

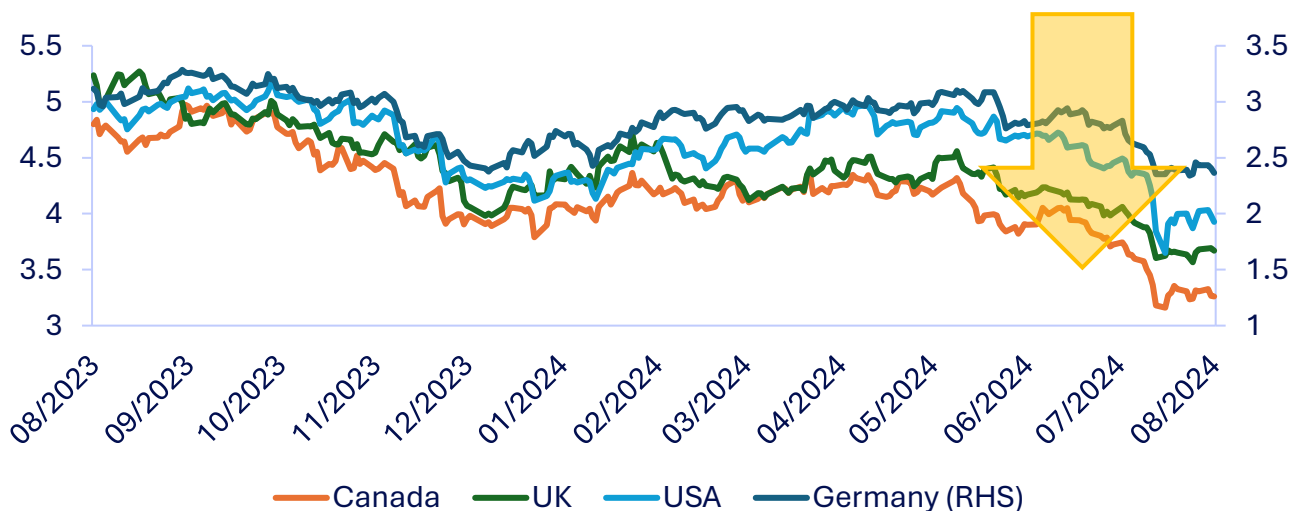
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## Preparing your portfolio for a new interest rate environment

By Ali Simpkins, Head: Proposition

Much like a gardener anticipating the change of seasons, investors must prepare their portfolios for the coming changes in the global economic landscape. Following the US Federal Reserve's 50 basis points (bps) rate cut, the South African Reserve Bank cut rates by 25 bps for the first time in more than four years. Yields of fixed income asset classes are declining globally (chart 1) and it's safe to say a rate-cutting cycle is underway. It is therefore essential to assess how these changes might impact various asset classes and consider strategies to not only protect but also enhance returns.

Chart 1: The beginning of the cutting cycle



Source: CAIM, Bloomberg, 31 August 2024

## The challenge of falling interest rates

The prospect of falling interest rates may be compared to the pruning of a rose bush. Just as a gardener trims the branches to encourage new growth, central banks often lower interest rates to stimulate economic activity. However, this process, while necessary, also presents certain challenges – especially for those who rely on income-generating assets.

When interest rates are cut, the yields on traditional savings products and bank deposits typically decline. The reduction in returns might tempt some to seek out higher yields in riskier investments, or in some cases, to hold off on investing altogether, waiting for better opportunities to bloom.

However, much like pruning a rose bush prepares it for a period of renewed growth, a lower interest rate environment can also create favourable conditions for certain asset classes, including fixed income, to thrive.

Below we highlight why the following Curate income funds are well positioned for the changing market dynamics:

- [Curate Momentum Flexible Income Fund](#)
- [Curate Momentum Enhanced Yield Fund](#)
- [Curate Momentum Income Plus Fund](#)

## Opportunities in fixed income

Despite the challenges posed by falling rates, this environment also presents opportunities for fixed income solutions. Even with recent yield rallies, South African fixed income assets remain attractively valued. Both nominal bonds, yielding around 12.81% year to date (as at 31 August 2024) and inflation-linked bonds, yielding just over 5% over the same period, are still poised to deliver solid returns over the medium term.

These types of fixed income assets, held within the [Curate Momentum Flexible Income Fund](#), are likely to benefit as interest rates decline. As a diversified multi-asset income fund, the Curate Momentum Flexible Income Fund has 27% nominal, and 2.5% inflation linked bond exposure as at 31 August 2024.

The value of existing bonds can increase when rates fall, as their higher fixed yields become more attractive compared to newly issued bonds with lower yields. This dynamic creates a favourable environment for fixed income investments, allowing them to perform well even as broader market conditions shift.

## The search for yield in emerging markets

Another aspect of the changing economic landscape is the global hunt for yield, particularly when rates are cut in developed markets. As central banks in major economies reduce interest rates, investors often look to emerging markets, where yields are higher due to the risk premium associated with these economies.

For South Africa, this shift could lead to increased investment as global investors seek to benefit from higher returns relative to other government debt. Much like how a well-pruned rose bush attracts attention with its renewed blooms, South African asset classes, which offer significantly higher yields after adjusting for inflation, could become more attractive to investors, leading to a supportive environment for local assets, including fixed income and property.

[Click here](#) for the latest yields of the Curate income funds.

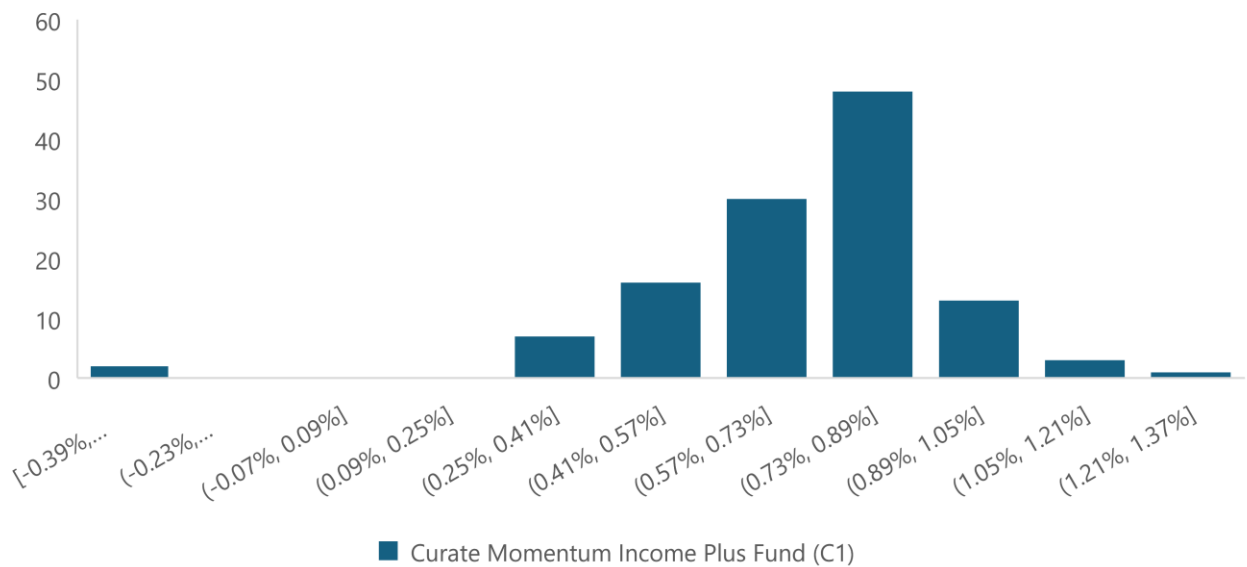
## Cash matters

Within any portfolio, cash is an essential tool for ensuring your portfolio is well-prepared for whatever opportunities arise, to provide liquidity or to save for an emergency fund. The [Curate Momentum Enhanced Yield Fund](#) is an enhanced cash strategy that is designed to give investors a slightly higher return than they can earn from a bank deposit or a money market fund. As a cutting cycle approaches, the fund ensures that it pivots from floating rate notes to fixed rate notes to lock in higher yields for longer. This ensures that the liquid portion of your portfolio still yields enhanced returns and protects your capital.

## Consistency too

And then there are the seasoned green fingers that just deliver flawless roses, time and time again. With a track record that spans close to 20 years, the [Curate Momentum Income Plus Fund](#) has continually produced stable returns throughout many different environments. The fund offers a high level of income, through its participation in the private debt markets and low capital volatility. Chart 2 below illustrates the frequency of the monthly return of the Curate Momentum Income Plus Fund over a 10-year period, with the fund experiencing only one negative return month over this period. The consistency is evident.

Chart 2: Monthly return distribution over time



Source: Momentum Fixed Income, Morningstar, 31 August 2024

Further to its stable return profile, the fund has a low correlation to (or responds differently than) other fixed income funds and asset classes, making it an extremely valuable diversifier in your portfolio regardless of the interest rate cycle.

### A diversified income portfolio

Just as a rose bush needs careful pruning to thrive, investment portfolios require thoughtful adjustments in response to changing economic conditions. By understanding the broader trends, the Curate income funds are being positioned to navigate the changing market dynamics to ensure they continue to deliver strong and sustainable returns and are ready to blossom season after season. Importantly, the Curate range of income funds will continue to provide investors with the necessary income and stability requirements for their investment portfolios.

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