NEDGROUP INVESTMENTS

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Quarterly review

Nedgroup Investments Core Guarded Fund

As at 31 March 2024

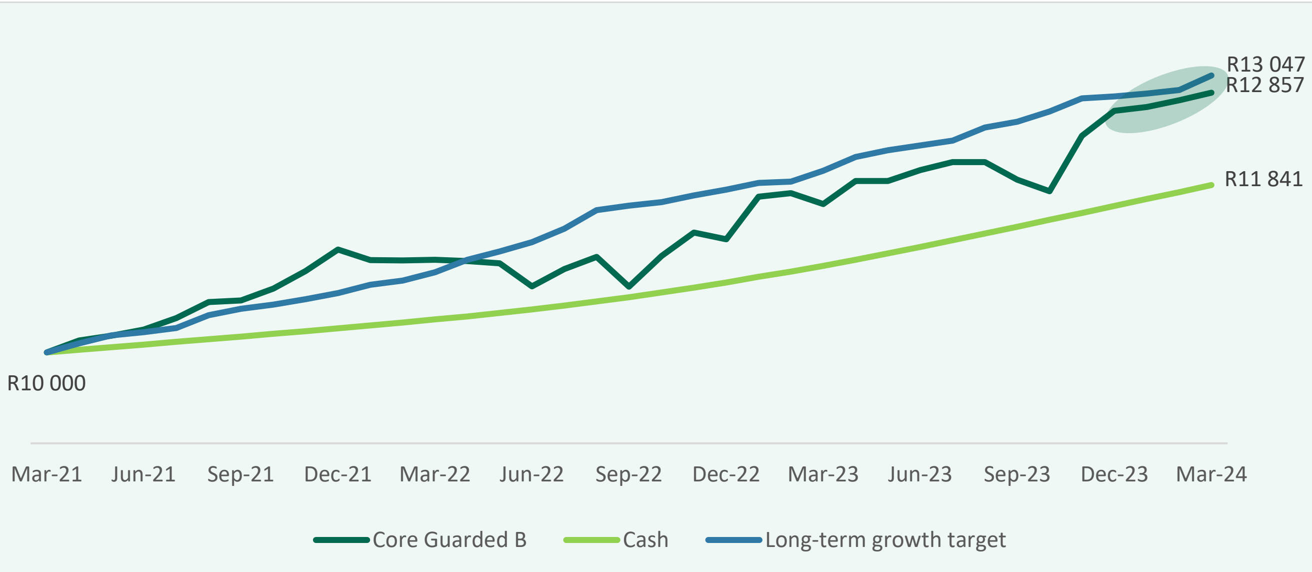
Market Dynamics Amidst Inflation and Geopolitical Tensions

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. The Nedgroup Investments Core Guarded Fund increased by 1.6% over the quarter.

The table below compares an investment in Nedgroup Investments Core Guarded Fund to bank deposits (cash) investment over various time periods. For every R10 000 invested in the Nedgroup Investments Core Guarded Fund three years ago, you would have R12 857 at the 31st of March 2024. This is lower than the R11 841 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 decline, which helps to contextualise the returns experienced over the past few years.

Value of R10,000 investment in Nedgroup Investment Core Guarded Fund versus Cash[1] and the Growth target						
	3 Months	1 Year	3 Years	5 Years	7 Years	Inception 29 January 2010
Growth of fund (after fees) *(Growth in %)*	R10 158 *1.6%*	R11 054 *10.5%*	R12 857 *8.7% p.a.*	R15 068 *8.5% p.a.*	R17 128 *8.0% p.a.*	R35 413 *9.3% 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.*	R22 150 *5.8% p.a.*
Growth target (inflation+3%) *(Growth in %)*	R10 181 *1.8%*	R10 873 *8.7%*	R13 047 *9.3% p.a.*	R14 904 *8.3% p.a.*	R17 104 *8.0% p.a.*	R31 200 *8.4% p.a.*

Fund Return versus Cash[1] and the Long-term growth target for 3 years ending 31 March 2024



The Nedgroup Investment Core Guarded Fund has a growth target of 3% above inflation (around 8% per year) over 3-year periods. The Fund has almost reached its target over the last 3 years. However, history2 demonstrates that one-third of the time, a fund such as the Nedgroup Investments Core Guarded Fund, would have underperformed its long-term growth target over any 3-year period. The other two-thirds of the time it would have achieved or exceeded its long-term target.

[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.

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