



Global Bonds Called In Sick. Now What?

We were at an investment conference last week mostly meeting with asset managers from Europe, but also from as far afield as Santa Fe, New Mexico (I had to Google Maps it) and one of the topics that came up was, "Is your traditional 60/40 portfolio dead?"

For 45 years, the formula was simple. Put 60% in equities to do the heavy lifting and 40% in bonds to catch you when equities fell over. It worked because bonds and equities moved in opposite directions – when one panicked, the other held the line. It was such a popular strategy that people just called them "60/40 funds", it was the default.

Then bonds stopped pulling their weight. Since the Global Financial Crisis ended in 2009, returns have been weak. Since COVID, they've been worse – US 10-year yields fell below 1%, and bonds started moving with equities instead of against them. The insurance policy stopped paying out just when everyone needed it most. Every manager, single or multi, has spent the last decade quietly asking: how do we protect capital when the thing built to protect it doesn't work anymore?

South Africans have had a workaround. Put 60% into global equities for growth and diversification away from the JSE, and 40% into local fixed income that, unlike global fixed income, generates high real returns and shields the income portion from currency swings. This option remains on the table.

So where does that leave South African investors who need their externalised assets to still deliver on a 'balanced' mandate? Introducing assets that are not correlated with equity markets, and are still able to generate decent returns, is the approach that we've taken at Seed.

Approximately 10% of the Seed Global Fund is allocated to 4 different structured notes each with full capital protection and all able to deliver equity like returns in normal market conditions. A further 5% of the Fund is invested in a Gold ETF that should be a great store of real wealth especially in a world that's moving away from the US being a dominant superpower into more of a multi-polar world. Finally, just over 7% of the Fund is invested into China mainland shares – that is difficult for Western investors to access and a market that therefore has a very low correlation with global equity indices. Bonds remain in the Fund, but only at a 7.5% allocation.

Is 60/40 dead? No. But it's not walking around unassisted either. It's on life support, and it'll get back on its feet eventually. Until then we're the doctor, finding the assets willing to do the work bonds used to do, whether or not bonds ever remember how.



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If you have any questions, Mike and our team would love to hear from you on investmentteam@seedinvestments.co.za.

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