INVESTMENT VIEWS

Market watch: Marching ahead with exposure to global assets

By CHARLES DE KOCK

THE QUICK TAKE

- The resilience of the US economy has been the biggest positive surprise for investors over the past year
- Stock markets in developed countries have continued to perform well over the quarter
- Our multi-asset portfolios maintain significant exposure to global assets, including to global businesses listed on the JSE

Charles is a portfolio manager with more than 38 years of investment industry experience.

STOCK MARKETS IN the developed world continued to march higher in the first quarter of the year, with the S&P posting several new all-time highs. Europe and Japan followed suit, with the Nikkei index in Japan at long last surpassing its 1989 high.

The positive sentiment is driven by the resilience of the US economy in particular, despite the sharp up-cycle in interest rates. Following the global financial crisis and the dramatic policy response of the US Federal Reserve, then under the chairmanship of Ben Bernanke, many economists argued that the US had become hooked on low interest rates. It was feared that if and when interest rates were to rise meaningfully it would induce a deep recession. One can now safely say that those fears were overblown. The biggest positive surprise for financial markets over the past year is how well the US coped with the sharply rising interest rate cycle. Growth has been strong and unemployment extremely low. Company earnings have consequently been healthy, which translated to the strong performance of the US stock market.

On the downside, inflation has yet to retreat to the 2% target area, lingering around the (pretty acceptable) 3% mark. A gradual slide lower is still expected, which will enable the Fed to start the cutting cycle later in the year. Sharp rate cuts are not needed at this stage.

The major negative for the world economy has been the economic weakness of China. Unlike the developed world economies, the Chinese economy has disappointed following its reopening after the Covid-induced lockdowns. High debt levels and a poor property market in China have

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been the major drags on the economy. The diverging growth experience between developed and emerging economies has also been very evident in the stock markets. Led by the US, developed world stock markets have had a very strong run, far exceeding that of emerging markets.

The South African economy, hampered by ageing infrastructure and poor maintenance, has continued to struggle. With inadequate power supply, inefficient rail transport and harbours struggling to move exports, the outlook for growth remains constrained. Shares linked to the local economy therefore had to contend with an extremely difficult low growth and rising cost environment. It is no wonder the performance of "SA Inc." stocks has been poor. Many of these stocks are trading at very low multiples and appear cheap, but we are wary of falling into value traps. The SA equity portion of our portfolios consequently remains tilted heavily in favour of global businesses that are listed on the JSE. Some domestic stocks are gaining market share from competitors and a few others have carved out niches of growth, but one has to be very selective in the local market.

EXPLORING FIXED INCOME OPPORTUNITIES

After ignoring global bond markets for over a decade due the absence of value, our multi-asset funds added meaningful positions in corporate bonds over the past year. We still hold those positions across our portfolios, which brings a healthy diversified blend to the global portions of our funds and carries an attractive yield of over 8% in USD.

South African bond yields remain elevated but, sadly, reflect government's poor fiscal position. Government debt is too high and in a low growth economy the tax take will unfortunately not rise by enough to counter the spending needs of the government. We hold some government as well as corporate debt in the domestic market but we are wary not to take duration risk too high. We also hold inflation-linked bonds that we believe can protect our clients from the effects of higher inflation if it occurs.

ELECTION DYNAMICS

South Africa will hold elections at the end of May. The polls show the ANC's voting share may drop to below 50% for the first time in our democracy. It is therefore a strong possibility that the ANC may need to form a coalition to remain in power. If their percentage vote is not materially below the 50% mark, they should be able to form a coalition quite easily with one or more of the smaller parties. If their vote drops to the low forties, they may need to team up with one of the larger parties. Depending on who the coalition partners are, the market will either view it as market friendly or market unfriendly. While we don't have the ability to forecast the outcome of the election more accurately than what the polls predict, our view is that the problems faced by the South African economy cannot be fixed quickly. Even if the correct decisions are taken and implemented it will take years to fix the problems in power, rail and water – to name but three of the key problem areas.

Our multi-asset funds maintain full exposure to global assets, including significant holdings in global businesses listed on the JSE. We continue to believe that is the correct strategy to protect and grow our clients' wealth. +

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South African Readers

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US Readers

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Global (ex-US) readers

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