



Quarterly review

Nedgroup Investments Core Accelerated Fund

As at 31 December 2023

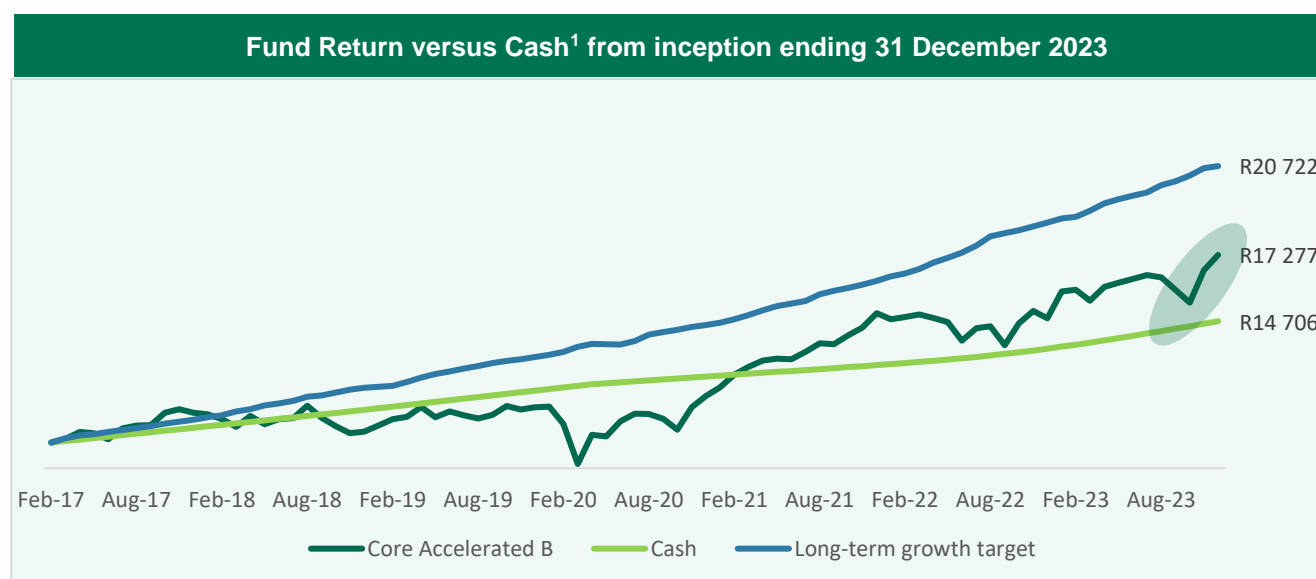


Interest rates and central bank expectations continued to influence markets throughout 2023

The fourth quarter started out with low expectations as rising long-term interest rates extended the decline in the S&P 500, taking asset and portfolio values down. We saw the stock and bond markets reaching crescendo lows near the end of October as investor sentiment and confidence declined. With the release of positive third-quarter economic data and business activity reports coupled with better than feared corporate earnings results, markets began to turn. Over the quarter, the Nedgroup Investments Core Accelerated Fund increased by 8.5%.

The table below compares an investment in Nedgroup Investments Core Accelerated Fund to a bank deposit (cash) investment and its growth target over various time periods. For every R10 000 invested in the Nedgroup Investments Core Accelerated Fund at inception (28 February 2017), you would have R17 277 at the 31st of December 2023. This is higher than the R14 722 you would have achieved had you invested your money in bank deposits (cash) over the same period. The green circle in the chart below, highlights the recent market recovery, which helps to contextualise the returns experienced in the past few years.

Value of R10,000 investment in Nedgroup Investment Core Accelerated Fund versus Cash ¹ and the Growth target						
	3 Months	1 Year	3 Years	5 Years	7 Years	Inception 28 February 2017
Growth of fund (after fees) (Growth in %)	R10 851 8.5%	R11 657 16.6%	R14 635 13.5% p.a.	R16 579 10.6% p.a.	-	R17 277 8.3% p.a.
Growth of cash (Growth in %)	R10 200 2.0%	R10 780 7.8%	R11 710 5.4% p.a.	R13 052 5.5% p.a.	R14 867 5.8% p.a.	R14 706 5.8% p.a.
Growth target (inflation+6%) (Growth in %)	R10 294 2.9%	R11 185 11.9%	R14 232 12.5% p.a.	R17 099 11.3% p.a.	R21 127 11.3% p.a.	R20 722 11.2% p.a.



The Nedgroup Investment Core Accelerated Fund is designed for investment periods of 7 years and longer as it has a high exposure to shares (90%). This means that it can experience significant fluctuations over shorter periods but in the long-term has a growth target of 6% above inflation (around 12% per year), as demonstrated in the chart above.

The Nedgroup Investments Core Accelerated Fund has fallen short of this target since inception. However, history demonstrates that two-thirds of a fund such as the Nedgroup Investments Core Accelerated Fund would have achieved its long-term growth target of 6% above inflation (around 12% per year) over any 7-year period. In fact, as the time horizon extends, so the risk of underperforming this target decreases.

¹ We used the STeFI call deposit rate for cash returns



Economic and market review

In the fourth quarter, inflation data softened faster than expectations and neutral monetary policy guidance from the Federal Reserve led to a rapid change in investor confidence. As a result, both stock prices and long-term interest rates reversed direction, and we experienced one of the more powerful rallies in both the stock and bond markets than we have seen in recent years. With global equity and bond markets experiencing a significant rally in the last two months, this led to positive returns for the fourth quarter and improved returns over 12 months.

Despite existing challenges and elusive inflation targets, policy makers' lack of resistance in December meetings didn't alter the market's perception of peak interest rates, suggesting a shift might be coming. Particularly, dovish statements from US policy makers paved the way for further reduction in bond yields, even though mixed US labour market data led markets to delay the timing of the first interest rate cut. In the bond market, after causing much pain for investors in the first 10 months of the year, the yield on the 10-year US Treasury ended the year roughly where it started at about 3.9%. In December, global bond yields continued to decrease significantly. The Bloomberg Global Aggregate Bond Index rose by 4.2% in December, resulting in a substantial quarterly return of 8.1%. This left the returns for 2023 positive at 5.7%. Concurrently, gold performed well over the quarter, increasing by 11.6%.

If one looks at the S&P500 which was up by approximately 26.3% over the past year, the stock market performance has primarily been driven by 10 companies. Those 10 companies make up over 30% of the S&P 500 (Apple and Microsoft combined accounting for almost 14% of the overall index), pushing most of the return in the index this year. Meanwhile, after some volatility, the MSCI World and MSCI Emerging Markets ended the year ahead by about 24.4% and 10.3%, respectively.

In November, Chinese inflation figures remained in deflation, with a headline CPI of -0.5% year-on-year. Inflation rates across European countries fell, with Eurozone headline inflation for November dropping to 2.4% year-on-year from 2.9% the previous month. UK inflation also slowed to 3.9% year-on-year from 4.6% in October, marking the lowest figure in nearly two years. This trend has been aided by lower energy prices, but the removal of energy subsidies across the region is expected to increase future inflation figures. In the US, headline inflation slowed to 3.1% year-on-year in November, decelerating at a slower rate, while core inflation remained steady at 4.0%.

In the end, 2023 turned out to be a good year for both stock and bond investors. As we enter 2024, the US economy has thus far avoided the feared recession and a re-acceleration of inflation. The Federal Reserve has turned from hawkish to neutral and now sounds more dovish about the year to come, providing a good backdrop to start the year. Monetary and fiscal policy are huge drivers of the global economy, and one needs to pay attention to not only policy action, but also associated Fed speak as it can indicate how policy makers are leaning and give clues to future direction.

Domestically, the third quarter GDP was disappointing, with a -0.2% decrease due to electricity and logistic challenges, as well as disappointments from the agriculture sector. The current account narrowed, supported by an improved trade surplus due to lower imports. Fiscal data showed resilience in revenues, but expenditure still exceeded planned expenditure, making the 2024 Budget difficult.

Domestic assets saw a surge in line with global equity and bond markets. South African equities managed to build on November's returns, with another positive month in December. Local equity markets finished the quarter positively, with the FTSE/JSE All Share SWIX yielding a 8.1% return, including gains in industrials (5.9%) and financials (12.3%). The FTSE/JSE All Bond Index increased by 1.5% in December, resulting in an impressive 8.1% return for the quarter. South African Property & REITs finished 2023 on a high note with the 4th quarter yielding a return of approximately 16.4%. Declining bond yields and the prospect of lower interest rates also helped push SA Property's returns north of 10% for the year, but SA REITs annual return was lower at 3% after a difficult start to the year.



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