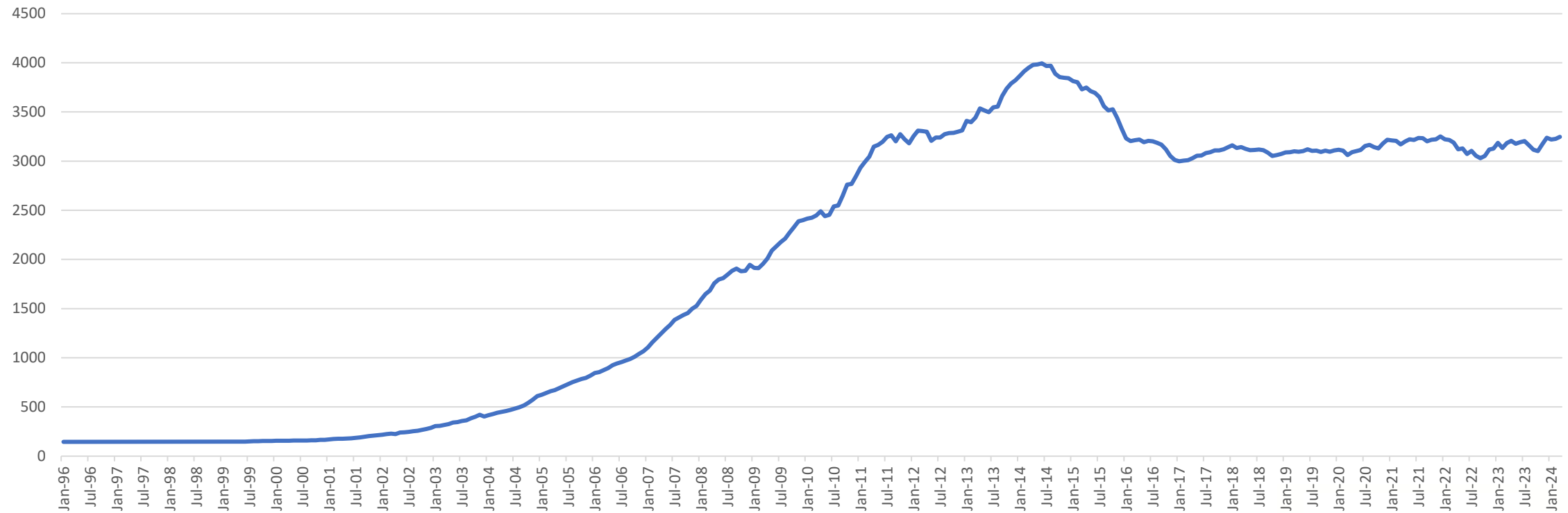


# US inflation and interest rates – how successful has the Fed been?



# China buying dollars – exporting disinflation

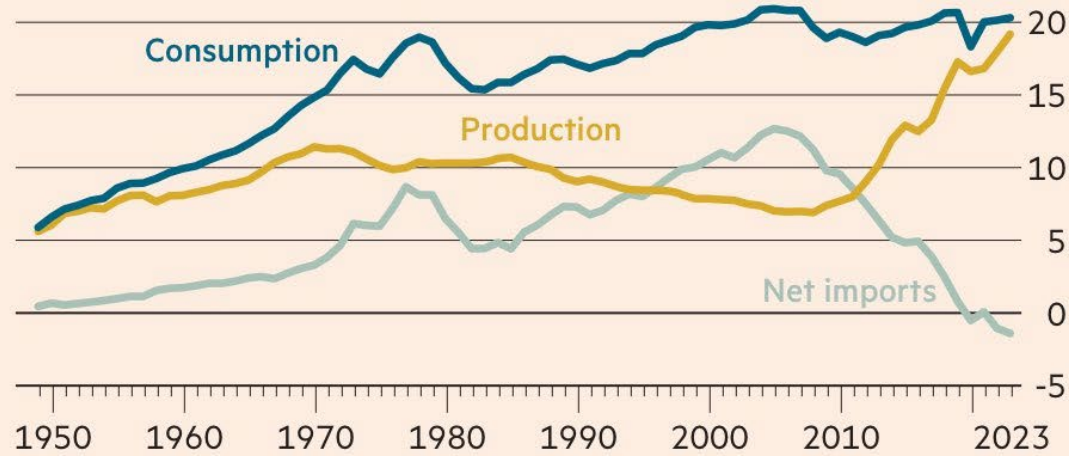
China Forex reserves



# US Oil

## As US oil production has surged, its reliance on imports has fallen

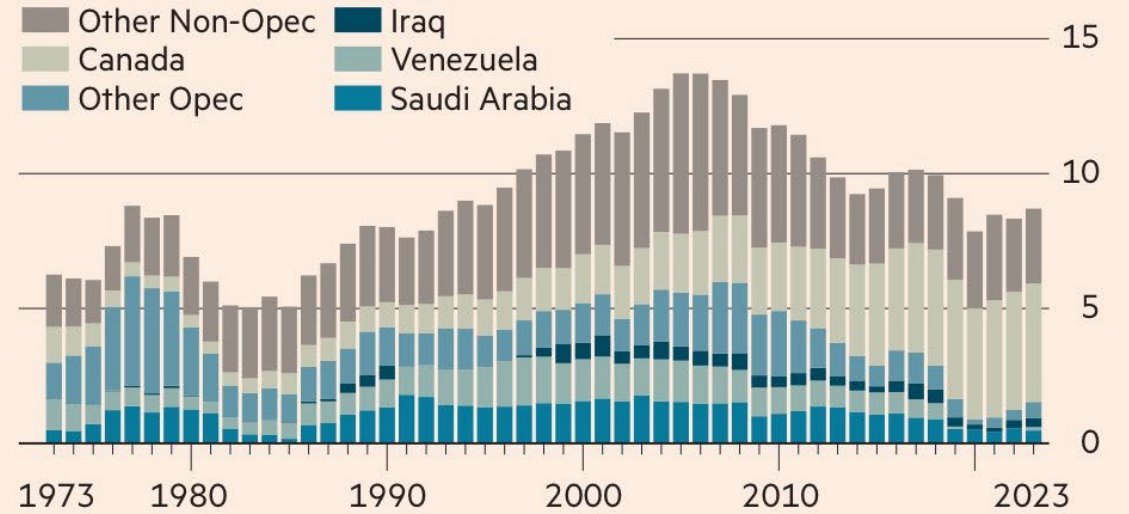
Petroleum products (mn barrels a day)



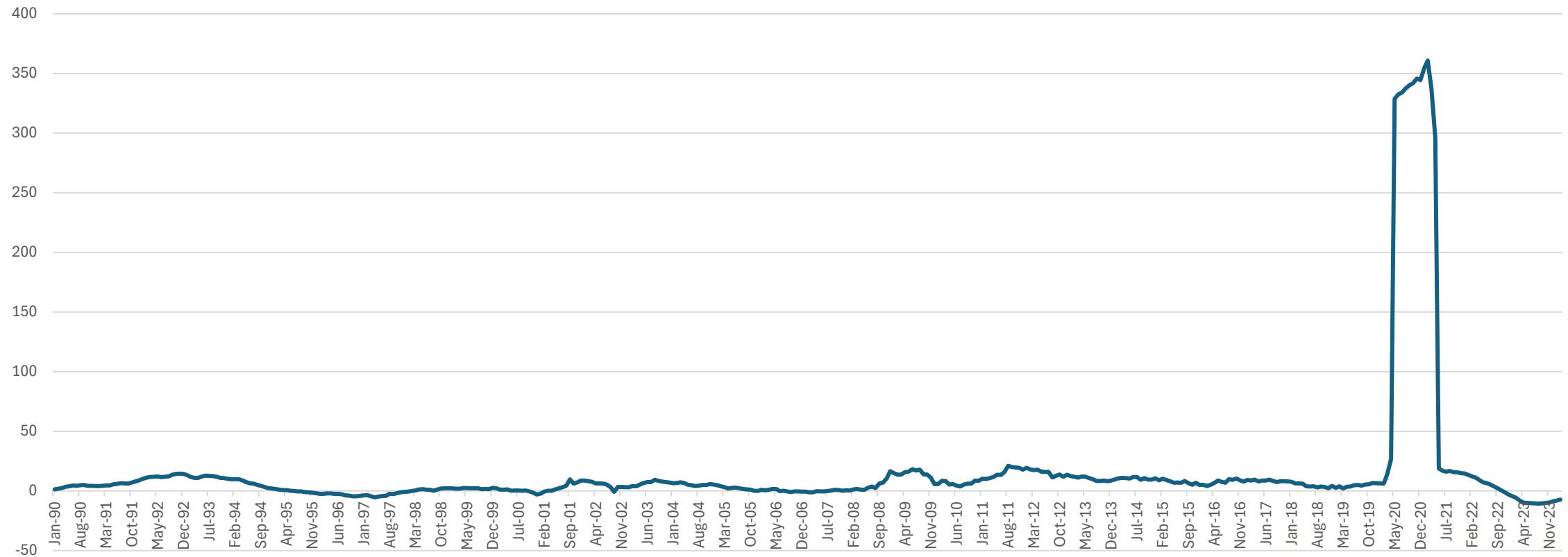
Source: US Department of Energy

## US imports much less Middle Eastern oil than it used to

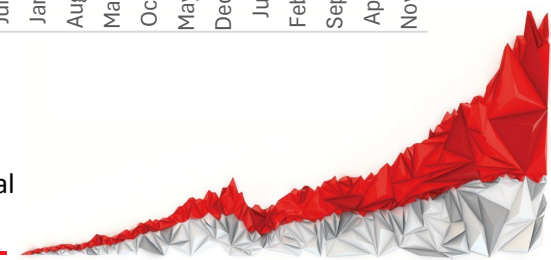
Crude oil imports (mn barrels a day)



# Money growth – the bazooka



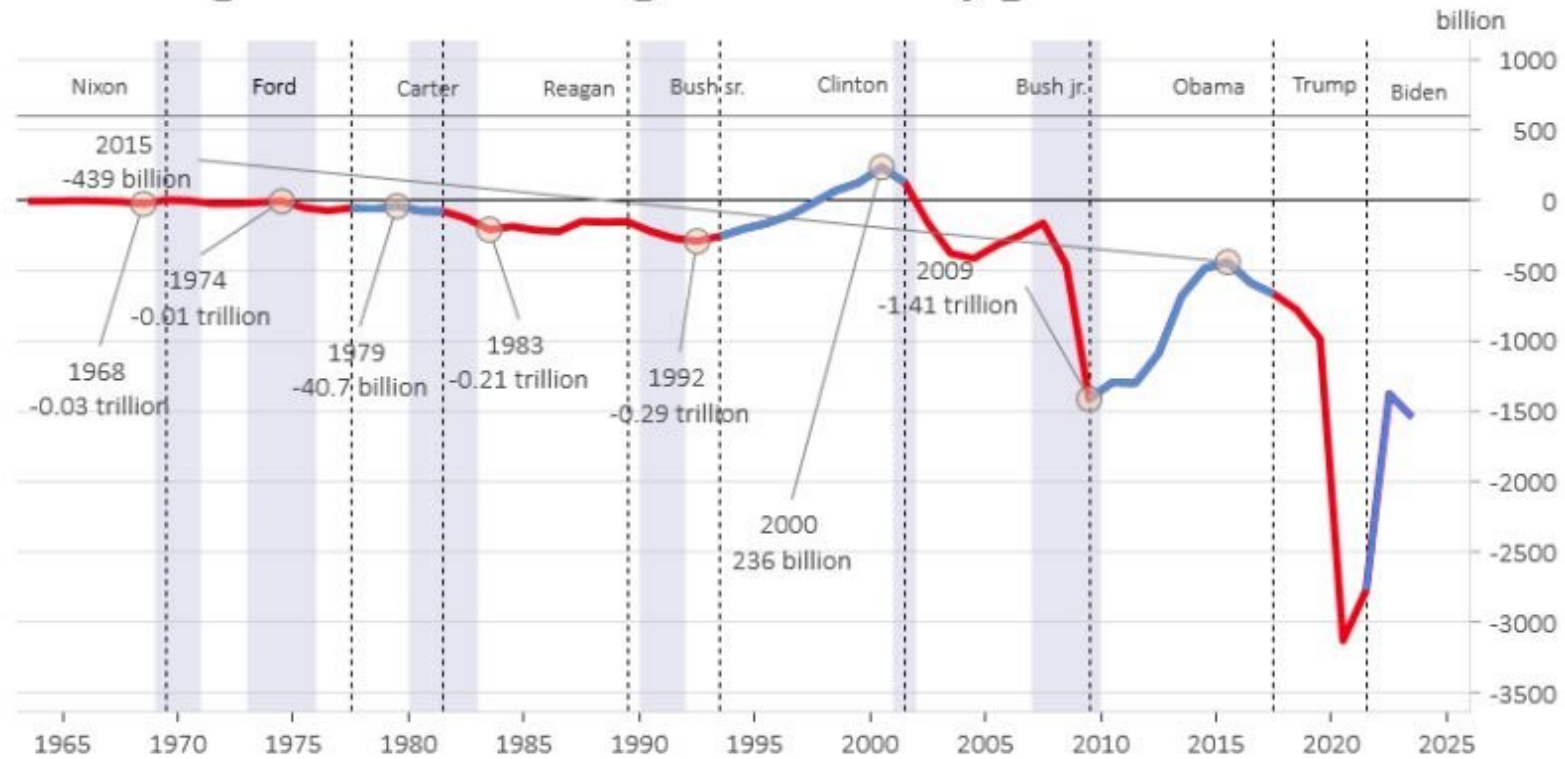
Source: Bloomberg/ Methodical





# US Fiscal deficits

## Federal government budget balance by president

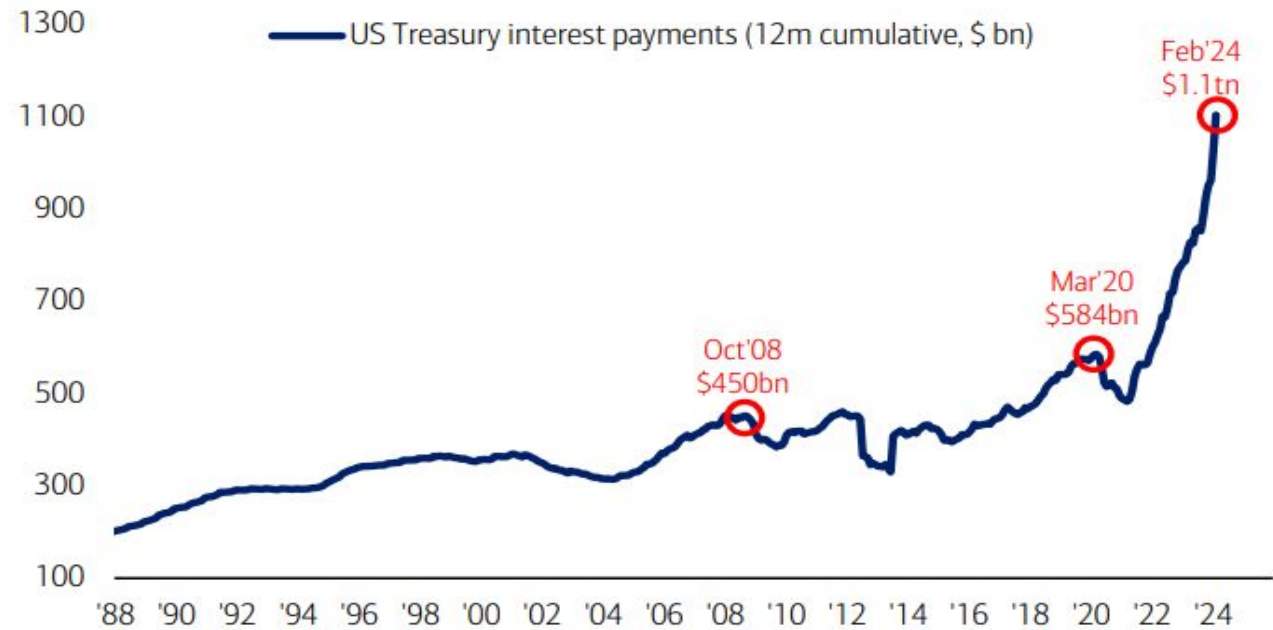


Source : Nomura CIO, Macrobond



# US debt servicing

**Chart 2: Surging cost of US government debt... "Interest Cost Control" by Fed**  
US Treasury interest payments (\$ bn, 12-month cumulative)

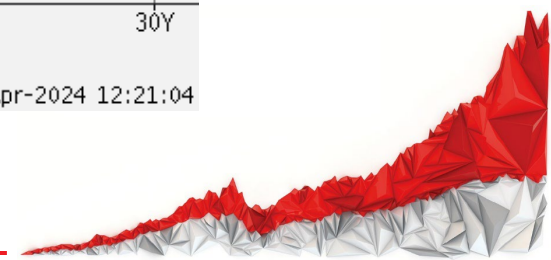
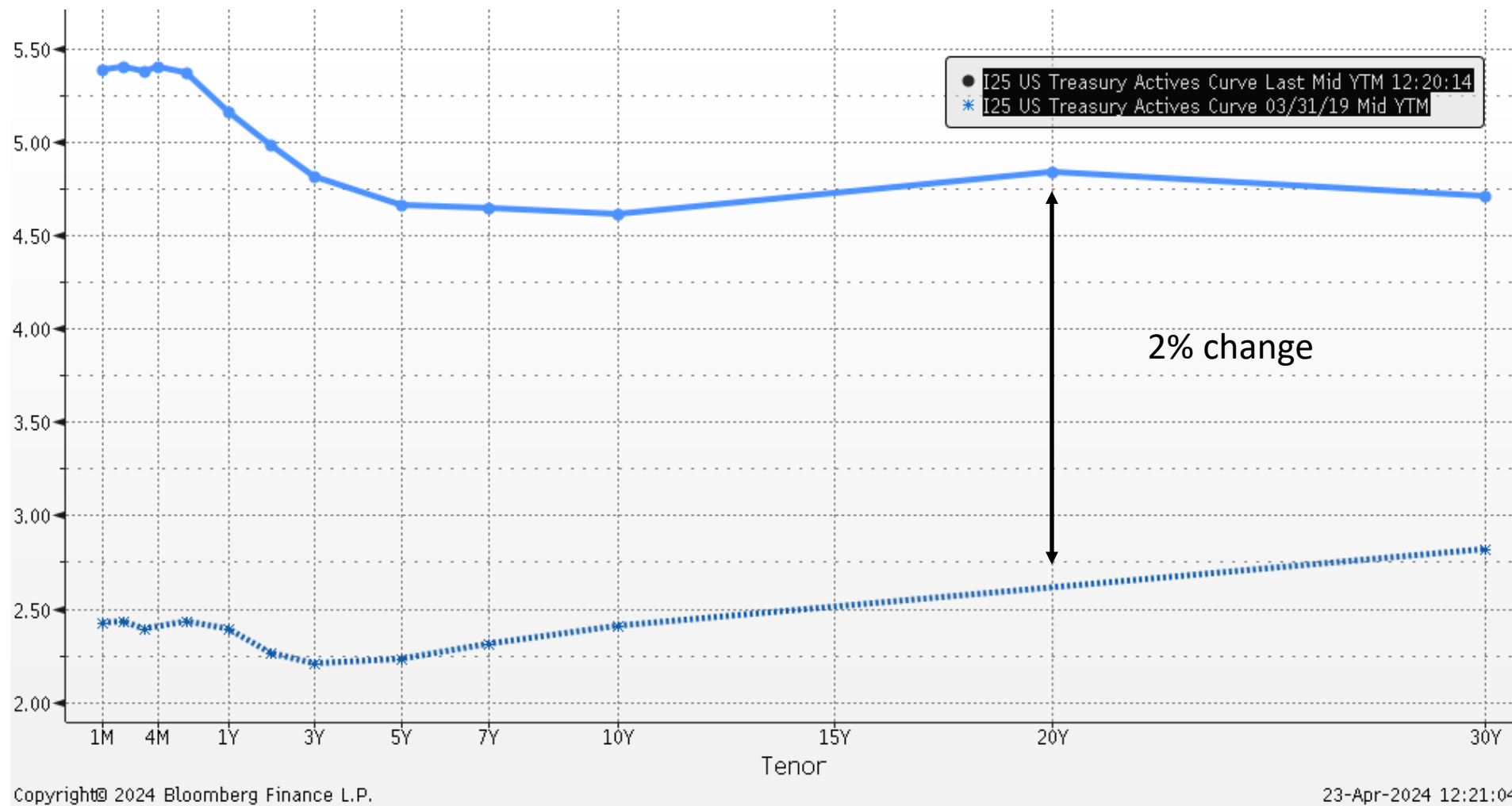


Source: BofA Global Investment Strategy, Haver

BofA GLOBAL RESEARCH



# US treasuries



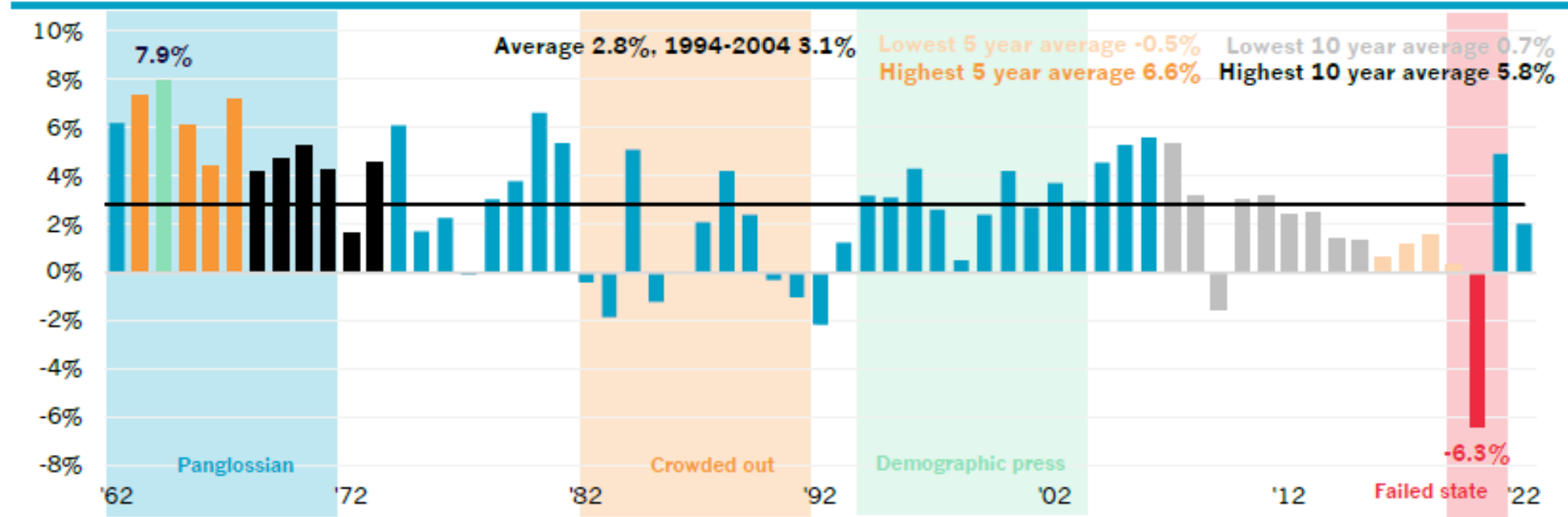
# SA outlook

1. **Panglossian: is the outermost positive point**, defined as *overly optimistic*; SA's real GDP will increase at a CAGR of at least 4% as achieved in the late 60's or for the period preceding 2004,
2. **Demographic press**: SA's real GDP will increase at a CAGR between 2% and 4% as South Africa's working-age population expands,
3. **Crowded out**: SA's real GDP will increase at a CAGR between 0% to 2%, as high public borrowing keeps real interest rates high, limiting investment,
4. **Failed state: is the other point bounding the probability distribution**; SA's real GDP will decline.

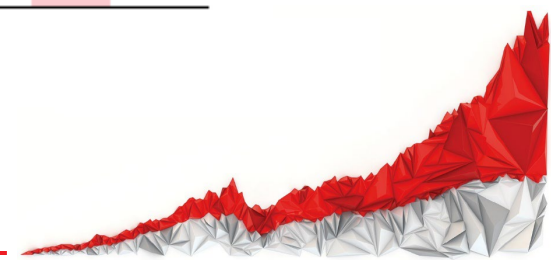


# Past regimes

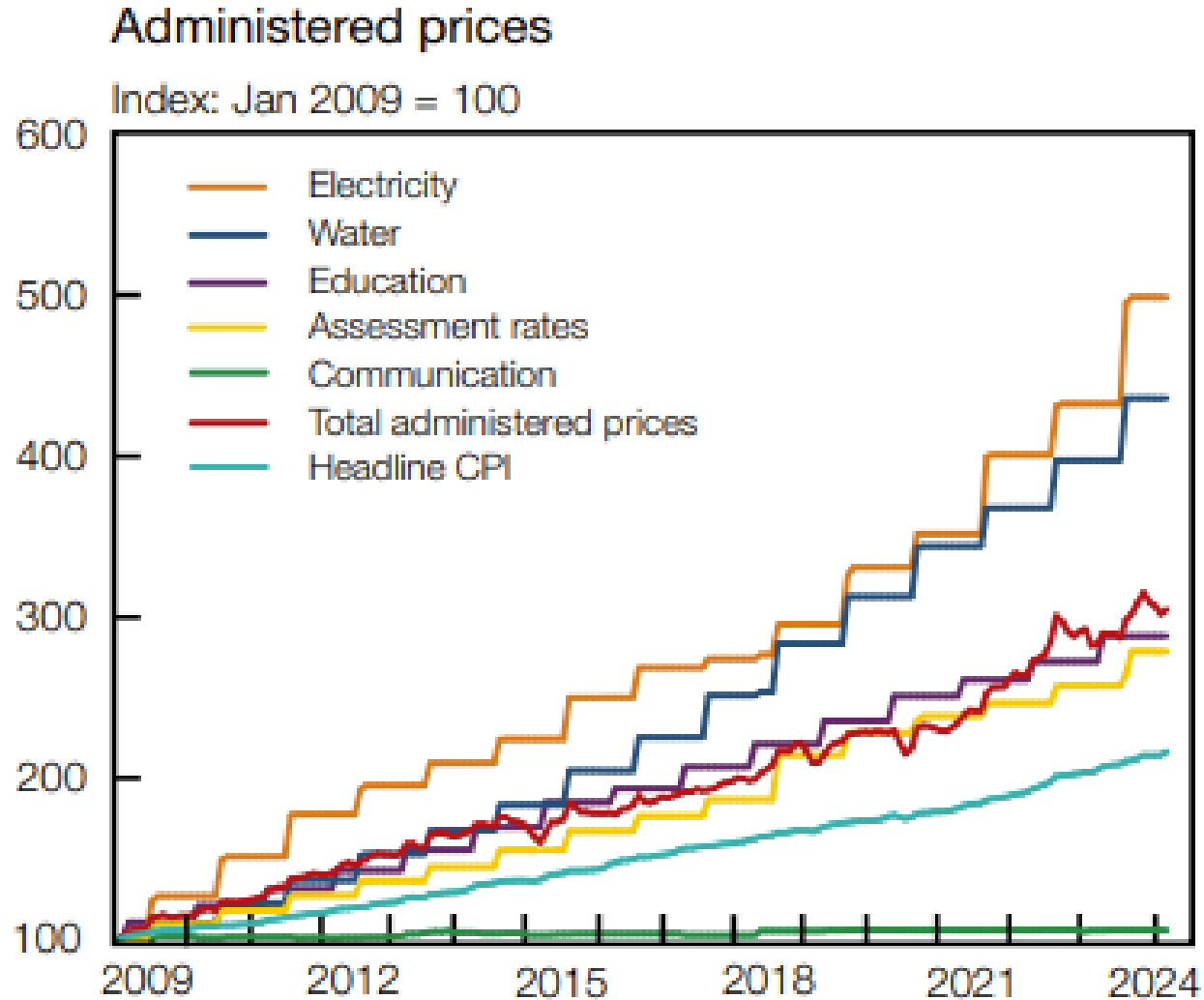
South Africa's real GDP growth  
(% change YoY, 1962 - 2022)



Source: Bloomberg, Avior Capital Markets



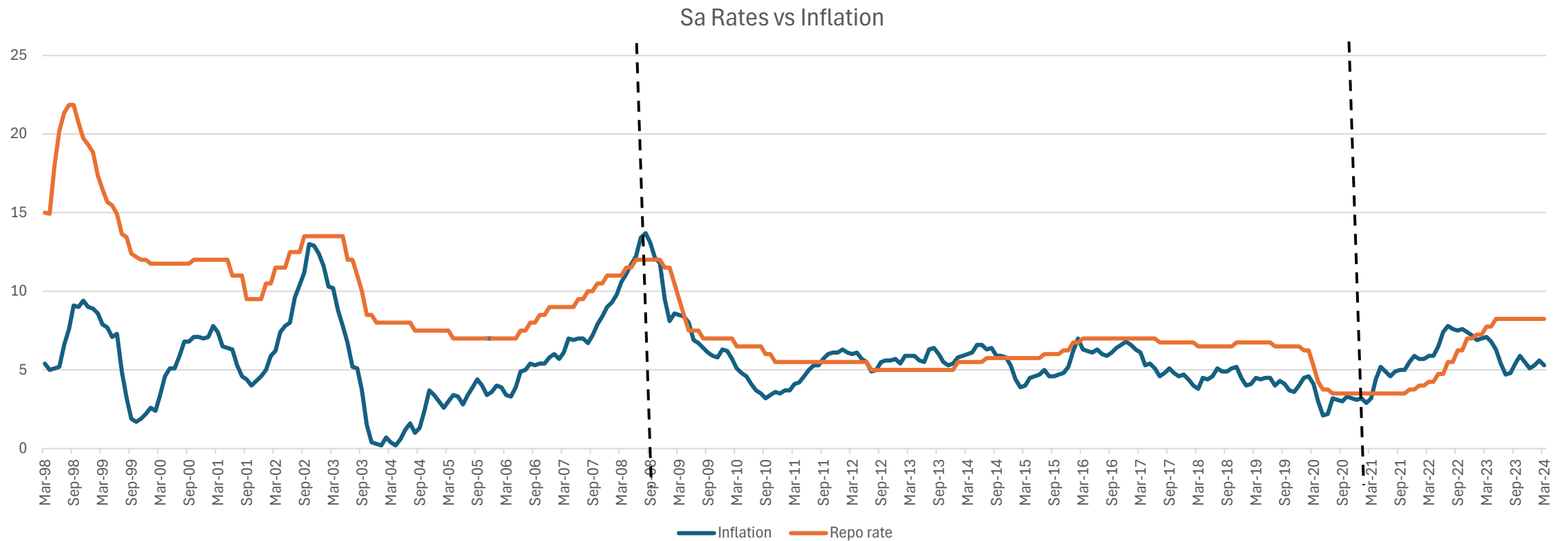
# SA has an administered prices problem



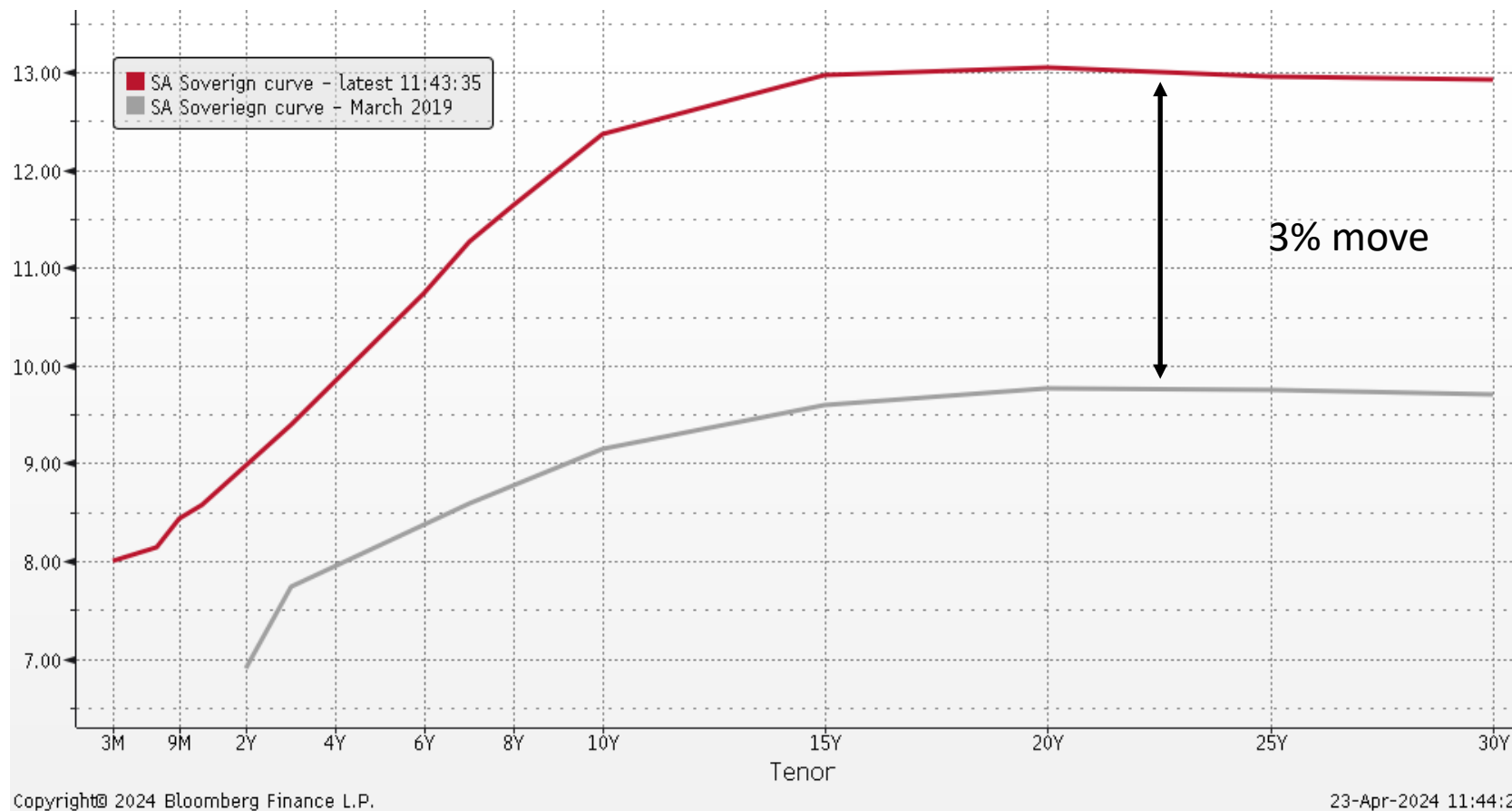
Source: Stats SA



# SA inflation/interest rates



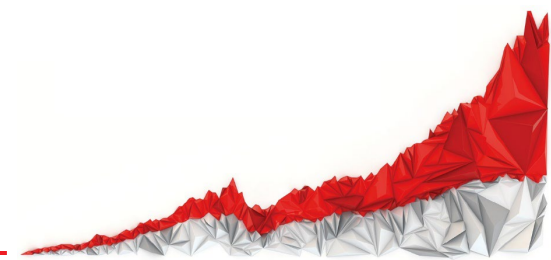
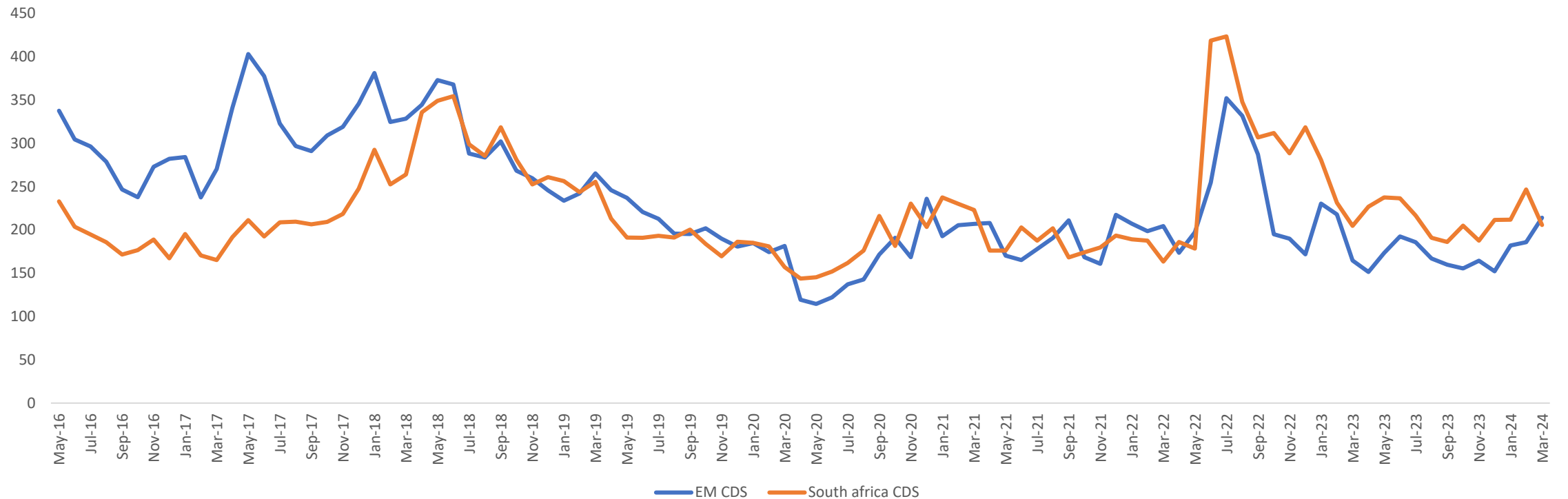
# SA government flows



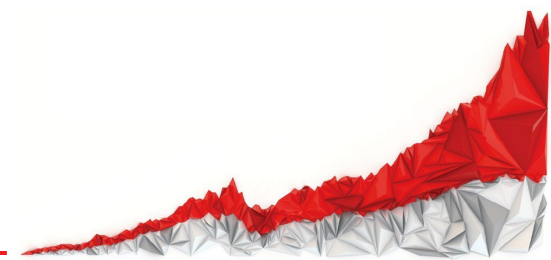
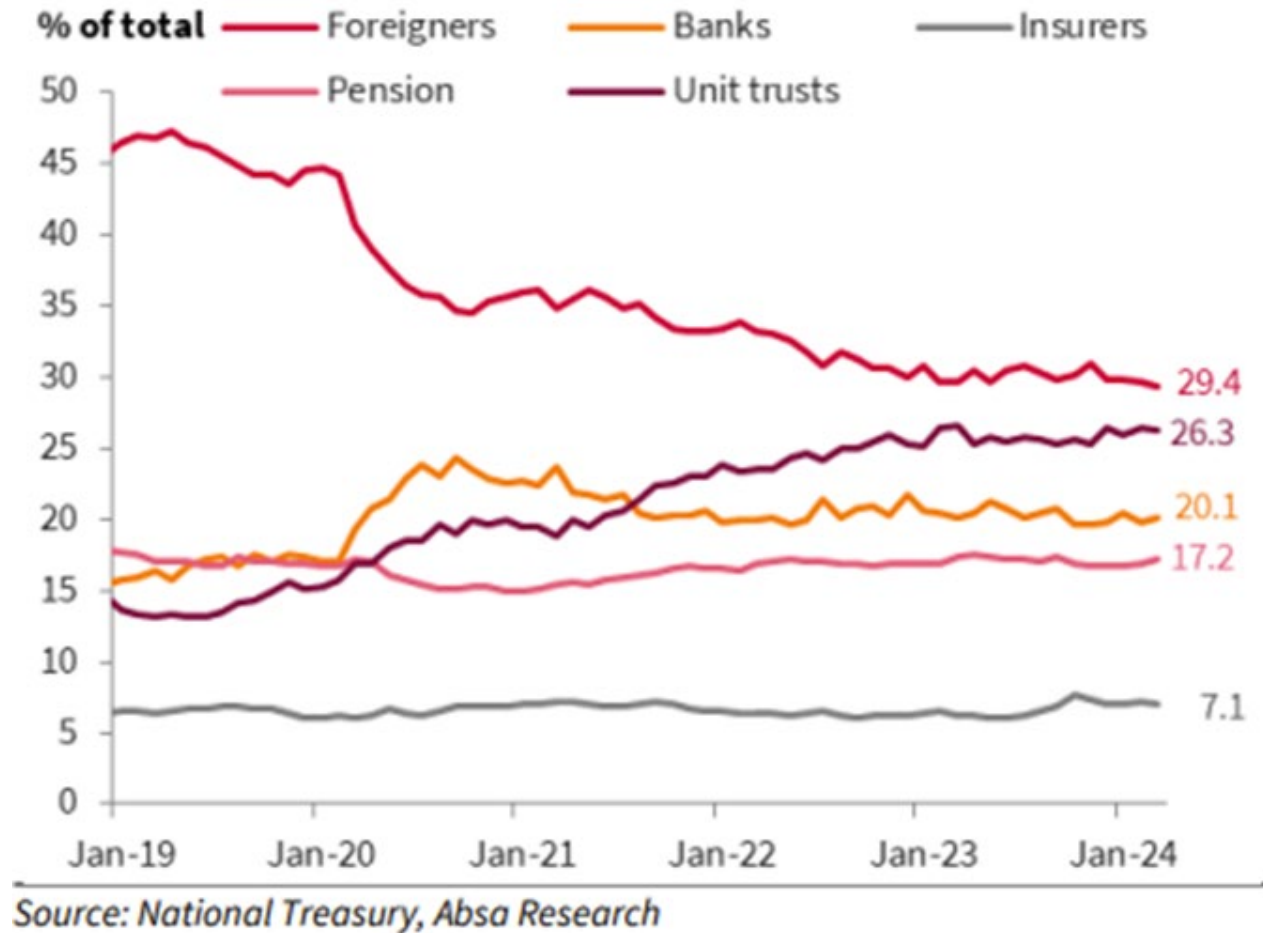


# Sa spreads don't reflect pessimism

EM sovereign spread vs SA sovereign spread



# SA bond ownership



# Conclusion

- Inflation may continue to be higher
- Effectiveness of Central Bank policy may be a challenge
- US treasuries may stay at these levels
- SA bonds are high yielding but don't expect a massive rally
- Short term interest rates are compelling above inflation

DR

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