

## Bonding up wealth

**ANY DIVERSIFIED INVESTMENT** portfolio probably needs bonds. It's a wealth preservation asset: investors get a fixed income and final payout. But what's the prospect for South African bonds? Mark le Roux, head of fixed income at Coronation Fund Managers, says bonds are "potentially fully priced" and that performance is likely to come from good quality corporate debt.

Bonds surprised many investors and fund managers last year as the best performing asset class. But given the prospect of declining interest rates and lower inflation is that already priced into bonds? Le Roux believes it is, saying the entire rate-cutting cycle has been priced into the bond market before the first rate cut even occurred.

"Though bonds were expected to firm in this environment the extent of the rally way exceeded even the most ardent bond bulls.

The question that now needs answering is: Can you find value in the bond market at these levels – a yield around 7,3% – or has the margin of safety in bonds as an investment all but evaporated with the current set of underlying fundamentals?" His conclusion? "Long bonds do appear on the expensive side."

Le Roux says breakeven rates with money market assets also indicate a fully priced bond market. "The benchmark R157 Government bond would need to firm by more than 50 basis points in yield (that is, decline to around 6,8%) from those levels just to break even with a 12-month bank NCD over the year."

That begs the questions: Where can investors look for performance in the fixed income markets this year?

"Look no further than very selective good

quality single name listed corporate debt, trading at very attractive spreads to Government bonds. A yield pickup over SA bonds of between 2% and 2,5% is available from a number of those corporates." Le Roux lists MTN, Barloworld, Bidvest, Transnet and Absa bonds as just a few possibilities.

"This area of the market has been aggressively sold off during the rising interest rate cycle over the past few years. With the rate cutting cycle now starting and the Government bond market having had its run it could certainly be worth taking a closer look at them."

Corporate bonds are generally regarded as higher risk than Government bonds. But given corporate bonds in SA, the risk of default is very low. For now that's where investors should be looking to diversify portfolios. \*