



**momentum**  
investments

# **MFP** **OUTCOME MATTERS**

**Ian Scott**

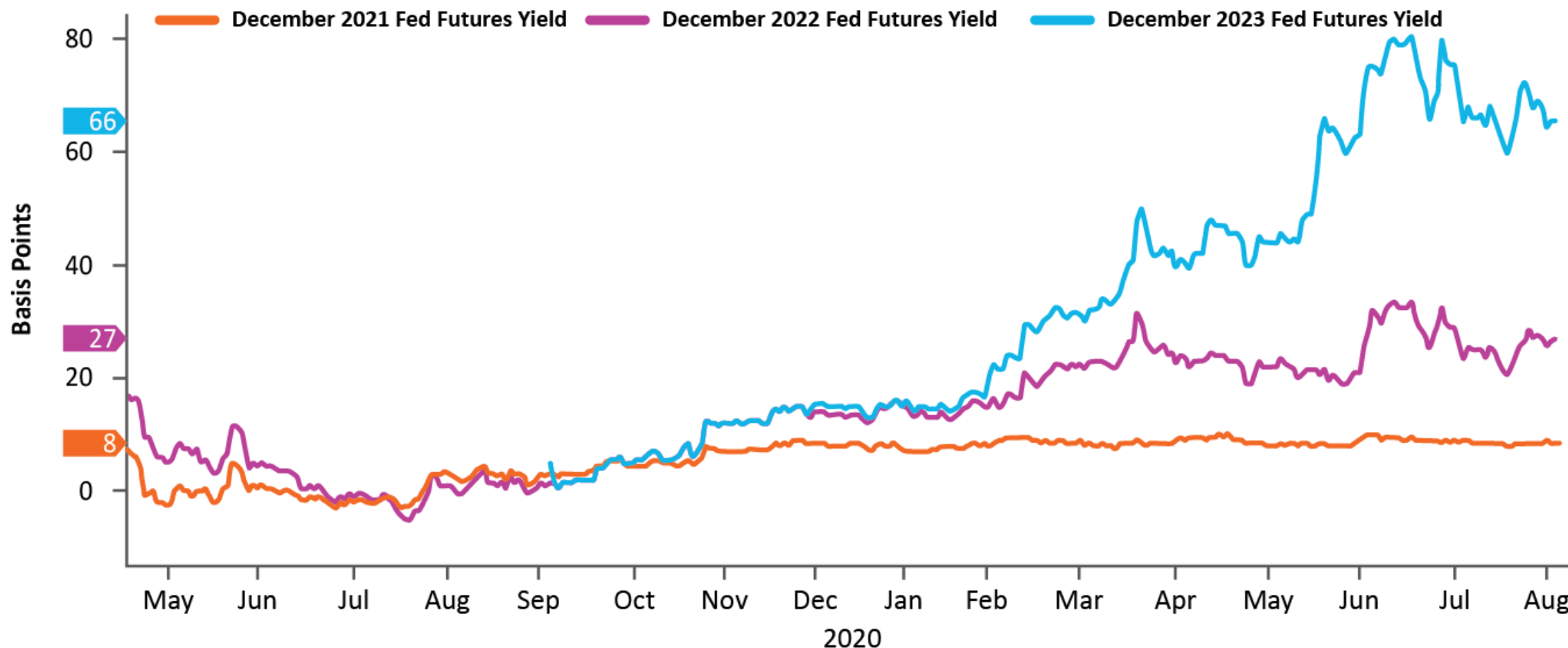
**Fixed income update**

23 November 2021

# Market expectations around Fed actions

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Fed hike(s) priced in for 2023



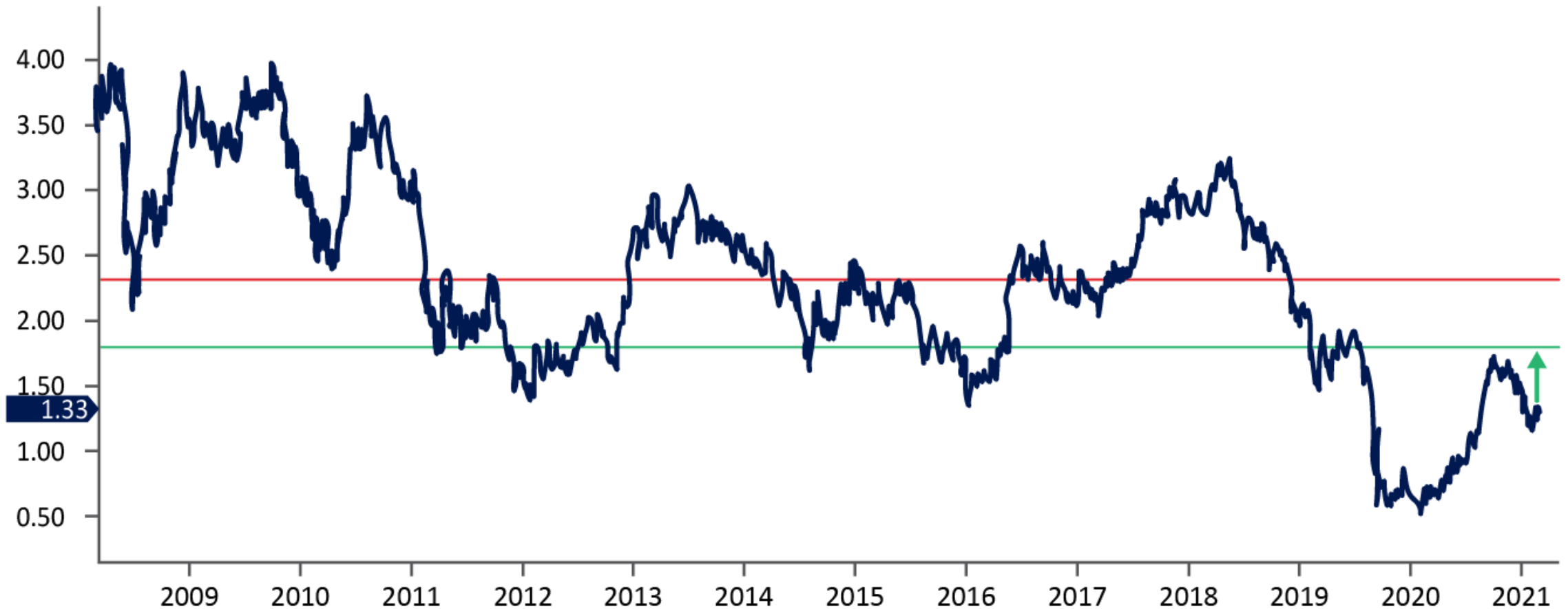
Sources: Bloomberg, SCB Research



# Asset class returns

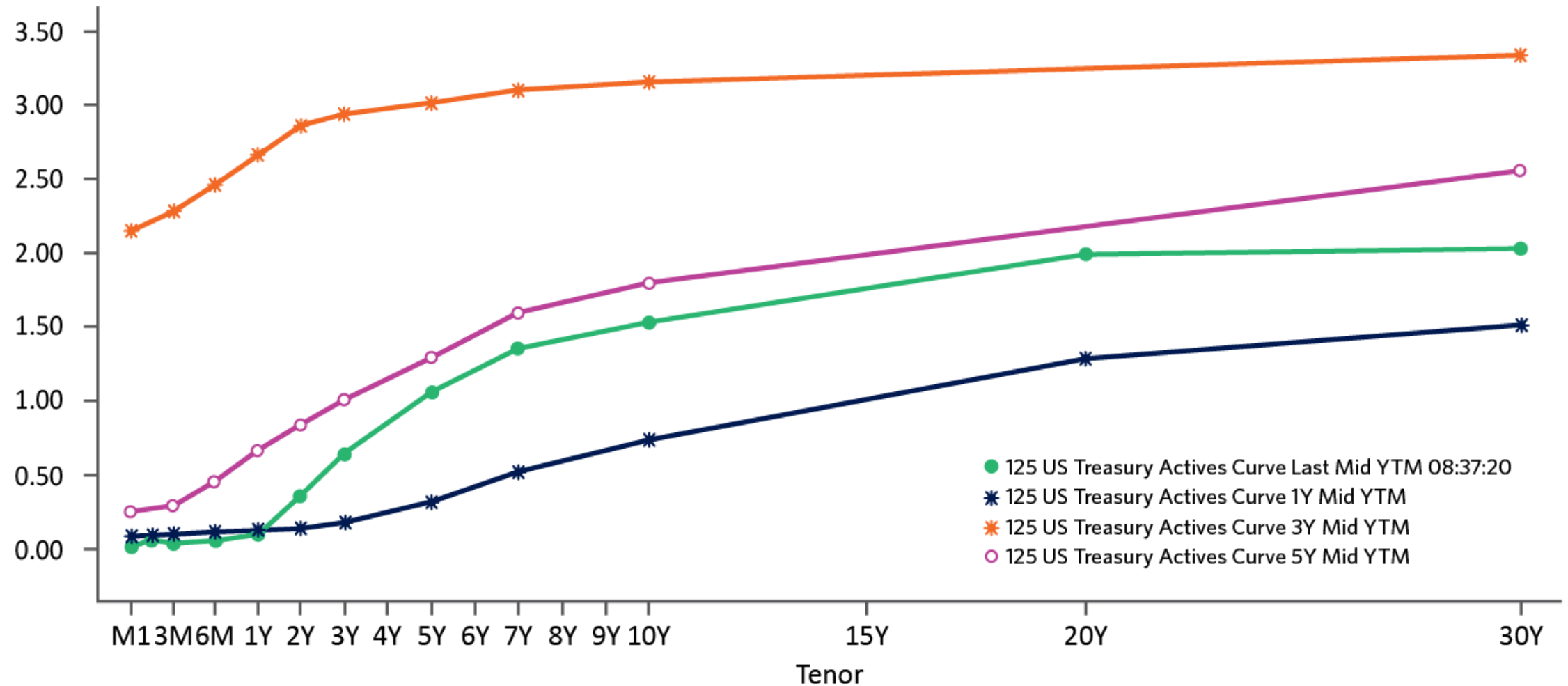


Not a whole lot happens when the Fed tapers in terms of 10-year yields, according to our calculations



Sources: Bloomberg, SCB Research

# US Treasury yield curve



Source: Bloomberg

# US Treasury yield curve



Growth concern: Curve flattened and real yields dropped after the Fed signaled interest rate hikes



Source: Bloomberg

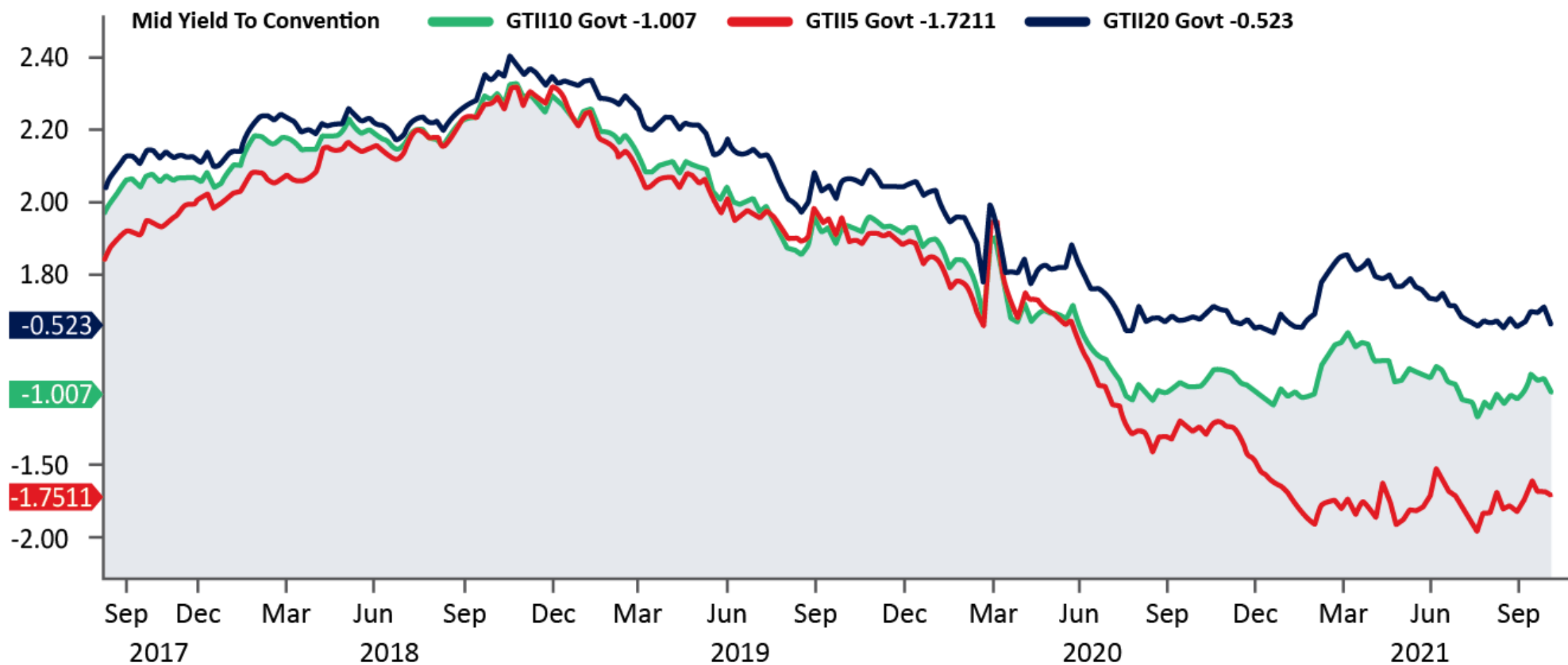
# US five-year/five-year forward breakeven

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Source: Bloomberg

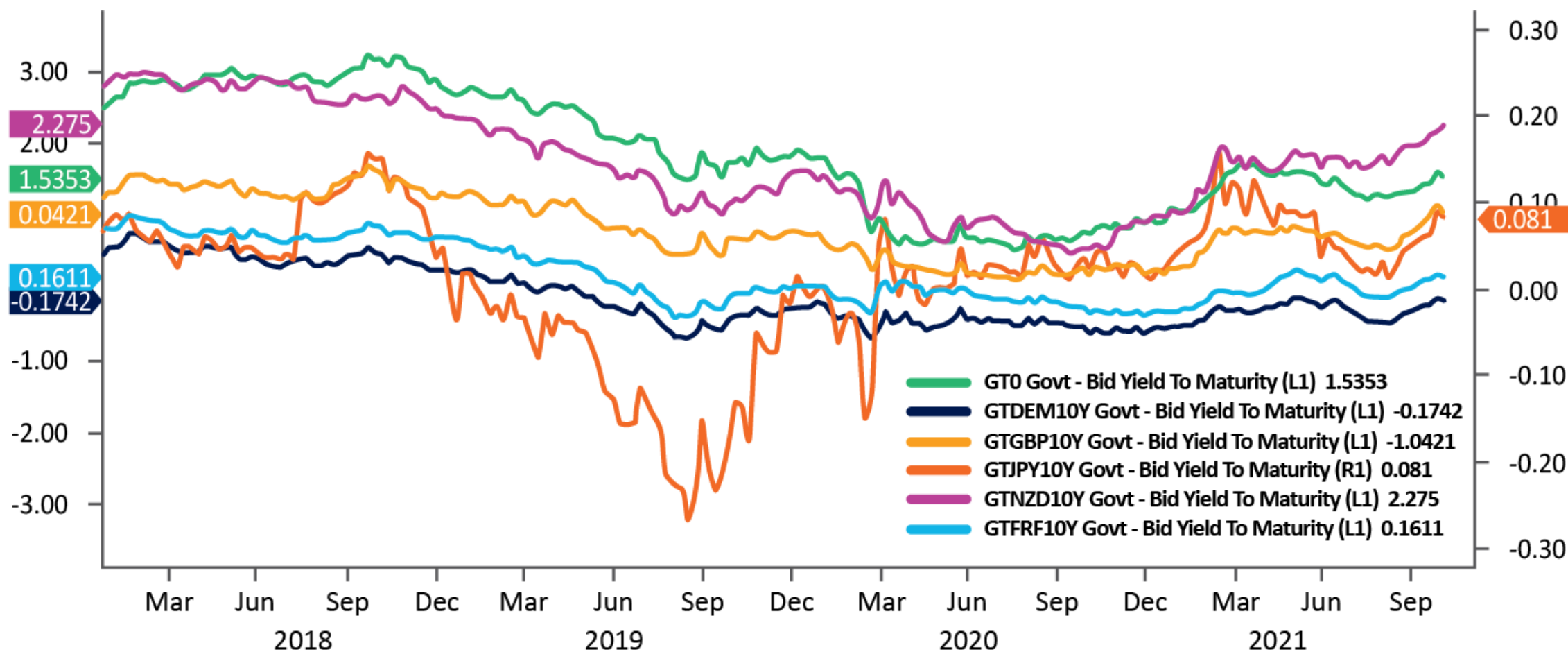
# US TIPS



Source: Bloomberg

# Developed market 10-year bond yields

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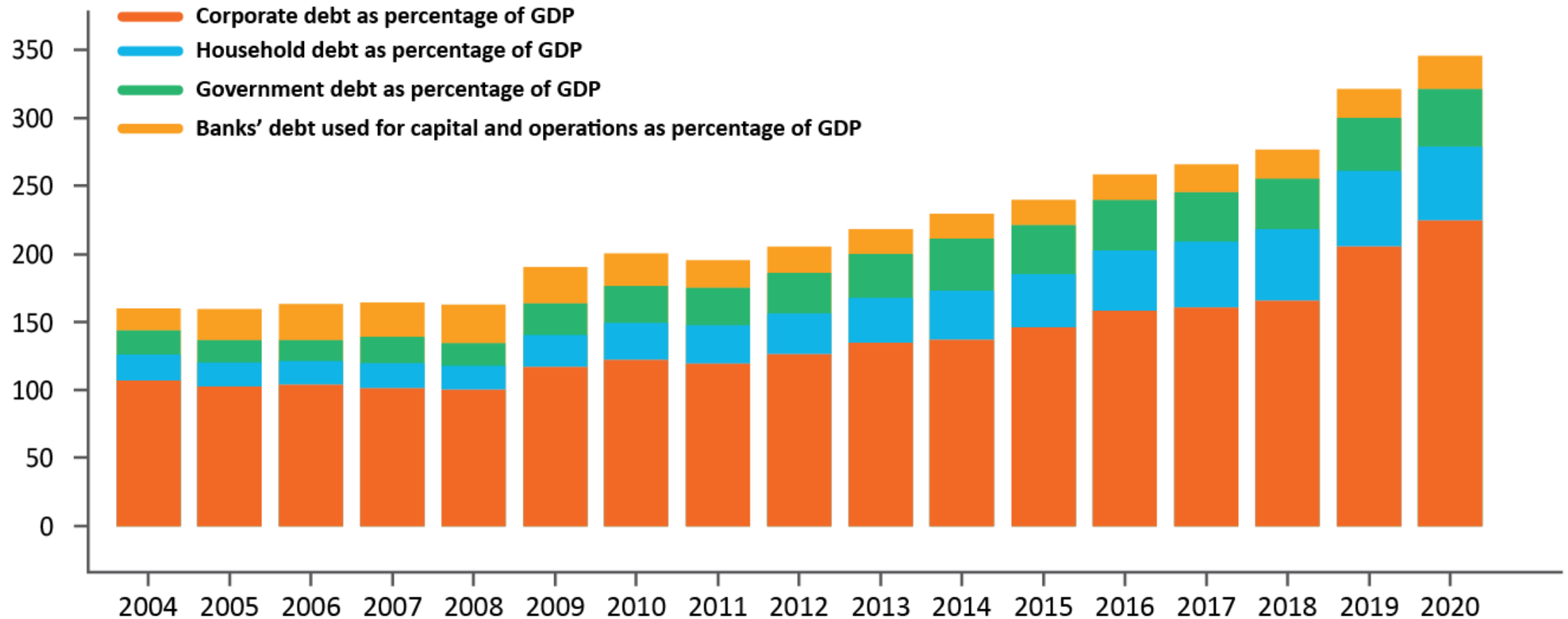
Source: Bloomberg



# China credit



**Borrowing binge: China's total debt has risen to near 350% of annual economic output**

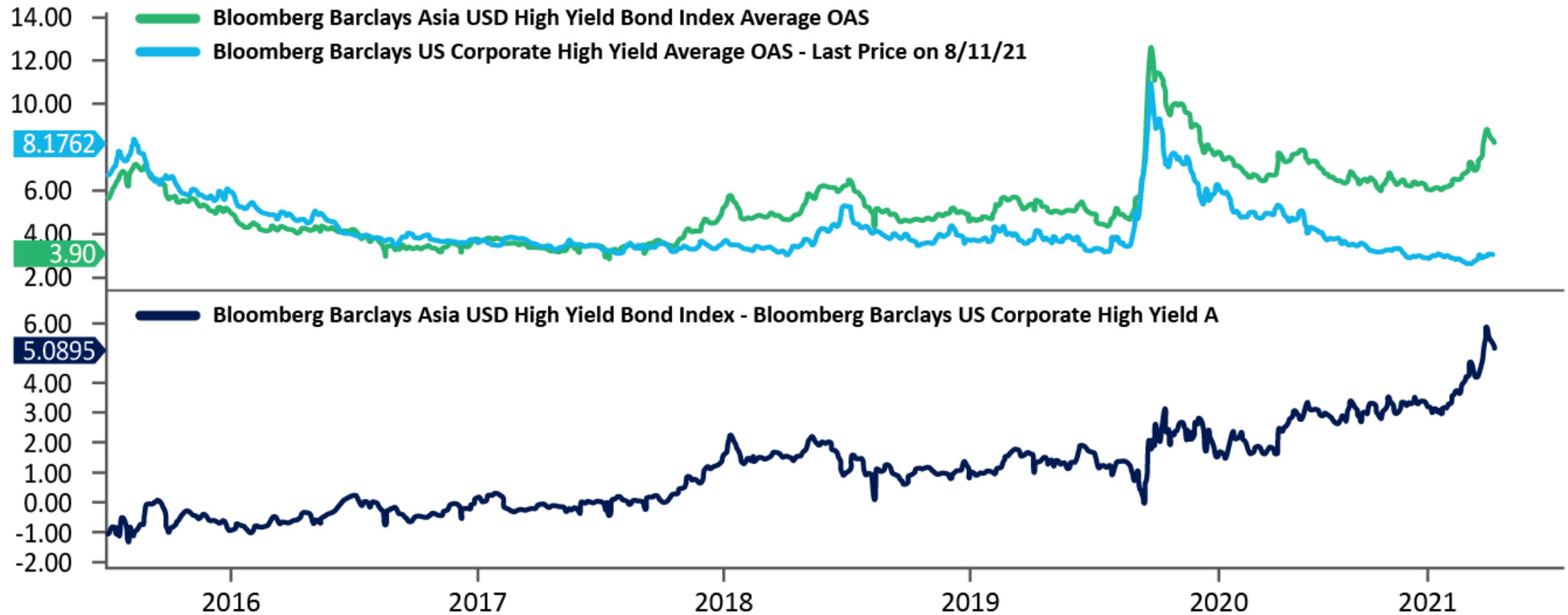


*Source: Bloomberg Intelligence*

# China credit



US spreads widen to record high, as yields blew out in China debt

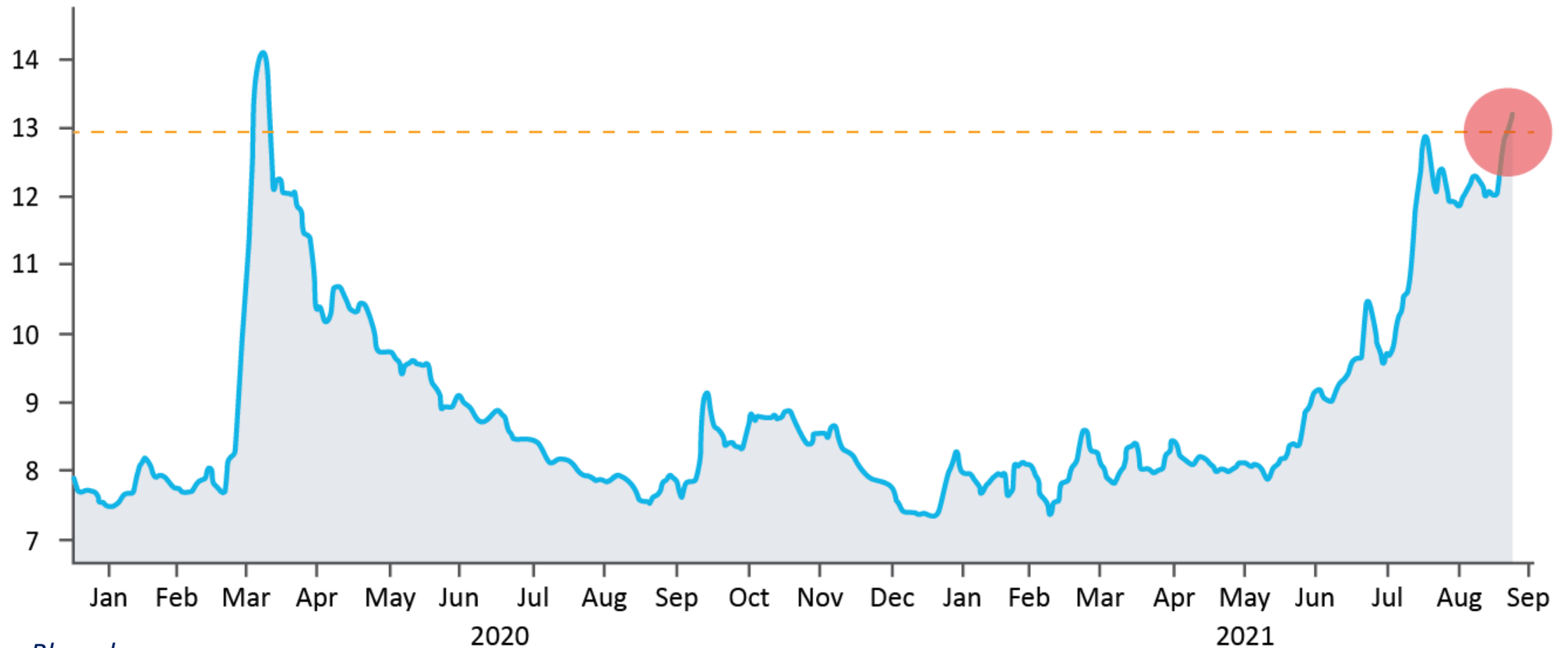


Source: Bloomberg

# China credit



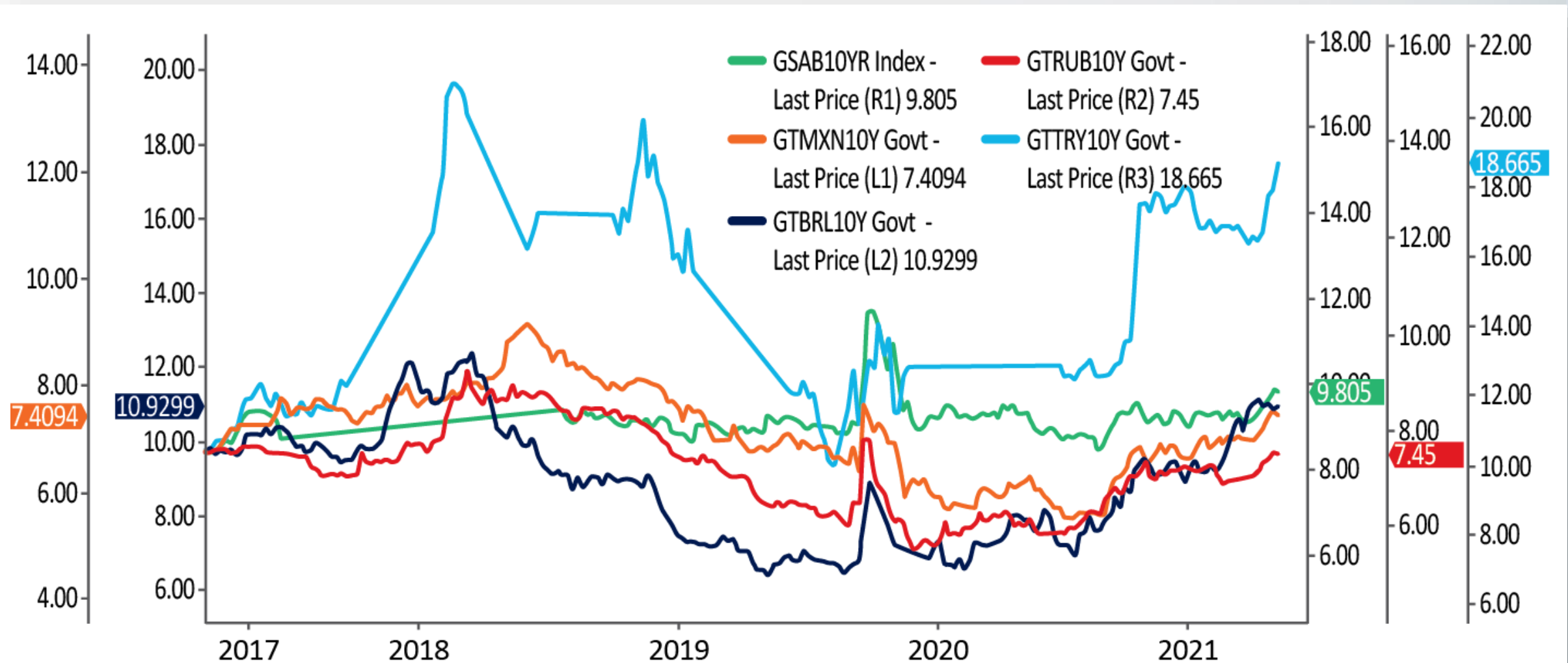
Yield on Chinese junk US dollar bonds returns to highest since pandemic sell off



Source: Bloomberg

# Emerging market high yield 10-year yields

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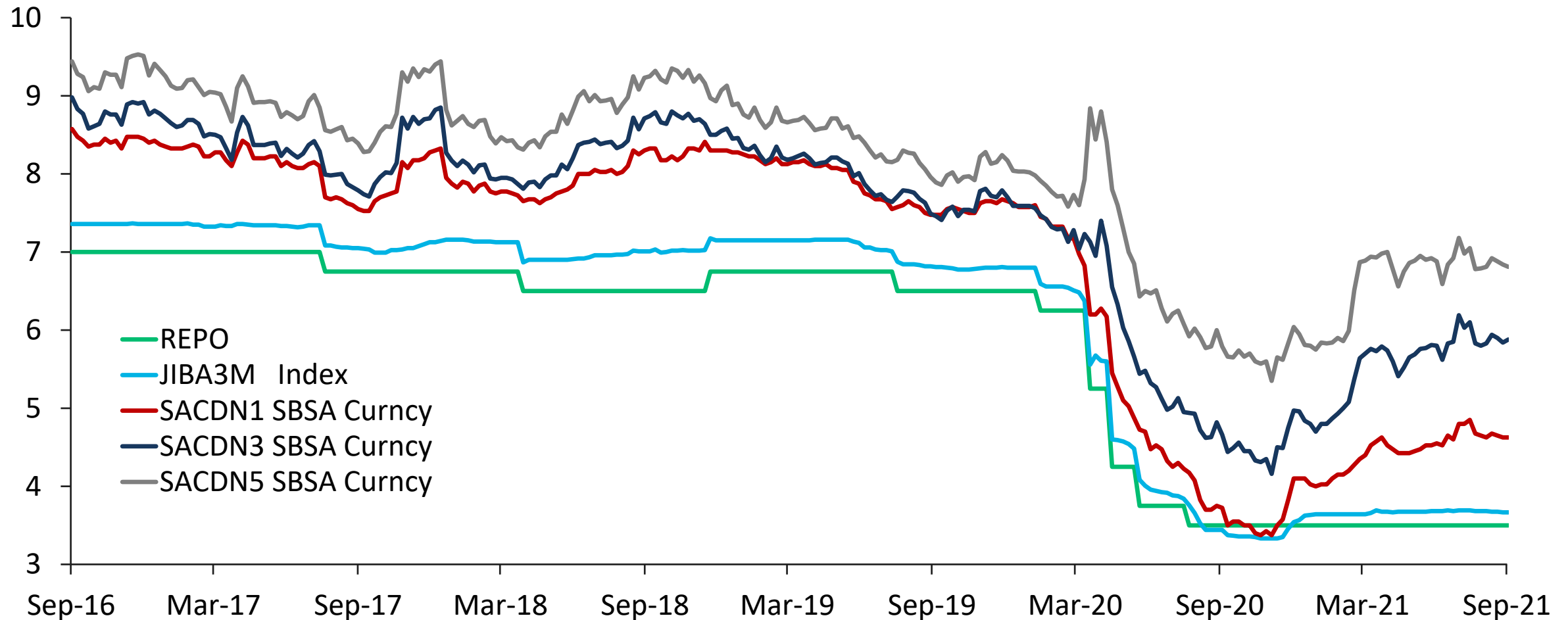


Source: Bloomberg

# The money market environment



## The shape of the money market curve



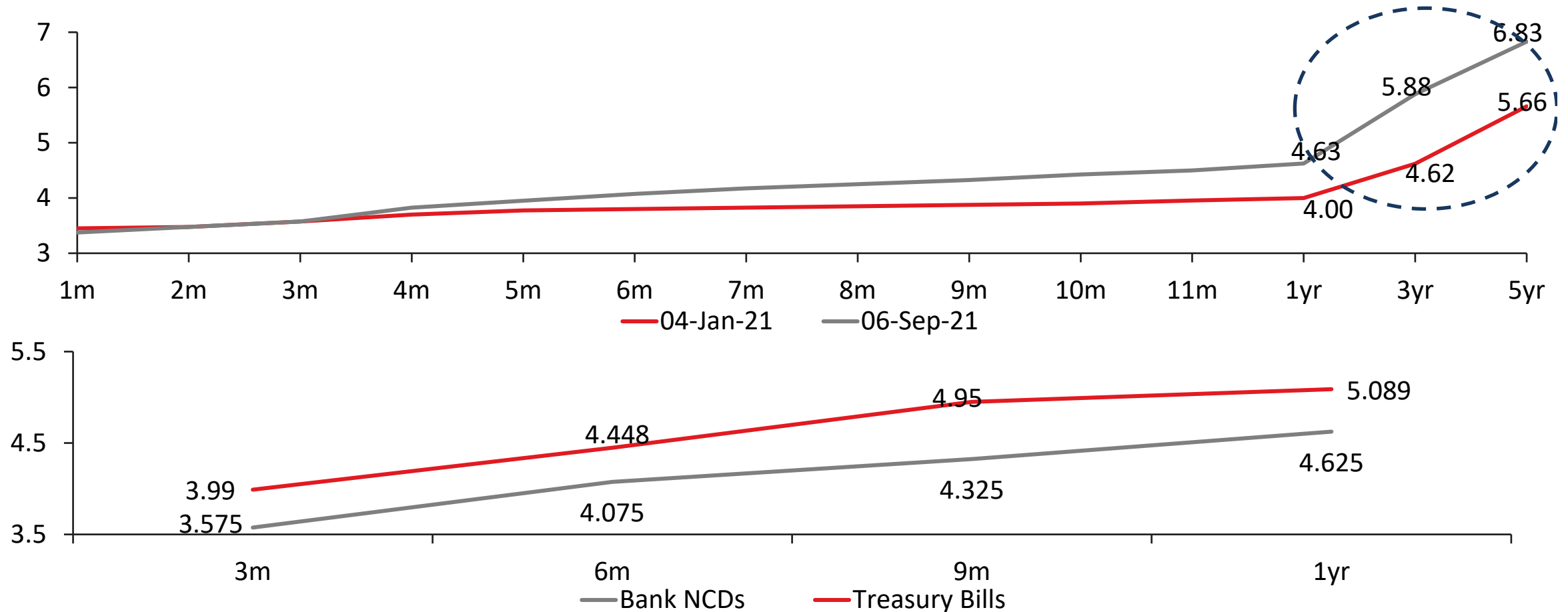
Sources: SARB, Bloomberg



# The money market yield curve



NCD curve for the year to date

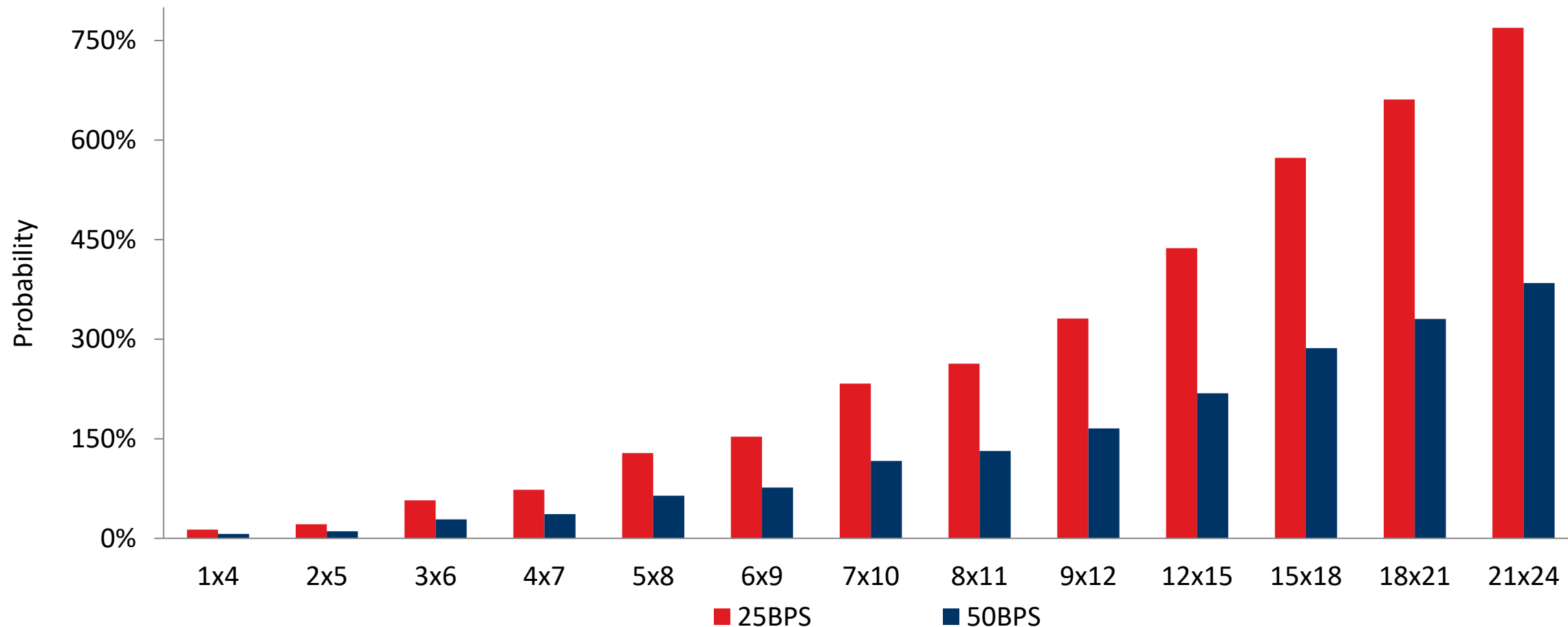


Source: Bloomberg

# Short-term interest rate expectations

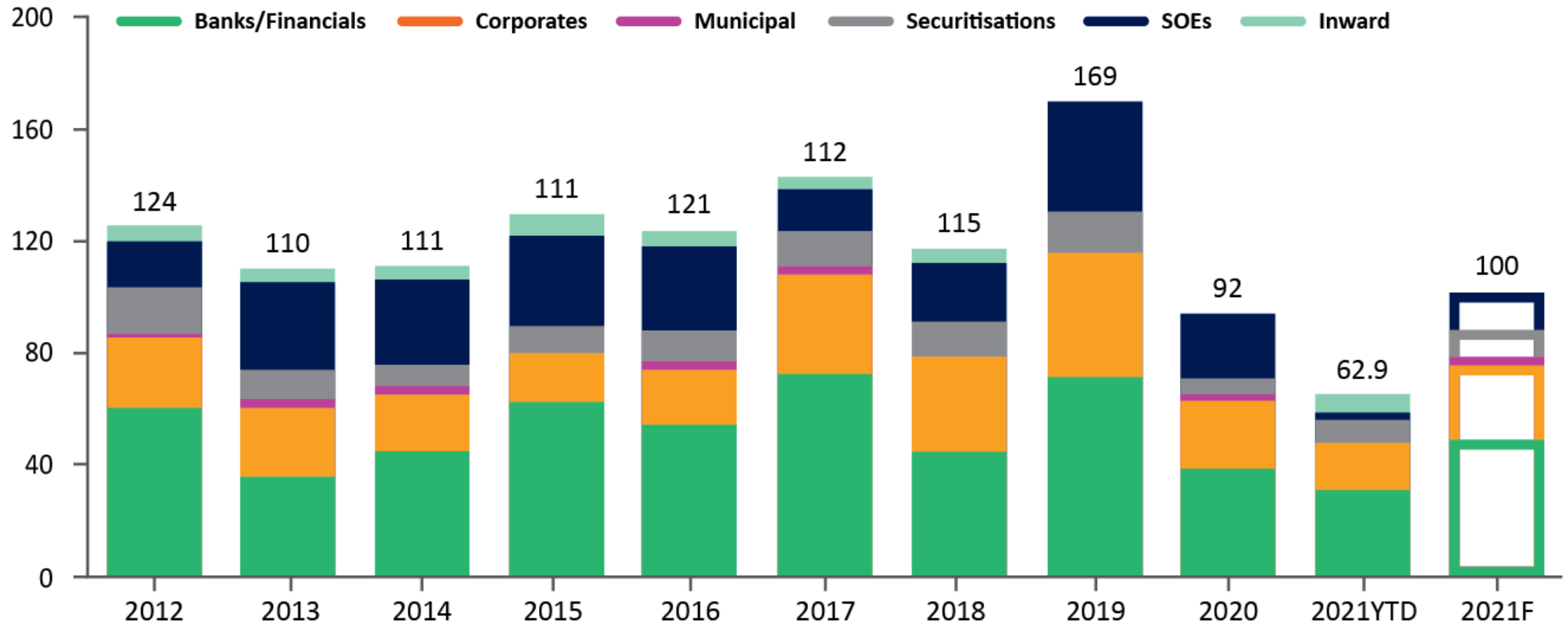


Change in policy rate discounted by FRAs



Source: Momentum Investments

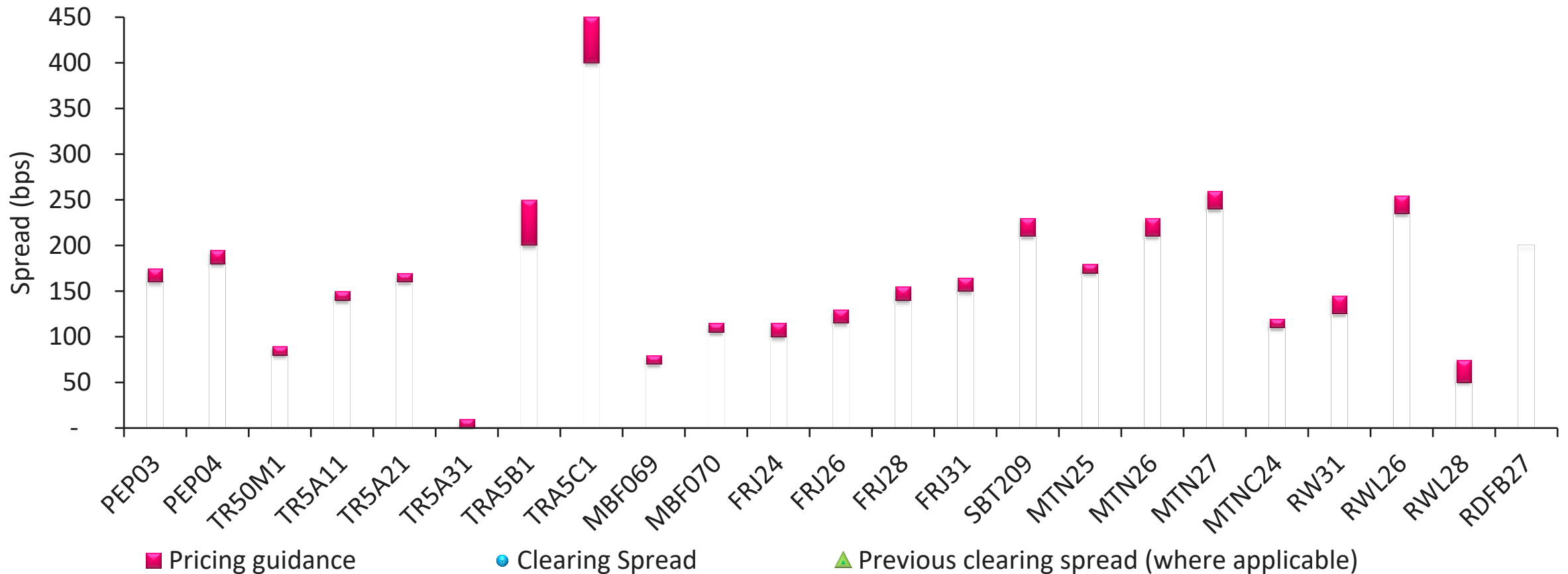
# Annual issuances: Actual and 2021 estimate<sup>m</sup>



Sources: JSE, RMB Markets (data at 30 July 2021)

# Auction outcomes: 2021 for the year to date<sup>m</sup>

Auction outcomes: Pricing guidance compared to clearing spread (May to July 2021)

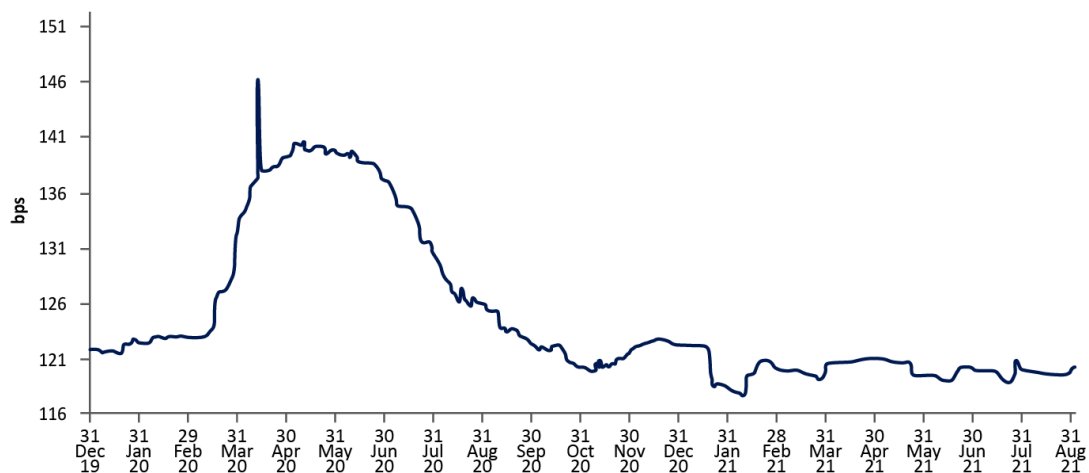


Source: Momentum Investments

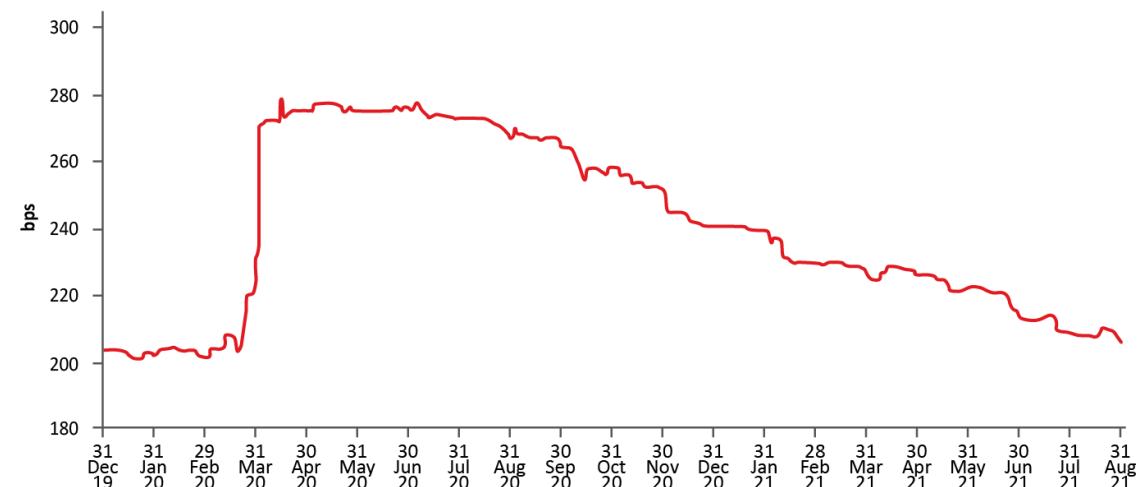
# Spread movements (floating) in banks



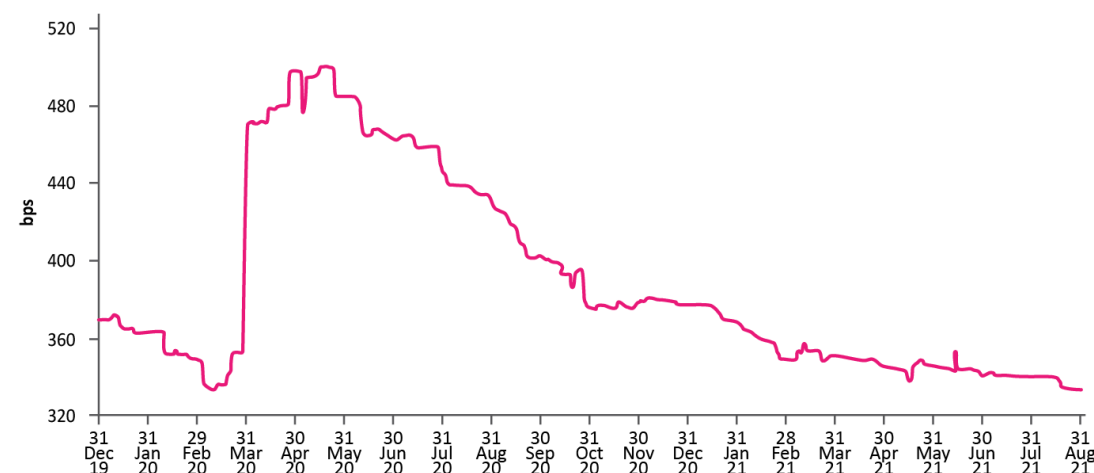
**Bank senior (big five)**



**Bank AT1 (big five)**



**Bank new-style T2 (big five)**



Sources: SRB Analysis, JSE

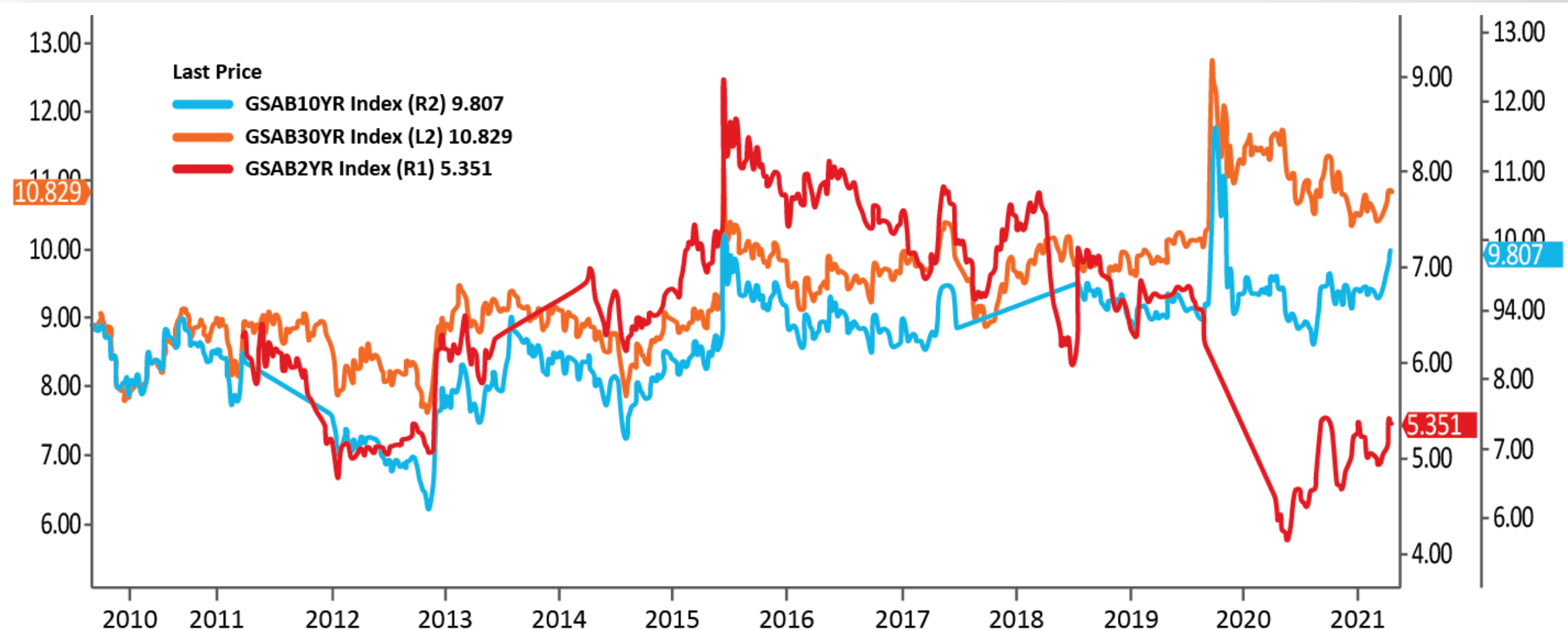
Data at 31 August 2021 (contains only floating-rate notes)



# South African government bond (SAGB)

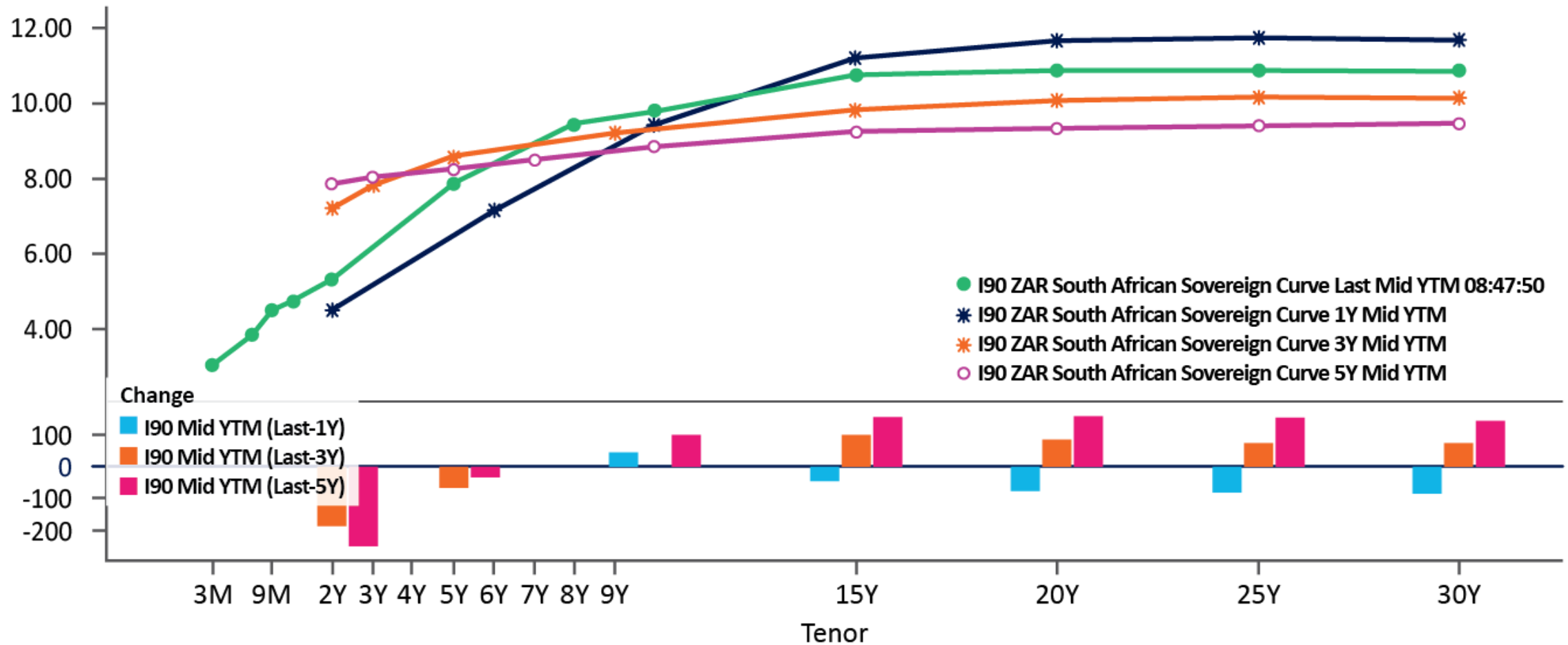
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Two-year, 10-year and 30-year yields



Source: Bloomberg

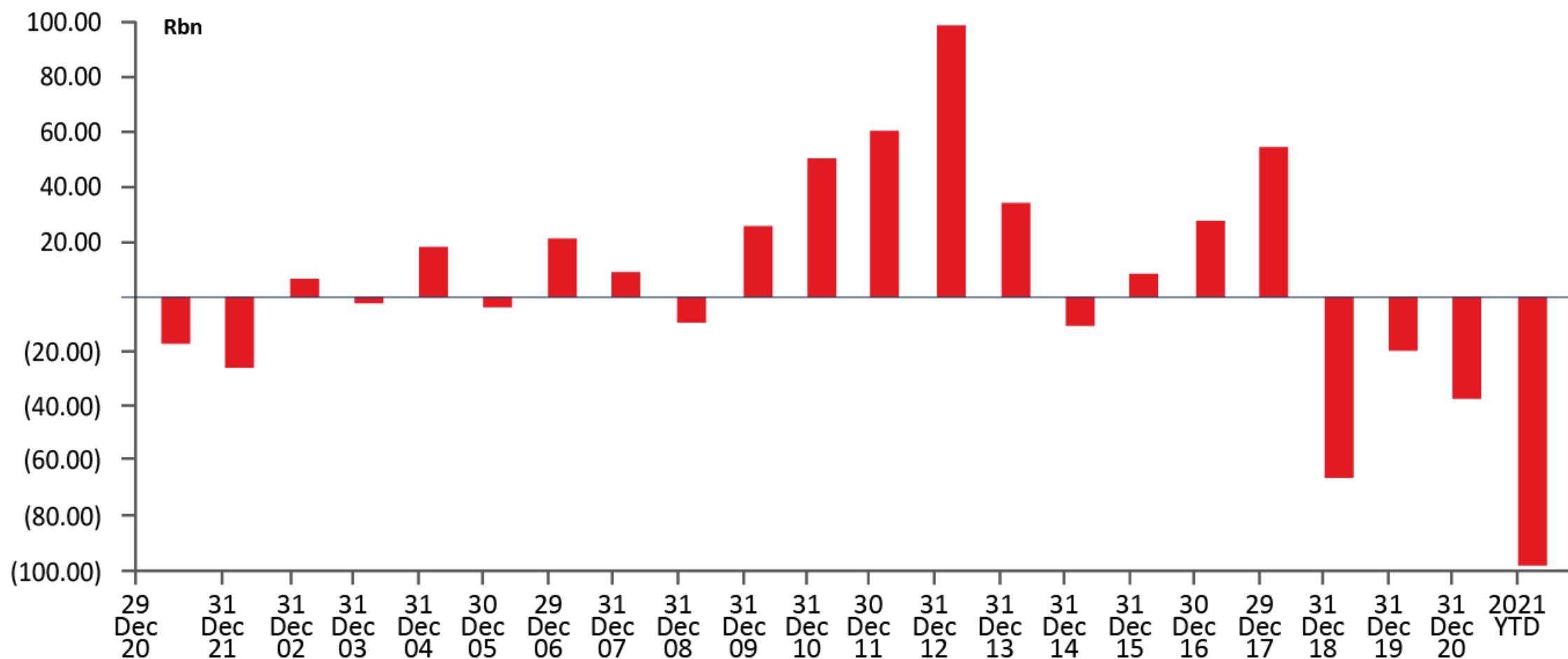
# SAGB yield curve



Source: Bloomberg

# Foreign flows in the SA bond market

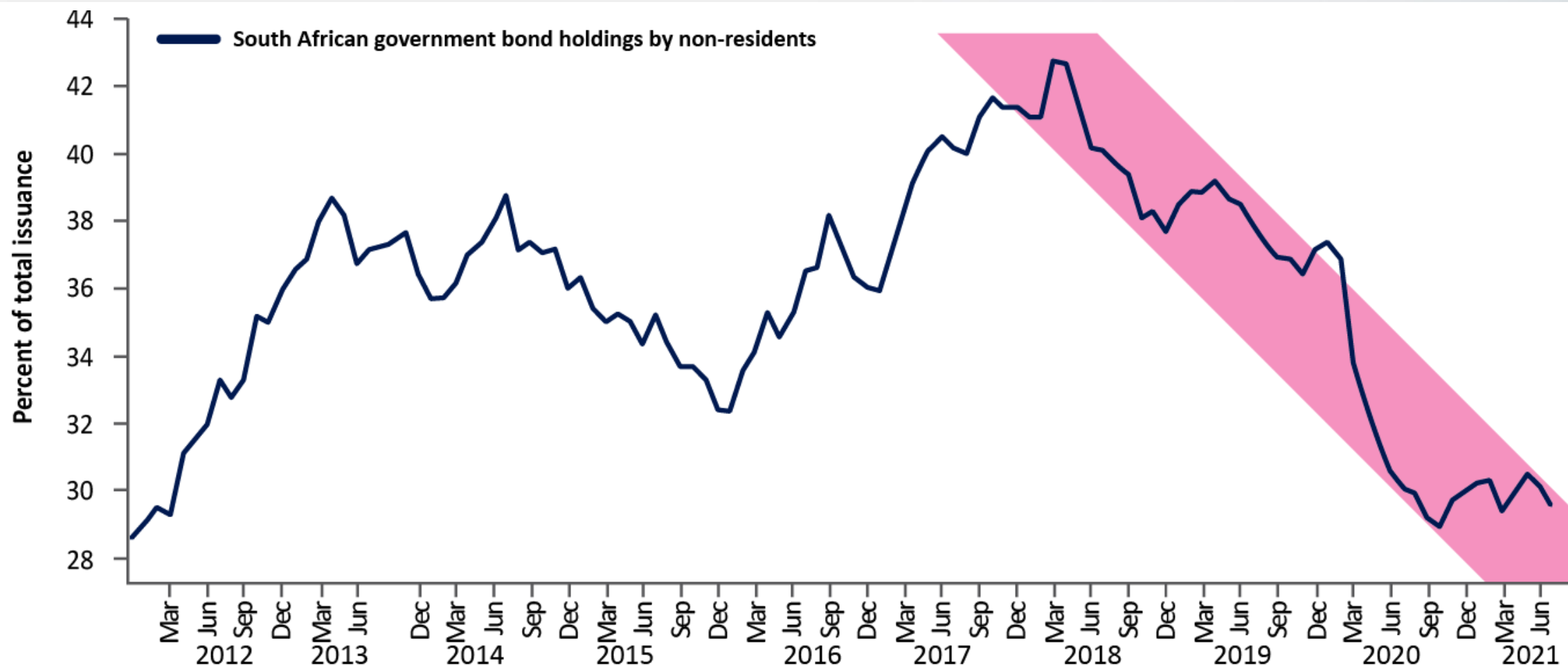
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Sources: JSE and National Treasury

# Foreign flows in the SA bond market

Foreign ownership of SA bonds dropped since peaking in 2018

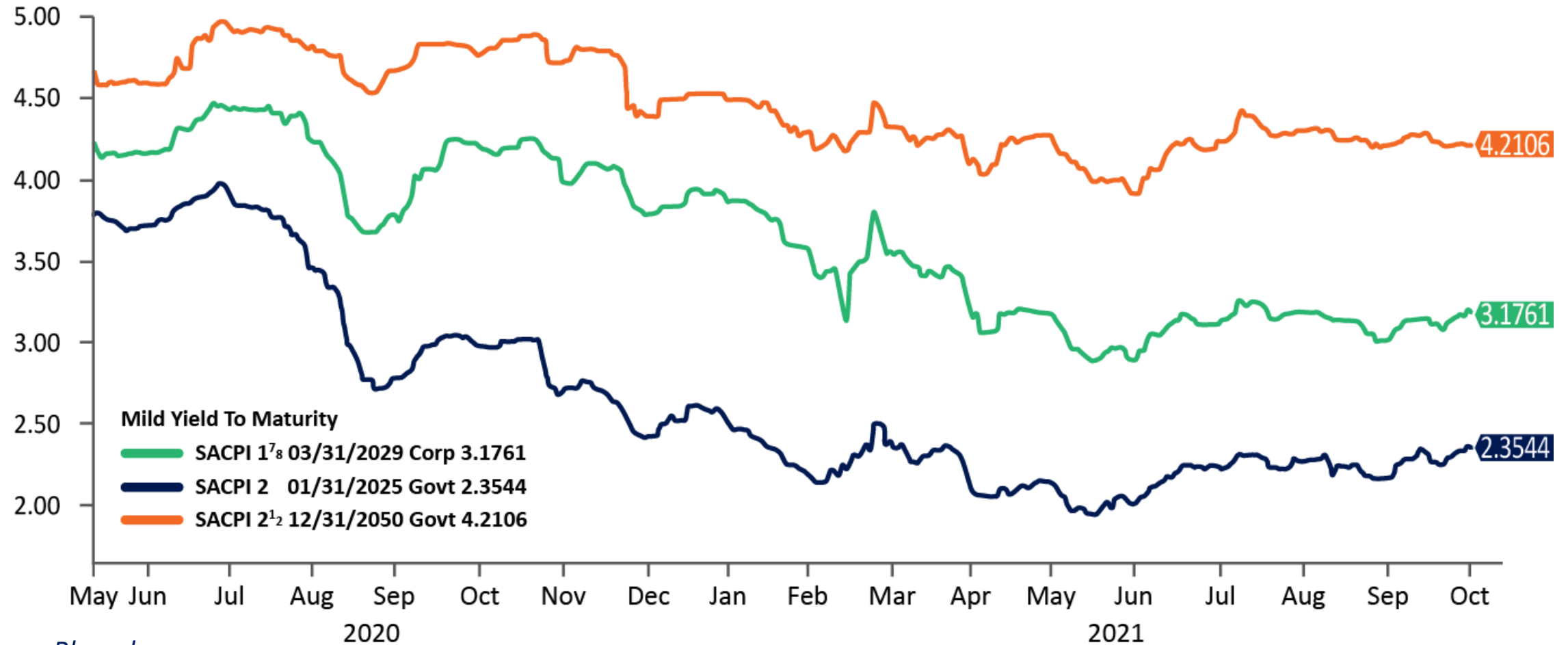


Sources: JSE and National Treasury

# South African government bond (SAGB)

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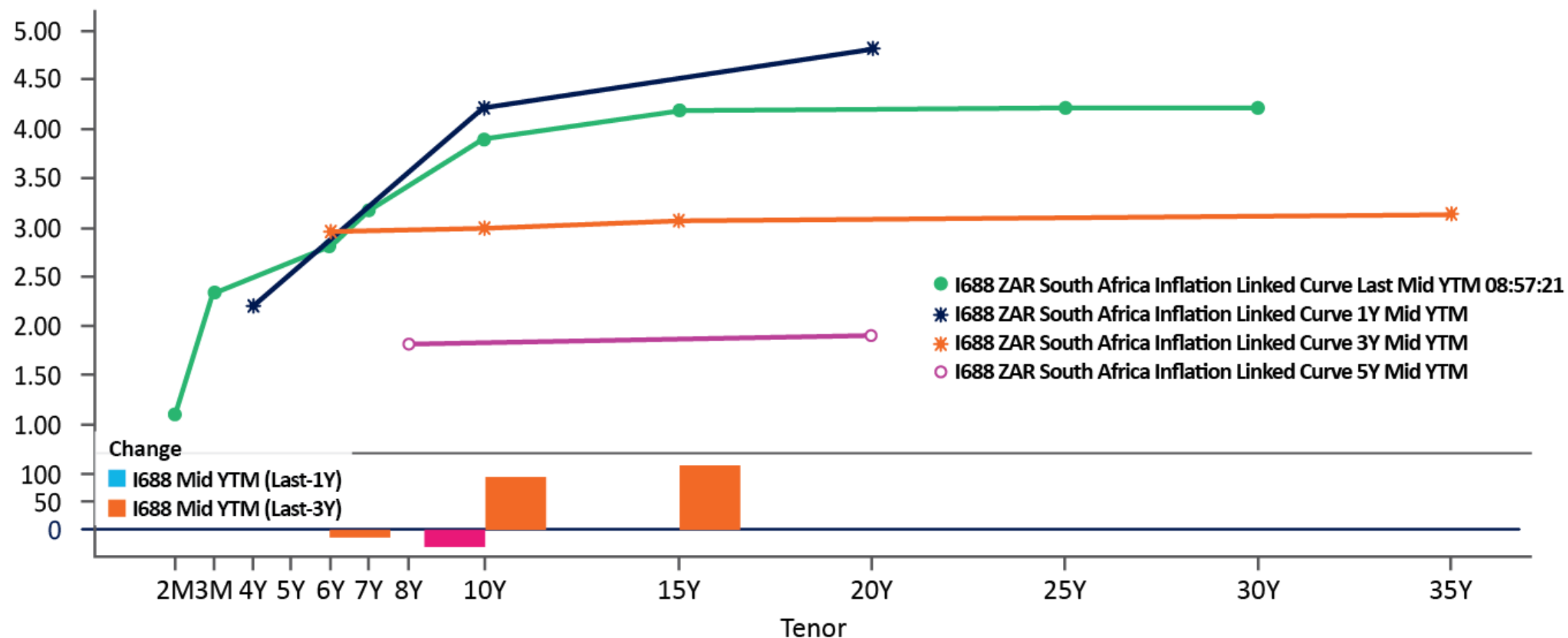
Four-year, eight-year and 29-year inflation-linked bond yields



Source: Bloomberg



# SA inflation-linked bond curve



Source: Bloomberg

# Management insight



## Fixed income expected returns

| Total returns          | One year to three years |
|------------------------|-------------------------|
| All Bond Index         | 8.00% to 9.50%          |
| Inflation-Linked Bonds | 7.50% to 9.00%          |
| Credit                 | 5.50% to 6.00%          |
| Cash (NCD)             | 4.65% to 5.85%          |

*Source: Momentum Investments*

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**Thank you**