

OUR TWO CENTS

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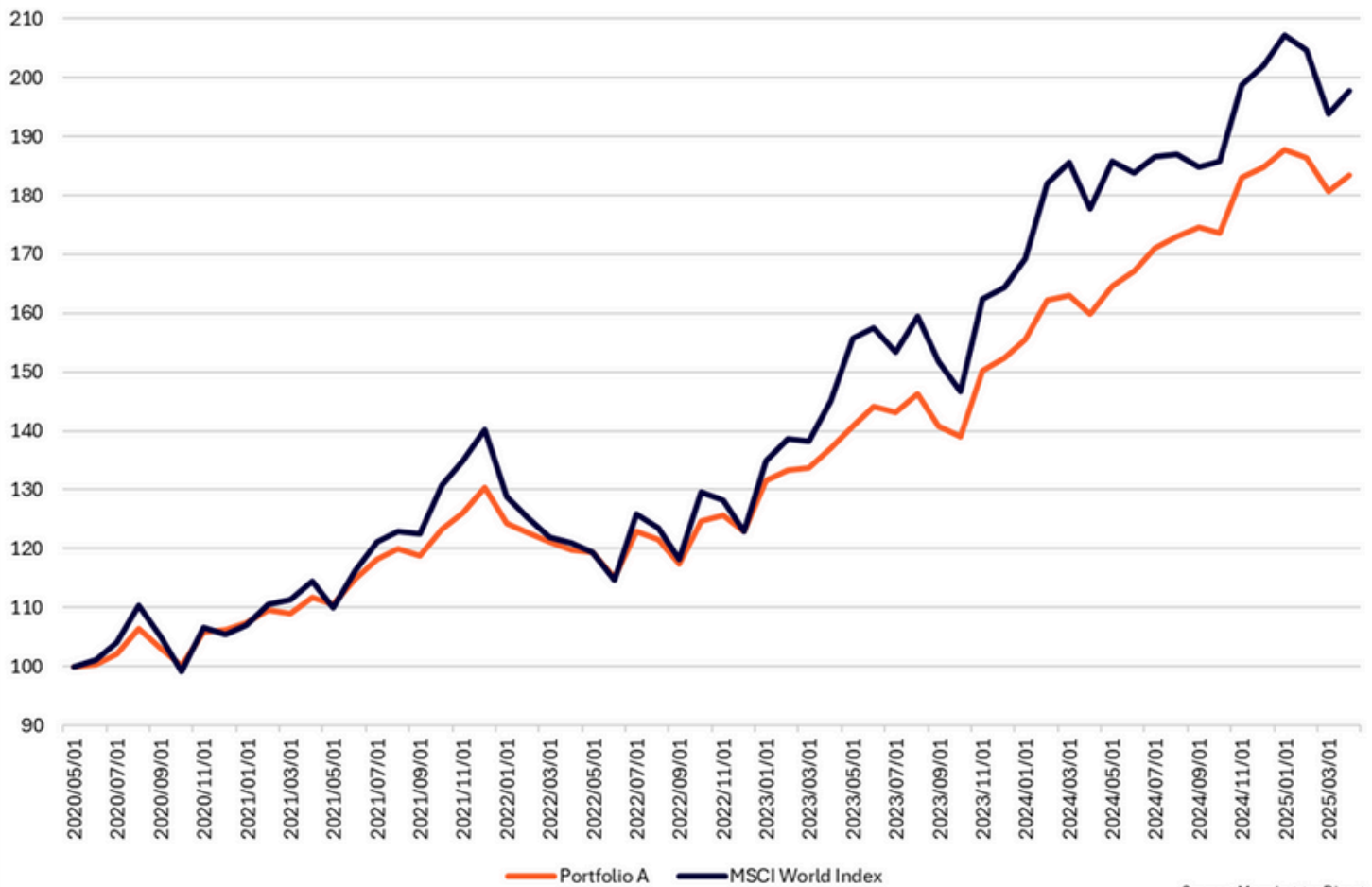


South African Bonds: Still Worth Holding?

Over the past year, South African government bonds have delivered impressive returns of around 18%, ranking among the top-performing asset classes. This strong performance has prompted investors to question whether they should continue holding bond exposure.

Beyond attractive real yields, South African bonds offer meaningful diversification benefits—especially when paired with global equities. With a correlation of -0.21 to global equities, SA bonds help reduce overall portfolio volatility and drawdowns. This benefit can be shown by comparing the performance of Portfolio A to the MSCI World Index. Portfolio A uses the 60/40 rule allocating 60% to MSCI World Index and 40% to FTSE/JSE All Bond Index. Portfolio A returned 13.60% over the past five years—slightly below the MSCI World's 14.78%, but with significantly lower average drawdowns (4.1% vs. 6.74%). As a result, Portfolio A achieved a risk-adjusted return 1.5 times higher. The performance of Portfolio A compared to the MSCI World Index is illustrated in the following chart, showing the smoother ride of Portfolio A.

Portfolio A & MSCI World Index Investment Performance



Source: Morningstar Direct

While recent gains have been strong, the case for SA bonds remains intact. Their diversification advantage, particularly alongside global equities, makes them a valuable component of a well-balanced portfolio. Additionally, SA bonds continue to offer high real yields. For long-term investors, maintaining exposure to SA bonds can help enhance risk-adjusted returns and provide stability during periods of equity market stress.



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Michael joined as an investment analyst and has an MPhil (Financial Management Sciences) cum laude specialising in economic psychology and has passed the CFA level 3 exam. Prior to starting at New Road Capital, he worked as assistant lecturer at the University of Pretoria assisting with quantitative investment analysis. He has built and traded on models using CFDs. Outside of work, he enjoys flying motor gliders from Springs airfield as well as sailing his Laser class sailboat.