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# THIS COULD BE THE YEAR FOR BONDS

BY RENEE EAGAR, CERTIFIED FINANCIAL PLANNER®, BRENTHURST, CLAREMONT

This happens to me all the time: I mention bonds and their place in a client’s investment portfolio, and their eyes glaze over. Who can blame them? Bonds are boring, right? And they’re confusing: they rise when stocks fall and pay yields instead of dividends. Who could be bothered?

South African investors have enjoyed good stable returns from bonds for quite a few years, to date, and they have provided a great stability building block in an income-paying investment strategy, particularly in 2022 when not much else was working and equity markets globally were in upheaval.

Bonds traditionally pay you consistent, predictable returns that don’t necessarily shoot out the lights, but at least they offer some protection against stock market falls.

This has been the theory, which has held firm for nearly 60 years, until 2022, when the value of global bonds and listed equities fell simultaneously! In the first half of the year, equity markets were under pressure with the tech-heavy Nasdaq alone down nearly 30%, but then bond values also fell by around 10%. This made a balanced portfolio’s returns look bleak and caused concern for investors.

**Going forward in 2024, the outlook for global bonds looks more favourable. We expect interest rates to start dropping, which has an inverse effect on bonds. So, the 2022 anomaly was just that, and there is no reason to suddenly lose faith in bonds and distort the balance in your portfolio.**

**In fact, I think this year is going to be a good one for global bonds. Here’s why I think so, and how you can benefit from keeping or including them in your investment portfolio.**

## 1. BONDS HELP BALANCE YOUR PORTFOLIO

**An age-old investment philosophy promotes the idea that you split your portfolio 60/40 between listed equities and bonds (or fixed income). This is supposed to give you the right balance of risk between higher growth assets (equities) and steady and conservative bonds.**

As mentioned, bonds usually react inversely to stocks by increasing in value when stocks decline.

The point about the 60/40 split is that, I think, there are times when that rule can be broken. This obviously differs from one investor to the next and their appetite for risk, timeline and objectives for investing. But because of the growth potential in short-term US government bonds, it might make sense to lean into that opportunity. Or if you are an existing investor, to hold onto the balance in your portfolio.

The bottom line is that you need to keep a nimble mindset about your portfolio, how it's structured and what that means for you in the long run.

I'm not saying you should blindly change up your portfolio, but there are times that you can take advantage of changes in market conditions. I think, in 2024 selected bonds are going to be solid performers and definitely deserve consideration.

## 2. YOU CAN DIVERSIFY, EVEN WITHIN BONDS

**Another way to create a more balanced portfolio is to hold a mixture of bonds. Whether they be long-term and short-term, government or corporate bonds, or domestic and offshore bonds.**

Looking at short-term US government bonds, for instance, they're offering more attractive returns than long-term bonds. This, again, is not how bonds have traditionally performed. US government long-term bonds traditionally pay higher returns to compensate investors for the increased risk associated with holding bonds over a longer period.

Corporate bonds are less 'predictable' and don't offer the same level of security as government-issued bonds. I'd suggest sticking with investment-grade corporate bonds because they're less likely to default, rather than high-flying newcomers looking to raise cheap capital.

In my opinion, the inclusion of a good income fund manager who can manage their allocations between a selection of bond and cash instruments is the best way to access this type of investing. This way the bond risk is managed more actively and gives investors a better sense of comfort.

## 3. AS INTEREST RATES FALL, BONDS WILL RISE

**After the sharp rise in interest rates, 2024 is the year we expect them to start falling. This might only start in the middle of the year, and when it does the outlook for bonds will improve even further.**

Historic data shows that bonds perform especially well when interest rates fall. Historic data also used to show that bonds rise when equities fall, but as I mentioned, that was not the case in 2022.

Despite the muddy outlook for the year, there is faith that bonds will return to their old ways of increasing when interest rates drop. This gives me the confidence to back bonds this year, not only because they're more dependable, but also because they could outperform.

## ADVISOR PROFILE: RENEE EAGAR, CERTIFIED FINANCIAL PLANNER® AND HEAD OF CLAREMONT

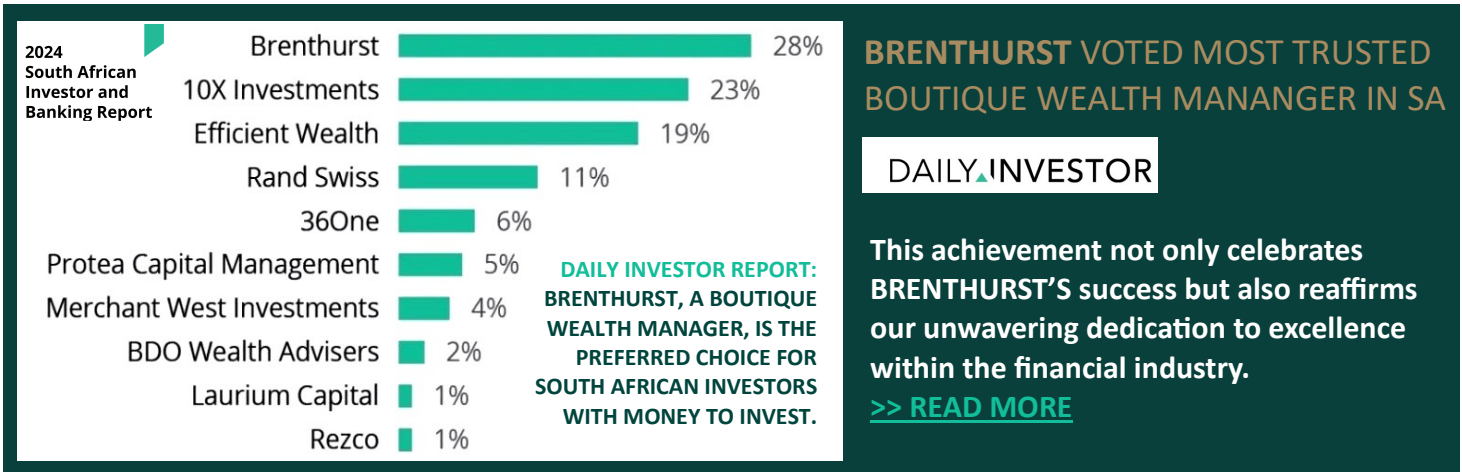


RENEE is head of the Claremont office. She is a CERTIFIED FINANCIAL PLANNER® professional and a member of the Financial Planning Institute of South Africa.

**RENEE RANKED AS ONE OF SA'S TOP THREE FINANCIAL ADVISORS AT THE 2022 INTELLIDEX TOP PRIVATE BANKS AND WEALTH MANAGER AWARDS.**

Renee has been in the financial services industry since 1998 and has worked for institutions such as TMA and Investec Asset Management. She obtained her Higher Certificate in Financial Markets in 2004 and attained her CERTIFIED FINANCIAL PLANNER® designation in 2006. Renee is fully qualified to give advice on all investment matters.

**Phone: +27 21 100 3901 | Cell: +27 83 233 9373 | Email: renee@brenthurstwealth.co.za**



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