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Global bond yields

It's different this time

"It's different this time" are said to be four of the most expensive words in investing, so we don't use them lightly.

For most of the Granate FR Multi Income Fund's ten-year history, valuing South African bonds started in the US. We took the US Treasury yield as the risk-free rate (the return for lending to the US government, long seen as the safest borrower in the world), added a spread (an extra return for taking on South African risk), and worked from there. There's an old, overused saying, that when America sneezes, emerging markets catch a cold. When US Treasuries sold off, we expected to sell off more. Many crises have taught us that lesson, most recently in 2022 in the aftermath of COVID, which cost bondholders dearly. However, that sensitivity has changed, and it's having a profound impact on how we think about the value in bonds.

A quick note for anyone who doesn't live in the bond market: when bond yields go up, bond prices go down. So, when we talk about a sell-off, we mean yields rising and bond prices falling.

September's test

In September, America did a lot more than sneeze. In that single month, US 10-year Treasury yields rose from 4.8% to 5.3%, their highest in decades. On the old playbook, that should have pulled capital out of emerging markets and pushed local yields sharply higher.

It didn't. South African yields rose much less than US yields, as did yields in other emerging markets such as Chile and Brazil. South Africa's long-term rand bond yield is about 9%, well below earlier levels in 2024 and 2025.

The index numbers tell a similar story. Even after September, emerging market bonds in local currencies are roughly flat for the year, while developed market bonds are down 4.5%. A flat emerging market return amidst a developed market bond sell-off is a good result.

The trouble has moved

The fiscal stress now sits in developed markets. As we have been saying since the beginning of the year, developed markets are behaving badly. The US is running large deficits with no plan to close them, and its interest bill is now a substantial portion of its GDP. Add recent questions about Fed independence and Treasury interference in the bond market, and the US Treasury market is no longer the bastion of safety it used to be. It's now pricing in significantly more risk.

On the other hand, many emerging markets have started doing the hard work. They are pushing through difficult fiscal reforms, have strengthened their central banks and have kept monetary policy tight since inflation rose after COVID, while developed markets have been playing a bit more of a fast-and-loose policy game.

South Africa shows the difference clearly. The Reserve Bank has maintained a cautious stance, due in part to revising the inflation



target lower to 3%. The country is still missing that target, which Governor Kganyago isn't happy about. But as he put it, "six months is a lot better than 67 months", which is how long the US has been missing its own target. He believes that recent reforms to restrain debt and contain inflation are 'shielding us from the 2026 global bond repricing'.

Big Tech joins the queue for money

There's an additional force affecting developed market yields, and we've never had to deal with it before. Until now, Treasury yields were mainly driven by fiscal and monetary policy: how much the government borrows and what the Fed does with rates. Now, private sector supply matters too.

The hyperscalers are the large tech companies building AI infrastructure, and they're borrowing on a scale the bond market is not accustomed to. By late August, Alphabet, Amazon, Meta and Oracle had issued about \$223 billion of bonds. That's more than double their total for all of 2025. AI-linked debt now makes up around 15% of all US investment-grade issuance (bonds from the most creditworthy companies), and much of it is long-dated. Their capital spending is expected to surpass \$1 trillion a year by 2027, up from \$156 billion in 2022, and their cash flow won't cover it.

That debt competes with Treasuries for attention from the same buyers: pension funds, insurers and other long-term investors. When a highly rated tech company offers a solid yield for 30 years, the US government has to pay more to compete. That's a big part of why long-dated US yields have pushed through 5%.

The market is starting to push back. The extra return investors demand to lend to these companies, over and above what the US government pays, has risen by about 0.3% this year. For other highly rated companies it has barely moved.

Judging South Africa on its own merits

None of this impacts South Africa directly, at least not for now. We have our own domestic savings that fund the government in rand, and our bond market is not competing with a wave of AI debt for buyers. We also don't depend on dollar borrowing. Countries that do – like Argentina and Egypt – are rolling over large amounts of short-term dollar debt, which puts them in a more precarious position as dollar debt yields climb.

US Treasuries will remain an anchor for our market, given that the US dollar is still the world's largest reserve currency. But we need to be more mindful of valuing South African bonds on their own fundamentals. US yields now reflect three forces: fiscal stress, less monetary certainty, and a private-sector supply shock. None of those is a South African risk. When Treasury yields rise because AI companies are flooding the long end, that tells us something about the US funding market. It tells us very little about South Africa.

If we were to value South African bonds on their own fundamentals we would see that our real yields (the return left over after inflation) are extremely high, given the direction that the economy is taking. Monetary and fiscal reforms allow the future to look brighter while higher oil prices and inflation fears have kept the Reserve Bank cautious, so inflation-adjusted yields stay well above what developed markets offer. For our multi-income fund, that's the opportunity. We're getting enough compensation to own South African risk, while the 'risk-free' asset has started to carry risk of its own.

What could still go wrong

We don't think South Africa has decoupled completely from US Treasuries. The resilience of emerging markets is real, but it has limits. The biggest risk is a large event that would impact growth in the US. The AI theme is largely what's holding the US economy up, and it's beginning to be funded with debt. If the returns on that spending disappoint, the equity market and the credit market get hit together, which could spill into every risk market, including SA. In a real global panic, correlations go to one, which is market shorthand for almost everything falling together. The second risk is persistent oil-driven inflation, which could stop the Reserve Bank from cutting interest rates – or force it to tighten further.

How we're navigating it

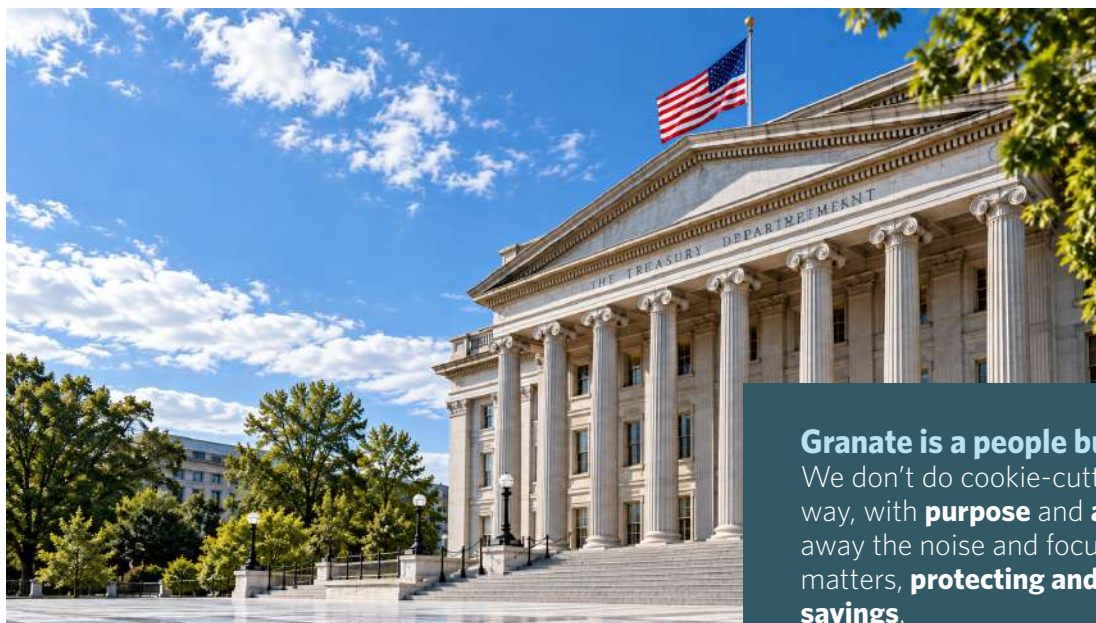
Capital preservation comes first. We own the real yield because we think it pays us properly for the risk. But we limit our duration so that a sharp risk-off episode doesn't cost us too much capital, and we keep enough liquidity to act when others are forced to sell.



Duration measures how sensitive the fund is to interest rate moves, and ours is low at 1.3. That means a one percentage point rise in yields would cost the fund roughly 1.3%. The yield is healthy at 9.01% (a real yield of 5% to 6%), which should deliver healthy returns for investors given our active asset allocation strategy and our continuous search for the best opportunities. Put simply, we're collecting the high South African yield without lending money out for long periods, so if the world does panic, it shouldn't cost us much.

A better question

For decades the question has been whether South Africa can survive higher US rates. September gave us an answer: America sneezed hard, and this time we didn't catch a cold. The better question now is whether the US can afford higher rates, especially while it competes with its own tech companies for the same buyers. It really is different this time, and our thinking about valuing bonds is changing to match it.



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