

Why this outperforming bond fund thinks SA yields can fall below 8%

The All Weather FR Bond fund reckons capital appreciation is likely over the next 18 months.

BY JUSTIN BROWN

The All Weather FR Bond fund is 'cautiously bullish' about South African bonds, driven by the lower inflation target despite the strong returns they have already delivered.

Portfolio manager Ntobeko Stampu's central argument rests on South Africa's lower 3% inflation target. He reasons that if the neutral real interest rate, the rate that neither stimulates nor restrains the economy, is around 2.5% and inflation can be anchored around 3%, the neutral nominal rate would be roughly 5.5%.



Adding term premium, which is the extra return that investors demand for holding a long-term bond, and an inflation premium suggests the 10-year South African government bond yield could ultimately settle around 7.5%-8%, compared with roughly 8.8% at the time of the interview.

That means Stampu (pictured above) sees scope for further capital gains from declining yields over approximately the next 18 months. Against this backdrop, Stampu told Citywire South Africa that the All Weather FR Bond fund is a total-return, benchmark-cognisant bond fund rather than one built around a single source of return.

The central idea is diversification across different sources of alpha. A macro and geopolitical overlay informs its views on inflation, interest rates and duration, which measures how much a bond's price will change when interest rates change.

Investment process

The investment process combines several different levers. These include bottom-up analysis, including yield and credit analysis, which support the yield and carry strategy and top-down macro and geopolitical analysis that informs its active duration management.

Further levers include yield-curve positioning, exploiting distortions in the shape of the curve; credit exposure where non-government issuers offer sufficient additional yield to compensate for the default risk; and diversification and risk management, with risk allocated according to the expected reward.

The fund's ultimate objective is to generate repeatable long-term outcomes and consistently outperform the FTSE/JSE All Bond index (Albi).

Over the last year, the fund outperformed the Albi. The fund returned 17.3% for the year ended August 2026, against 16.6% for the Albi and 16.5% for the Association for Savings and Investment South Africa (Asisa) South African interest-bearing variable-term category.

Stampu identified three principal contributors to the outperformance: excess duration relative to the benchmark, additional income from non-government bonds and a yield-curve flattening position, which is designed to profit when the yield spread between short-term and long-term bonds narrows.

The portfolio is predominantly invested in South African government bonds. About 78% of the fund is invested in government bonds, 15% in state-owned enterprise (SOE) bonds, and 7% in local bank bonds.

This represents a substantial overweight to non-government issuers compared with the Albi, which Stampu estimates is roughly 98% government bonds and 2% SOE bonds.

The fund has overweight exposure to SOE and bank bonds because it can substitute a government bond with a similarly sensitive but higher-yielding SOE or bank bond and collect additional income.

Stampu estimated that the additional yield from non-government issuers contributes approximately 30-50 basis points a year above the benchmark. Other sources of excess return include active duration and yield-curve positioning.

Eskom and Transnet calls pay off

The fund's 14.6% annualised return since inception in September 2024 to August 2026 is better than the 14.5% for the Albi and 13.8% for the Asisa category average. He said that the fund launched at an advantageous point in South Africa's bond-market cycle.

Stampu argued that better macroeconomic expectations, structural reforms, the Government of National Unity, and improved fiscal expectations helped compress South Africa's risk premium and lower bond yields.

One particularly successful strategy was buying Eskom and Transnet bonds when spreads were wide because sentiment towards the SOEs was poor.

The fund expected the SOEs themselves to benefit from reforms to South Africa's network industries such as electricity and logistics. As perceptions improved, their spreads compressed, generating returns for the portfolio.

Where the fund sees the best value

Stampu currently prefers roughly the seven- to 10-year area of the yield curve. On the other hand, the fund is roughly neutral at the ultra- long end, and underweight duration at the short end, where it has adopted a more defensive asset mix.

The caution at the short end reflects the possibility that near-term inflation remains elevated. The portfolio nevertheless holds substantial long-dated government bonds.

Stampu explained that much of this reflects the construction of the Albi itself: because the fund is benchmark-cognisant, large benchmark weights naturally translate into substantial portfolio positions even where the fund is not taking an active overweight.