

Investors can finally afford to say no.

Dr. Nico Marais, Chairman Carmel Wealth

I've spent 37 years in investment management, and if there's one stretch that tested me more than most, it was the near-zero interest-rate period (roughly 2009 to 2015, and again from 2020 into early 2022 in the US, longer still in Europe and Japan). Cash paid almost nothing and bond yields were exceptionally low. We were all forced into equities, property and other risk assets simply to earn a reasonable return. I lost count of the times I looked at an investment, thought the prospective return unexciting, and asked myself: but what's the alternative?

Today there is one. Cash pays a reasonable return, South Africa's 10-year government bond yields around 8½%, and developed-market fixed income offers yields that would have looked exceptional only a few years ago. That hands investors something we didn't have for most of the previous decade: the ability to say no.

We can say no to an equity investment whose expected return only marginally beats fixed income. No to locking money away for years without being properly compensated for it. No to paying almost any price for growth simply because there is nowhere else to put the money. It's a useful position to be back in, after a decade of not having it. The question has shifted from whether an investment can make money to whether the return justifies the risk.

Historically, higher cash rates haven't necessarily brought higher excess returns from equities. That makes the comparison with fixed income even sharper. If liquid fixed income can hand you a high single-digit nominal return with contractual cash flows, an equity offering only a point or two more leaves almost no margin for error. Earnings disappoint. Management makes mistakes. Valuations move. When the cushion is that thin, it doesn't take much to wipe out the advantage you thought you were being paid for.

South Africa stands out, because our bond yields have stayed high even as the country's risk premium has come down. Inflation has improved, sentiment towards the fiscal position is less bleak, and foreign investors returned to our bond market in force in early August. Much of that improvement is already priced in, so I wouldn't chase it blindly. But local fixed income has become a credible alternative again, for the first time in years.

After this many years in markets, I no longer feel any obligation to take risk just because it's on offer. I still want growth, but I want the odds clearly stacked in my favour, not just plausible. So where does that leave me saying no?

I haven't been this positive on South African fixed income in years, but unnecessary duration is where I draw the line. An attractive yield doesn't automatically justify reaching for the longest maturity on the shelf. If I can get a good return without making a large bet on inflation and long-term rates, I want to be paid a real premium before I go further out. Otherwise, why take the extra risk at all?

I'm saying a harder no to expensive equities too, especially where the case rests on growth far into the future. I'd rather own businesses that already generate cash, earn high returns on capital, and can fund most of their own growth, than businesses that need the next ten years to go exactly right. Cheap money let weaker businesses limp along for longer than they should have. Once capital has a real cost again, the gap between a strong business and a weak one stops being theoretical and starts showing up in results.

That's part of why I'm wary of some of the pricier corners of the US market. This isn't a case against America, or technology, or AI. I'll admit I haven't walked away from tech myself, and I don't intend to. I still want that exposure, but I'd rather spread it wide than stack it all behind one story: the physical infrastructure of data centres, the machinery of robotics and automation, the compute and chips underpinning AI, spread deliberately rather than concentrated in one mega-cap bet I'm hoping I picked correctly. Plenty of the businesses involved are genuinely exceptional.

I'm even quicker to say no to illiquid investments. Lock my capital up for five or ten years in private equity, private credit or property, and I want a real premium over what's on offer in liquid markets. An extra point or two might have felt tolerable when bonds yielded next to nothing. It's a much harder sell today, and I think a lot of investors haven't fully repriced that trade-off yet.

Offshore diversification isn't on my no list. South Africa is too small a market, and our country-specific risks too real, for that. What I am saying no to is the notion that an offshore investment is attractive purely because it's denominated in dollars. A mediocre investment doesn't turn into a good one because the rand might weaken, and I've watched too many people confuse currency exposure with genuine diversification.

Cash has earned its place back too. For years I disliked holding much of it: the opportunity cost was too obvious to ignore. Now investors actually get paid to wait. That buys patience, and patience makes it a lot easier to walk away from a deal that isn't offering enough.

So, where I stand is fairly straightforward: South African fixed income and sensibly priced, cash-generative companies with strong balance sheets appeal to me; expensive distant growth, unnecessary duration and thinly-compensated illiquid bets don't. I'm still internationally diversified, but I want the underlying asset to earn its place, not the currency to do the work for it.

None of this means I've gone soft on risk. It means I've gotten a lot more comfortable walking away when the return doesn't justify it. After years of being forced to stretch for yield, that's not a small shift, and it took me longer than I'd like to admit to fully trust it. It might be the one thing worth remembering from this whole period: the market doesn't owe you a return just because you showed up, and for the first time in a long time, you don't have to pretend otherwise.

About the Author

Dr. Nico Marais is the Chair and Co-Founder of Carmel Wealth. He has been the President and CEO of Wells Fargo Asset Management; the Global Head of Multi-Asset Investments and Portfolio Solutions at Schroders; the Global Head of Portfolio Management (Active Allocation), Multi-Asset and Client Solutions (BMACS) at BlackRock; and the Global Head of Investment Strategy, Client Solutions Group at Barclays Global Investors (BGI).



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