

Fixed income managers pivot as global risks cloud rate outlook

Rising geopolitical risk, shifting central bank signals and local rate uncertainty are forcing a more flexible approach to fixed income investing.

BY GONTSE PHALA

South African fixed income has delivered strong returns in recent years, supported by favourable rate cycles and resilient local conditions. But as global uncertainty deepens, driven by shifting central bank dynamics and rising geopolitical risk, portfolio managers are rethinking what it takes to build truly resilient income strategies.

This was the central theme at Fundrock's latest Boutiques on Wednesdays webinar, hosted by Eugene Braak of Apex Investment Consulting and featuring portfolio managers Ntobeko Stampu (All Weather Capital) and Melanie Stockigt (Granate Asset Management).

Building for all market 'seasons'

Stampu (pictured below) says markets are not too dissimilar to Cape Town's unpredictable weather: 'You can leave in a t-shirt and come back needing a raincoat. The key is to be prepared for multiple outcomes before they happen.'



At the core of All Weather Capital's flexible income strategy is the idea of 'layering' portfolios: combining different asset classes and risk exposures to navigate changing conditions. The fund, which is approaching a three-year track record, aims to deliver consistent income returns while preserving capital over a rolling 12-month period.

The strategy blends top-down macro insights with bottom-up security selection, supported by a broader investment team that integrates global economic views into portfolio construction. Importantly, Stampu emphasised that discipline is as critical as positioning.

'There are times when doing nothing is the right decision,' he said. 'From outside, it may look like inactivity, but it's actually about protecting investors and waiting for the right opportunity'.

This approach has helped the fund deliver competitive performance within its category, with a focus on limiting drawdowns while still capturing incremental growth through selective equity exposure.

A more complex global backdrop

While local strategies remain important, Stockigt highlighted that global dynamics are increasingly shaping fixed income outcomes.

‘The biggest surprise this year has been the extent and persistence of geopolitical risk,’ she said.

From escalating tensions in the Middle East to renewed trade conflicts and institutional pressure in the US, global uncertainty has intensified.

Stockigt pointed to the rise of ‘geopolitical choke points’, strategic vulnerabilities in areas such as energy supply routes, rare earth materials, and semiconductor production.

‘These are no longer abstract risks,’ she said. ‘They directly influence market pricing and capital allocation decisions.’

The implications are far-reaching. Fixed income investors must now incorporate geopolitical considerations alongside traditional macroeconomic indicators, fundamentally changing how risk is assessed.

Central bank: Credibility under scrutiny

Another major shift has been the evolving role of central banks, particularly the US Federal Reserve.

Recent market movements suggest growing uncertainty around the Fed’s policy direction. While officials continue to emphasise their commitment to controlling inflation, inconsistent communication has led to volatility across the yield curve, most notably a sharp rise in long-term bond yields even as shorter-term expectations softened.

‘The lack of clarity around the reaction function is being priced into markets,’ Stockigt said. ‘And that means higher volatility and a greater risk premium.’

For emerging markets like South Africa, this uncertainty matters. US interest rates remain a key anchor for global capital flows and risk appetite, directly influencing local bond markets.

Closer to home, the outlook for South African interest rates has also become less predictable.

At the start of the year, markets anticipated a rate-cutting cycle. However, persistent inflation pressures, exacerbated by higher oil prices, have shifted expectations towards a more prolonged period of elevated rates, with the possibility of further hikes.

This uncertainty reinforces the need for flexible strategies that can adapt to changing conditions rather than rely on a single macro outcome.

Instead, investors need strategies that are diversified, dynamic, disciplined and capable of responding to both local and global shifts.

‘Ultimately, it’s about protecting capital while still delivering consistent returns,’ Stampu said. ‘That requires preparation, not prediction.’

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