Prescient
INVESTMENT MANAGEMENT

Capitalising on Global Opportunities: The Case for South Africans Investing in Global Income Assets

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Investors looking beyond South Africa's borders to diversify their portfolio in today's interconnected world should consider high-yielding income assets that are benefiting from the current high US interest rate environment, along with the myriad of other global equities not available on the Johannesburg Stock Exchange (JSE).

As a systematic investment company committed to science and evidence-based investing, we understand the importance of empirically grounded investment strategies that take advantage of all the global investment opportunities available.

With South Africa's stock market representing less than 1% of global stock market capitalisation, diversification into global markets is not just advisable but necessary to avoid the risks of a pronounced home bias. The JSE also offers limited exposure compared to global markets and the myriad of innovative and fast-growing industries, such as technology and pharmaceuticals, that are not well-represented on the JSE.

The South African economy, while rich in potential, bears its share of volatility and political uncertainty. This reality can pose risks that are mitigated through global diversification. Offshore investments in more stable economies offer a hedge against local economic fluctuations and provide a broader security net against domestic unpredictabilities.

While the above makes the case to diversify globally when it comes to the equity building block, South African investors should not look past the more conservative opportunities presenting themselves. Currently, the opportunities presented by global interest rates, especially US dollar-denominated assets, are compelling.

With US interest rates offering yields of 5% to 6%—often viewed as nearly risk-free compared to emerging market economies—the incentive for South Africans to invest in offshore assets that reflect these higher interest rates is robust. The high yields present an attractive opportunity for investors seeking stable, high-return potential in a globally more stable currency.

Regulation 28 of the Pension Funds Act allows investors to allocate up to 45% of their portfolio offshore. This provision paves the way for diversification. It's important to differentiate investments from local liabilities; even though liabilities may be rand-denominated, investing offshore and managing currency risk through hedging strategies can effectively align the investment returns generated by a globally diversified portfolio with local financial needs.

Modern portfolio theory supports diversification as the most significant risk-reducing strategy, without compromising expected returns. For South African investors, diversification is crucial not only across asset classes but also geographically. By investing in global markets, investors reduce the risk of local market fluctuations impacting their entire portfolio.

In the context of current global financial trends, global income funds are particularly appealing. These funds offer asset class diversification, certainty of returns, and a reduced risk profile. The Prescient Global Income Provider Fund, for instance, invests globally across more than 10 000 instruments. It is designed around a risk-aware philosophy that seeks to optimise returns through high-quality, high-yield income assets. A strategy like this is especially attractive now, as it is positioned to benefit from the transition from a high-interest-rate environment to potentially lower rates in the future.

For South African investors, the current global economic landscape offers a unique opportunity to enhance portfolio returns through offshore investing. By embracing a scientifically grounded, systematic investment approach, investors can capitalise on high-yielding, conservative income assets abroad. This strategy not only promises higher returns but also ensures a more stable and diversified investment portfolio in the face of both local and global economic uncertainties.

Please note that there are risks involved in buying or selling any financial product, and past of performance is not necessarily a guide to future performance. The value of financial products can increase as well as decrease over time, depending on the value of the underlying securities and market conditions. No action should be taken on the basis of this information without first seeking independent professional advice. We shall not be liable for any loss or damage whatsoever arising as a result of your use of or reliance on the information contained herein.