



Quarterly review

Nedgroup Investments Core Accelerated Fund

As at 31 March 2024



Market Dynamics Amidst Inflation and Geopolitical Tensions

As 2024 commenced, market sentiment had factored in more than six rate cuts by the U.S. Federal Reserve; the U.S. dollar was trading at its weakest since July 2023; and equity markets were experiencing a significant upswing. This optimistic outlook appeared incongruent with the persistent vigor of the U.S. economy and the considerable probability of a tumultuous disinflationary process. Over the quarter, the Nedgroup Investments Core Accelerated Fund increased by 2.8%.

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 723 at the 31st of March 2024. This is higher than the R14 998 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 258 2.8%	R11 429 14.3%	R13 712 11.1% p.a.	R16 121 10.0% p.a.	R17 749 8.3% p.a.	R17 723 8.4% p.a.
Growth of cash (Growth in %)	R10 199 2.0%	R10 810 8.1%	R11 841 5.8% p.a.	R13 099 5.5% p.a.	R14 913 5.9% p.a.	R14 998 5.9% p.a.
Growth target (inflation+6%) (Growth in %)	R10 254 2.5%	R11 199 11.9%	R14 220 12.4% p.a.	R17 012 11.5% p.a.	R20 912 11.1% p.a.	R21 249 11.2% p.a.

Fund Return versus Cash¹ from inception ending 31 March 2024



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 first quarter of 2024, the U.S. bond market faced significant headwinds as a result of a strong economic expansion, a steadfast labour market, and inflation rates that consistently exceeded projections. These factors led to a recalibration of expectations for the Federal Reserve's rate reduction schedule, ultimately triggering a sell-off in the bond market. The unexpectedly high Consumer Price Index (CPI) data for February diminished the likelihood of a rate cut in May, while the March CPI data further eroded the chances of a June cut to a mere 30% and cast doubt on a July cut, with market odds at 66%.

Amidst this backdrop of uncertainty, both in macroeconomic data and geopolitical tensions, the direction of monetary policy remains clouded with significant question marks. Despite these challenges, financial markets experienced growth in March, with most major global risk assets delivering above-average returns. Equities saw an uptick, and bonds declined as the robust economic growth of February, coupled with persistent inflation, led investors to scale back their expectations for central bank rate cuts this year. This shift towards a 'risk on' sentiment, buoyed by the prospect of a soft economic landing, spurred a rally across global equity markets, opening attractive investment opportunities.

Developed markets continued their positive trajectory, with the MSCI World index posting a US dollar total return of 3.3% for the fifth consecutive month in March. The outlook for many global markets this year had anticipated disinflationary trends and a slowdown in growth, which would support a gentle economic descent. However, the prolonged hawkish stance of central banks raises the risk of a harder landing.

The manufacturing sector is showing signs of stabilization, particularly in developed markets, which are approaching a break-even point, while emerging markets (EM) have been at the forefront of the recovery. The S&P Global manufacturing purchasing managers' index for EM has consistently remained above the neutral 50 threshold since February 2023, in contrast to the developed market index, which last surpassed 50 in September 2022.

A similar trend is observed in the services sector, contributing to a narrative of developed market recovery and emerging market reacceleration. While it would be erroneous to attribute this reacceleration solely to an earlier cycle of monetary policy easing, it is partially true, as emerging markets have already begun a selective rate-cutting cycle. China's more growth-oriented policy environment is also a contributing factor. The stabilization of commodity prices has bolstered EM export earnings and government revenues, leading to a gradual improvement. However, recent volatile inflation figures have reintroduced uncertainty regarding the timing and extent of rate cuts in the U.S. and other major export markets. Until the monetary easing momentum extends globally, the enhancement in EM growth is expected to remain moderate.

The geopolitical climate demands close scrutiny due to the increasing global fragmentation, the potential for intensification of violent conflicts, and the impact of elections—2024 will see an unprecedented number of voters, representing approximately 49% of the world's population, which could significantly influence market dynamics.

In summary, while the first quarter of 2024 has presented challenges, particularly for the U.S. bond market, the overall financial landscape has shown resilience, with growth in equities and a cautious optimism for a soft economic landing. However, the persistence of inflation and geopolitical uncertainties continue to pose risks, necessitating a vigilant and adaptable approach to market participation.

South Africa's economic prospects for 2024 do show progress, but major risks and doubts cloud the outlook. In March, the South African equity market experienced a resurgence, with the Capped SWIX index delivering a total return of +3.4%. Conversely, South African Inflation-linked bonds and the All Bond Index incurred losses of -3.4% and -1.8%, respectively, over the quarter. South African listed property, however, reported a quarterly return of 3.8% and an impressive annual yield exceeding 20%. In such challenging markets, it is critical to strike the appropriate balance, get portfolio implementation right, and retain Diversification.

The South African Reserve Bank (SARB) has its forthcoming meeting scheduled for May 30th, subsequent to the South African elections. It is widely anticipated that the interest rates will be upheld at 8.25% until September. At that juncture, a confluence of diminishing South African inflation figures and rate reductions by the UK, Europe, and the U.S. are expected to substantiate a rate cut by the SARB.



Disclaimer

Nedgroup Collective Investments (RF) Proprietary Limited is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust portfolios. Unit trusts are generally medium to long term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. A schedule of fees and charges and details of our awards are available on request from Nedgroup Investments. A fund of funds may only invest in other unit trust funds, that levy their own charges, which could result in a higher fee structure. Nedgroup Investment Advisors (Pty) Ltd (the 'Investment Manager') an authorised as a financial services provider under the Financial Advisory and Intermediary Services Act (FSP No. 1652), is the appointed Investment Manager of the Management Company.

Certain Nedgroup Investments unit trust portfolios include international assets, whereby a change in the exchange rates may cause the value of those investments to rise and fall. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed.

Please note that Nedgroup Collective Investments (RF) Proprietary Limited is not authorised to and does not provide financial advice. This presentation is of a general nature and intended for information purposes only. It is not intended to address the circumstances of any investor and cannot be relied on as legal, tax or financial advice, either express or implied. Whilst we have taken all reasonable steps to ensure that the information in this document is accurate and current on an ongoing basis, Nedgroup Investments shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this presentation. Nedgroup Collective Investments (RF) Proprietary Limited is a member of the Association for Savings & Investment SA (ASISA).