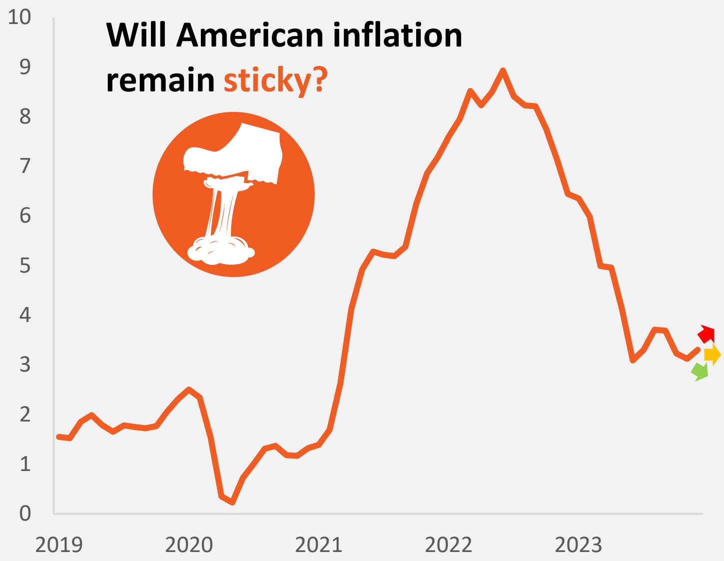
INVESTMENT OUTLOOK
Quarter 1

The hard work is done
but there is no time for complacency

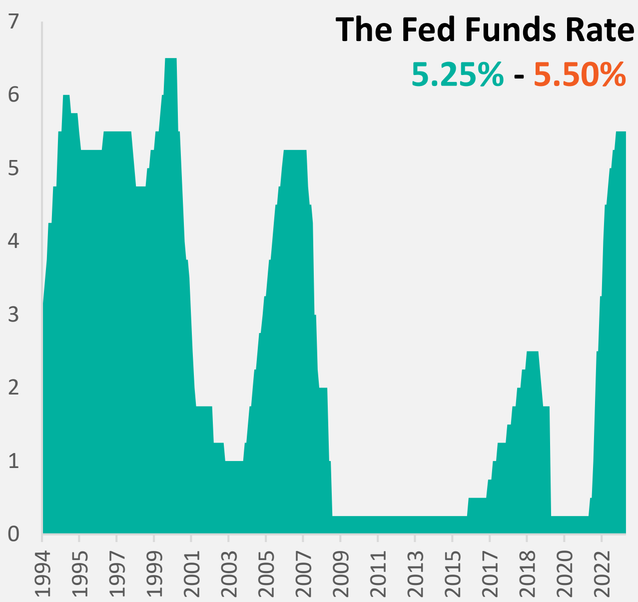
The large surge in global inflation and interest rates are finally behind us.

With **11** interest rate increases since the first quarter of **2022**, US inflation has fallen from a **40-year** high to within striking range of the Fed target.

However, there is no time to be complacent as the path back to the Fed's inflation target of **2%** is less than assured because of sticky inflation. If interest rates stay higher for longer, the market will have to pare back its expectations of several rate cuts this year.



Source: FactSet and Adviceworx



Higher-for-Longer
Will interest rates unsettle equity and bond markets?

Add a dose of intensifying geopolitics and a contentious American election, the hope of a soft economic landing may well turn into a bumpy ride.

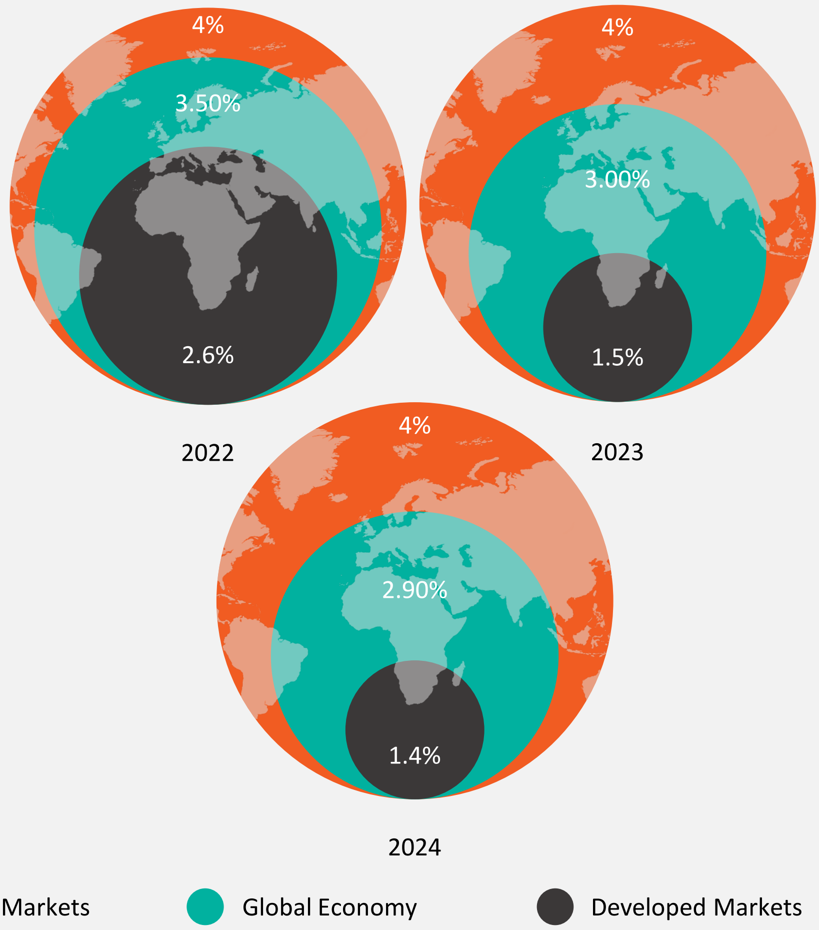
To navigate the crosswinds, that will gather momentum over the year, exposure to a range of asset classes to protect against downside risks will be the most prudent way to navigate **2024.**

The markets have priced in a Fed funds rate of 4% by the end of 2024 which could be too optimistic if inflation remains sticky.

Source: FactSet and Adviceworx

Global Economic Forecast

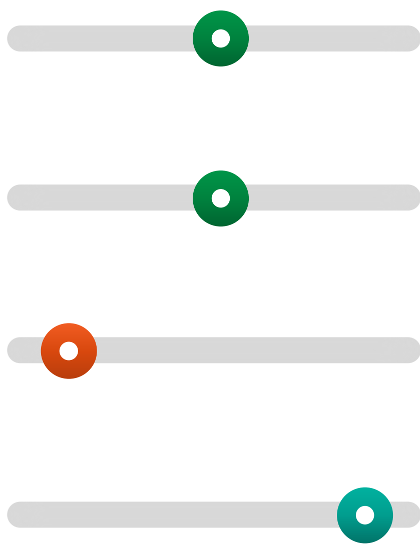
- Global economic growth is expected to slow in **2024** as higher interest rates weigh on economic activity and excess Covid savings are depleted.
- Inflation is expected to moderate but will remain relatively sticky at around **3%.**
- The interest rate hiking cycle has likely peaked but rates may have to stay higher-for-longer to temper sticky inflation, increasing the risk of recession.
- **2024** will be a **catch-22 year** – interest rates will only be cut if economic conditions deteriorate (which will impact corporate profits and hence equities). Whereas equities have priced in aggressive rate cuts which will be needed to support their lofty valuations.



Source: IMF

International Markets

	Asset class views	Negative	Neutral	Positive
Equity	Absent interest rate cuts, a slowing macro environment could be a headwind. Valuations are not very compelling and could come under pressure if bond yields rise if the Fed delivers fewer rate cuts than expected.			
Fixed Income	The normalisation of yields offers attractive yield opportunities. Bonds will provide protection in the event of recession and geopolitical risks.			
Listed Property	Our higher-for longer interest rate narrative suggests some downside risk to REITs in the short-term. There could be a better entry point to upweight to neutral.			
Alternatives	Alternative investments such as structured products, infrastructure and absolute return strategies can provide exposure to investments with unique characteristics and have a low correlation to traditional asset classes.			



Movers & Shakers

Events that will shape 2024

US presidential elections

Destabilizing consequences for geopolitics and more economic protectionism with potentially inflationary consequences under a Trump win.

Artificial intelligence

AI is doubling at a rate much faster than Moore's Law with promising developments in technology, weight-loss drugs to gene-editing. But also expect greater AI-generated disinformation and calls for AI regulation.

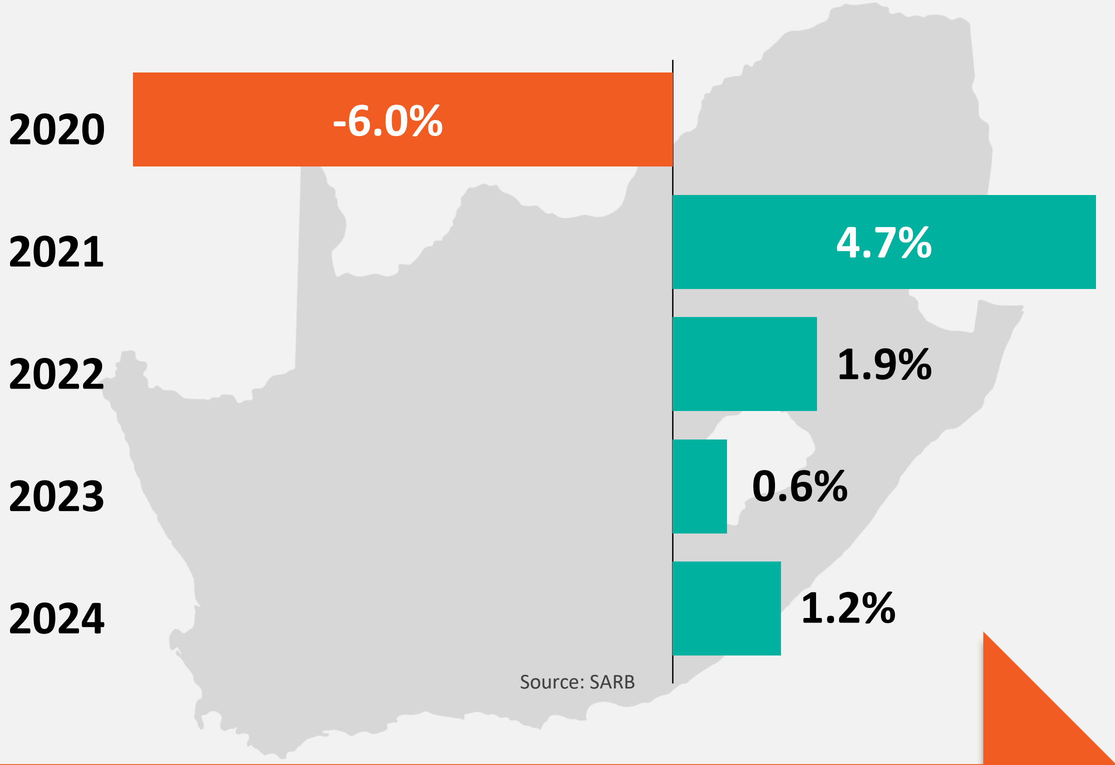
Geopolitical instability

Cooperation among rogue countries seeking to undermine Western legitimacy with passive support from Beijing which will pose a threat to global stability.

Record year for global elections

Almost half of the world's population will head to the polls this year. Some will be free and fair (UK), others contentious (US), there will be shams (Russia) and disappointments (SA).

GDP **Forecast**



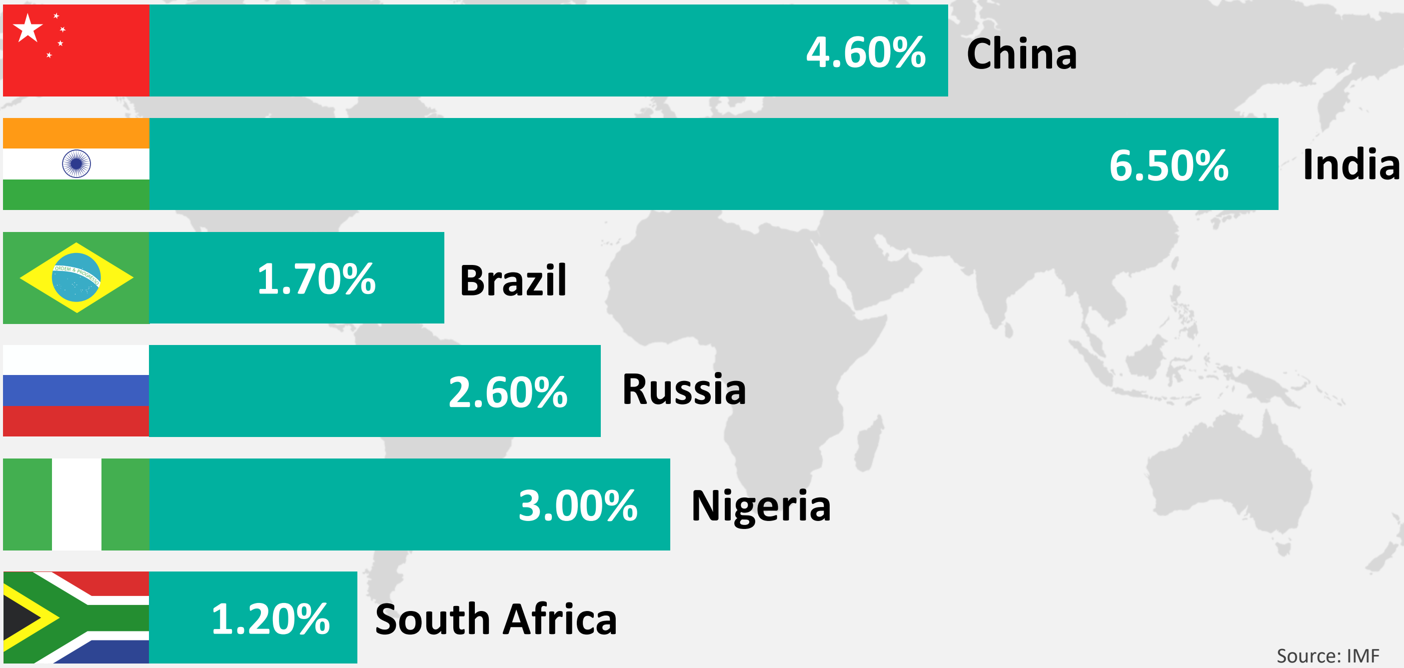
- The domestic economy is expected to grow by a benign 1.2% this year. Structural challenges such as unreliable electricity supply, inefficient ports and transportation networks, as well as weaker commodity prices, high interest rates and constrained consumers are expected to weigh on economic growth.

- Inflation is expected to ease to around 5% this year and we should see some modest interest rate cuts in the second half of this year, providing some relief to constrained consumers.

- A potential risk to South Africa's outlook is the faltering recovery in China. South Africa's fortunes are linked to the health of the Chinese economy through its demand for commodities and the health of its technology companies given our exposure to Tencent via Naspers/Prosus. Given the weakness in the Chinese property market, the demand for commodities is expected to remain benign.

- Emerging markets are expected to grow by 4% on average. However, China is expected to fall below the government's targeted growth rate of 5% on a weak property market and weak domestic consumption. India is expected to remain strong reflecting strong domestic demand.

Emerging **Markets**



Source: IMF

Local Markets

	Asset class views	Negative / Neutral / Positive
Equity	While a lot of bad news has been priced into SA equities and valuations look attractive, there is concern about the deterioration of SA fundamentals, a strained fiscus that will keep the cost of capital high, a shrinking stock exchange (with increased cyclicality) and a lack of appetite from foreign investors. The domestic market does offer attractive investment opportunities, but stock selection will be key to avoiding value traps. Given high dividend yields and high single digit earnings growth, returns of between 8-10% look reasonable.	
Fixed income	A fall in global interest rates should bode well for the domestic bond market. The yield curve remains steep, and the belly of the curve offers attractive opportunities without too much duration risk. Upcoming elections, a tough Budget Speech in February and higher-for longer global interest rates are potential risk events.	
Listed property	We remain cautious about this sector given weak domestic fundamentals, high vacancy rates in the office market and increasing headwinds to retail trading densities in the retail sector.	

Movers & Shakers

Events that will shape 2024

South Africans return to the ballot box

The mid-year general election (expected to be held between May and August) will be closely watched by the markets. If support for the **ANC** falls to between **45-50%,** the **ANC** could consider a coalition with several smaller parties to maintain its majority vote. In this event, expect more of the same in terms of economic growth and policy. The risk is if the **ANC** garners less than **45%** of the vote and considers a coalition with a larger party with more populist and left-leaning economic policies. This would pose a significant risk to all South African asset classes and the Rand.

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