sheet will sway investors. But the involvement of top venture capitalists (some of whom made big bucks for tech billionaire Mark Shuttleworth's investment funds) should pique the interest of the more daring investor. With new capital raised recently via a rights issue, there is presumably a pipeline of projects for the new-look company to mull (and hopefully bank on).

Marc Hasenfuss
hasenfussm@fm.co.za
@MarcHasenfuss

THE GREAT ROTATION

Bonds backwash

It looks like assets aren't moving en masse from bonds to equity after all

BofA Merrill Lynch's prediction of the "great rotation" from bonds to equity looked spot-on during the second half of 2013 — a torrid time for bond investors globally. But views are now mixed on the rotation's sustainability and even its existence.

At the very least the rotation has stalled, judging by US asset manager BlackRock's analysis of inflows into global exchange traded funds (ETFs) and mutual funds in the first four months of 2014. While equity funds attracted the lion's share of inflows — US$107bn — flows into bond funds of $53bn represented a solid reversal of the $58bn outflows seen in 2013.

Some observers question whether there was a rotation from bonds into equity in 2013, says Sanlam Investments CIO Gerhard Cruywagen. They argue, he says, that the inflow into equity funds was financed far more by a move out of money market funds than by an exit from fixed interest funds.

BlackRock's analysis strengthens this view. Money market funds have been the big losers, with outflows of US$63bn in 2013 and $144bn in the first four months of 2014.

Turmoil in global bond markets was sparked by former US Federal Reserve (Fed) chairman Ben Bernanke's indication in May 2013 of an early start to reducing the Fed's $85bn/month government bond buying programme (quantitative easing, or QE). Bond yields soared, the US 10-year government bond yield, which sets the tone for global bond yields, rising from 1,7% to a high of 3% in December, the month QE tapering began.

In January, fears that the world had entered a period of rapidly rising interest rates began to recede. Reversing negative sentiment was the Fed's assurance that it would hold its key Fed funds rate at near zero until personal consumption inflation (PCI) exceeded its target of 2%. The Fed does not see PCI exceeding 2% in 2014 or in the following two years.

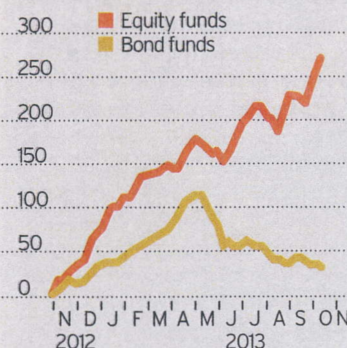
The positive response to the Fed's stance is reflected in a fall in the US 10-year bond yield to around 2,6%. "It is well anchored at around that level," says Sasfin Securities fixed income head Leon Krynauw.

Atlantic Asset Management analyst Albert Botha believes bond yields globally will rise in time but that high government debt levels will be a limiting factor. "Governments can't afford to allow bond yields to spike up," says Botha.

This is certainly the situation in the 18-nation eurozone, where the ratio of government debt to GDP raced from 66% at the start of the global financial crisis in 2008 to its highest ever, 93%, in 2013. Also working against a big rise in bond yields is the euro's strength, which has left the eurozone teetering on the brink of deflation.

European Central Bank (ECB) president Mario Draghi has said inflation below 1% would be in the deflation "danger zone" and a threat to the region's fragile economic recovery. Eurozone year-on-year inflation came in at 0,7% in April, the ninth straight month it had been below 1%.

In a speech on April 24 Draghi stressed the ECB's commitment



Cumulative flow since late November 2013 (US$bn)
SOURCE: BOFA ML GLOBAL RESEARCH, ML GWM INVESTMENT MANAGEMENT & GUIDENCE

Gerhard Cruywagen
Credibility of rotation thesis is fading fast

to countering the threat of low inflation. Though no final strategy has been set out by the ECB, it has alluded strongly to a QE approach, including the buying of eurozone government bonds.

Investors have taken note. In the first four months of 2014, net inflows into European bond ETFs hit $11bn, trouncing a $3bn net inflow into European equity ETFs, reports BlackRock. Buying has driven the key eurozone 10-year German government bond yield down from a late-2013 peak of just on 2% to below 1,5%.

SA would benefit from a longer period of low interest rates in developed markets and an end to the great rotation (if there ever was one). There are tentative signs that heavy foreign selling of SA bonds over the past two quarters is abating: net inflows stood at R3bn for the first 10 trading days of May.

Stafford Thomas
thomass@fm.co.za