NEDGROUP INVESTMENTS

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Quarterly review

Nedgroup Investments Core Global Feeder Fund

As at 30 September 2023

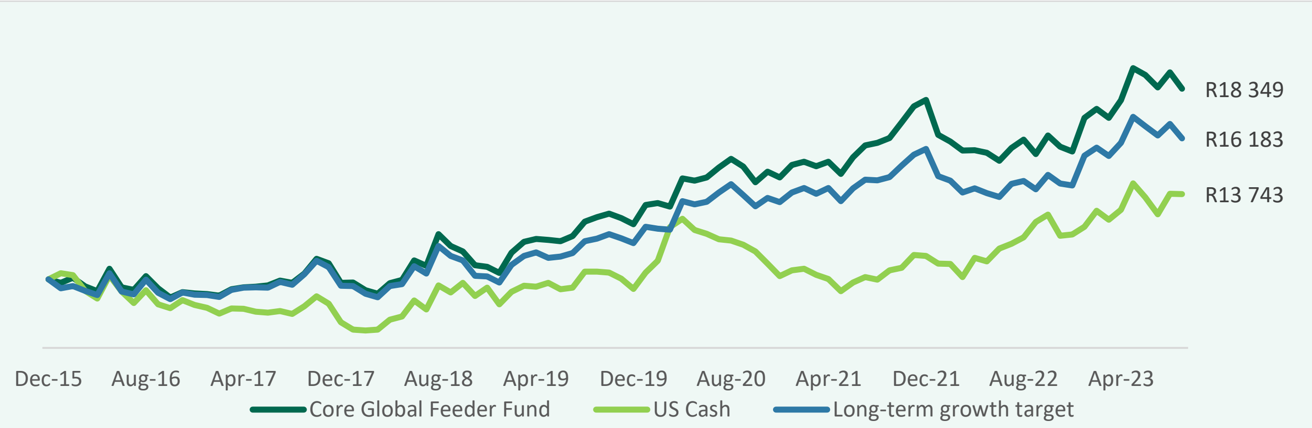
Recession fears and central-bank tightening are driving market volatility

The path toward a more balanced economic state has impact on financial markets. In most developed regions, the excessive debt accumulation over the previous decades that created the large economic imbalance today has already begun to reverse. The combination of central banks raising interest rates, draining reserves and banks tightening lending standards, in addition to other fiscal policy conditions, has combined to reduce the flow of money to markets and economies - causing significant market volatility. After a positive first half, risk assets started to price for the more challenging backdrop in the third quarter. Over the quarter, the Nedgroup Investments Core Global Feeder Fund declined by -3.2%.

The table below compares an investment in Nedgroup Investments Core Global Feeder Fund to US bank deposits (cash) investment over various time periods. For every R10 000 invested in the Nedgroup Investments Core Global Feeder Fund at inception (4 January 2016), you would have R18 349 at the 30th of September 2023. This is much higher than the R13 743 you would have achieved had you invested your money in US bank deposits (cash) over the same period.

	Value of R10,000 investment in Nedgroup Investments Core Global Feeder Fund versus US Cash[1]				
	3 Months	1 Year	3 Years	5 Years	Inception 4 January 2016
Growth of fund (after fees) ***(Growth in %)***	R9 677 *-3.2%*	R11 842 *18.4%*	R12 283 *7.1% p.a.*	R16 003 *9.9% p.a.*	R18 349 *8.1% p.a.*
Growth of US Cash ***(Growth in %)***	R10 105 *1.0%*	R10 976 *9.8%*	R11 931 *6.1% p.a.*	R14 584 *7.8% p.a.*	R13 743 *4.2% p.a.*
Growth target (Global MA High Equity Mean) ***(Growth in %)***	R9 681 *-3.2%*	R11 600 *16.0%*	R11 813 *5.7% p.a.*	R14 677 *8.0% p.a.*	R16 183 *6.4% p.a.*
Change in Dollar exchange rates ***(Change in %)***	R18.85 to R18.92 *-0.39%*	R18.35 to R18.92 *-4.82%*	R16.24 to R18.92 *-4.14% p.a.*	R14.77 to R18.92 *-5.89% p.a.*	R15.46 to R18.92 *-2.57% p.a.*

Fund Return versus US Cash1 in Rand from inception ending 30 September 2023



Since the inception of the Nedgroup Investments Core Global Feeder Fund it has done better than US cash. However, it is to be expected that occasionally there will be periods where the fund does not beat US cash over 5 years. Over the long term[2], a portfolio such as Nedgroup Investments Core Global Feeder Fund would have delivered a higher return than US cash around 86% of the time over any 5-year period.

1. We used the ICE Bank of America 3-month deposit rate for US cash returns converted into Rands
2. Based on Global market returns from 1997 to 2018 (source Morningstar) using the same long-term equity allocation and fees.

Economic and market review

After a strong start to the quarter in July, equity markets fell in August and September. Investors grew cautious as the reality of 'higher for longer' interest rates became apparent. Bond yields rose throughout the quarter with US 10-year yields hitting a 16-year high on the first day of the fourth quarter. Q3 global bond market losses have came as the 10-year Treasury yield - the benchmark for world borrowing costs - has surged roughly 75 basis points to just above 4.6 percent. That is the largest quarterly jump in a year and one which hoists it back to its long-term average for the first time since 2007.

Today, we are faced with significant levels of imbalance in developed market economies that are difficult to resolve; most notable is the divergence between demand (nominal spending) and supply (economic output). Current high levels of nominal spending were triggered by the unprecedented liquidity injection and fiscal debt build-up during the COVID-19 pandemic, which have outstripped the ability of developed market economies to produce more, leading to an inflationary overshoot. Unsurprisingly, policy makers are left with no appetite to inject more stimulus into the economy and are now forced to engineer a broad economic slowdown to rein in demand.

In an effort to combat historically high levels of inflation, the Federal Reserve has implemented an unprecedented Fed Funds rate hiking cycle of 525 bps in a brief span of 16 months. This has shifted monetary policy from accommodative to restrictive, reflected in long-term real interest rates that have risen to 2 percent, a level not seen since the GFC. This restrictive monetary policy position (which includes so-called "Quantitative Tightening"), coupled with softening inflation suggest to us that we are nearing the end of Fed rate hikes. The key questions going forward for the market are how long will the Fed hold this restrictive policy and when will they need to pivot? While the market ponders these two questions, market pricing is entering an inflection point where real yields are cyclically high and high yield spreads are cyclically tight, a market pricing environment that has historically been unsustainable.

While growth stocks have been under pressure, this round of higher interest rates has had more of an impact on two specific groups of stocks: dividend stocks and stocks exposed to consumer spending. The moderation in US inflation had seemed broad-based during the first half of the year but was certainly aided by a lack of energy price inflation. The equation for financial markets over the last few months has been both simple and painful: A near 30 percent surge in oil prices + a steep rise in borrowing costs = a clattering for global stocks and bonds. Equity bulls have also been biffed. The S&P 500 lost 3.3 percent over the third quarter, while declines across Europe and Asia were more meaningful.

In the month of September, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) decided to leave the repo rate unchanged at 8.25 percent. The decision to pause was not unanimous, with three members of the MPC voting in favour of this outcome, while two other members preferred a 25 basis points (bps) increase.

Views around inflation have remained contentious over the last 18 months, however two prevailing arguments have since resolved the long-standing dispute. The first is that peak inflation is now firmly behind us. The second is that inflation in many countries is starting to fall towards target.

While the second argument may be true, the pace in price moderation is somewhat sticky, requiring higher for longer policy rates. The Forward Rate Agreement (FRA) market seems to concur, and now pricing-in another 25-bps increase in November 2023 before interest rates start to retreat in the second half of 2024.

The market's latest policy outlook is largely informed by reduced global oil inventory levels, as well as the impact thereof on future fuel price inflation. According to Stats SA, the annual consumer price inflation (CPI) index rose from 4.7 percent in July to 4.8 percent in August. Notwithstanding the reversal of low base effects, it is our view that a moderating economic backdrop is unlikely to maintain elevated inflationary pressures.

In the SA money market, the 3-month JIBAR rate fell by 2.5-bps to 8.333, while the 12-month JIBAR rate increased by 32.5-bps to 9.275 versus the previous month. In the last 12 months, the 3-month, and the 12-month JIBAR rates increased by 187-bps and 68-bps, respectively. These elevated JIBAR rates imply that money market funds are likely to generate a return of between 9 percent and 10 percent over the next 12 months with no (or limited) risk of capital loss.

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