NEDGROUP INVESTMENTS

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# Quarterly review

## Nedgroup Investments Core World Index Feeder Fund

As at 30 September 2024

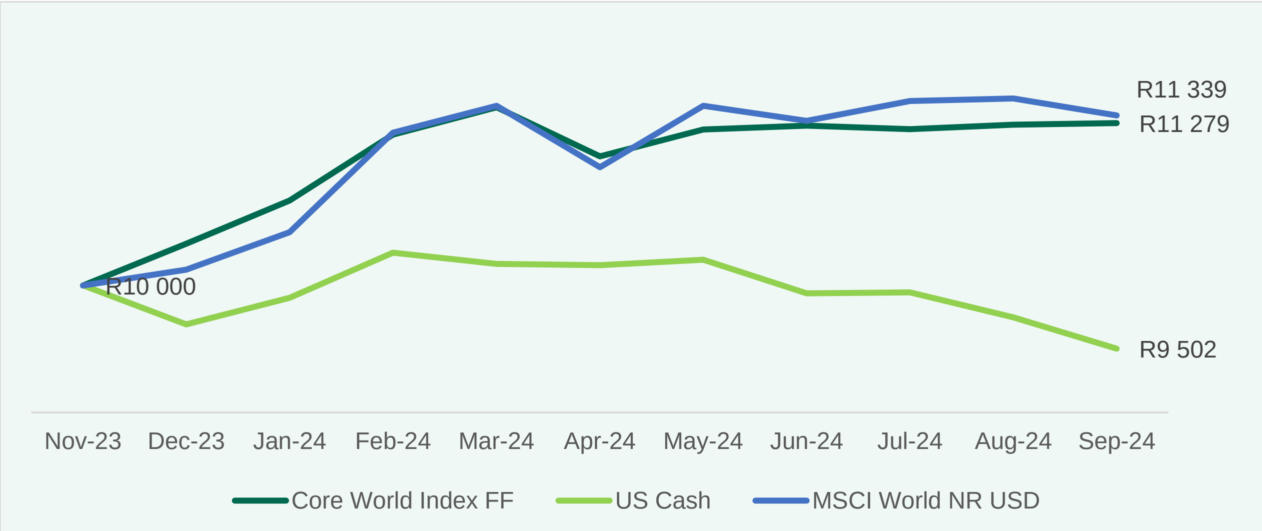
## Plenty of drama, but the Story is still the same

The third quarter of 2024 was marked by significant volatility across global markets, driven by a mix of disappointing earnings, weakening economic data, and shifting central bank policies, before concluding with a notable recovery in risk assets. Over the quarter, the Nedgroup Investments Core World Index Feeder Fund decreased by -1.3%.

The table below compares an investment in Nedgroup Investments Core World Index Feeder Fund to US bank deposits (cash) investment over various time periods. For every R10 000 invested in the Nedgroup Investments Core World Index Feeder Fund at inception (1 November 2023), you would have R11 279 at the 30th of September 2024. This is much higher than the R9 502 you would have achieved had you invested your money in US bank deposits (cash) over the same period.

| | 3 Months | 1 Year | Inception<br>1 November 2023 |
|---|---|---|---|
| **Growth of fund (after fees)**<br>***(Growth in %)*** | R10 868<br>*0.2%* | - | R11 279<br>*18.4% p.a.* |
| **Growth of US Cash**<br>***(Growth in %)*** | R10 194<br>*-4.4%* | R11 818<br>*-3.6%* | R9 502<br>*6.0% p.a.* |
| **Growth target (MSCI World Index)**<br>***(Growth in %)*** | R10 271<br>*0.4%* | R11 135<br>*21.1%* | R11 339<br>*18.8% p.a.* |

**Fund Return versus US Cash1 in Rand from inception ending 30 September 2024**




Since the inception of the Nedgroup Investments Core World Index 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.

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

For more than a year, the global economic narrative has been dominated by two main macro trends: slowdown and disinflation. As these trends took hold, the next chapter was expected to involve broad and substantial rate cuts. This was seen as a careful calibration of policy rates in response to improving inflation dynamics, rather than a panic-driven rush to stave off recession.

Global equity and bond markets ended the third quarter on a positive note, buoyed by policy makers setting a favourable tone for risk assets. While markets anticipated the first interest rate cut from the US Federal Reserve (US Fed) in September, incoming data led to adjustments in the expected size of the cut. Meanwhile, China delivered significant monetary policy stimulus and committed to further fiscal support. Equity markets firmed in response, and bond markets broadly benefited from lower yields.

Earlier this year, the US seemed to diverge from the global trend of disinflation and rate cuts. However, as noted in our June update, “US inflationary pressures are increasingly narrow and, given a normalizing labour market and anchored inflation expectations, the disinflation process is set to resume.” For the second consecutive quarter, global forecasts remained largely unchanged. This stability might seem at odds with the considerable market volatility experienced, particularly during an acute episode in early August. However, this volatility reflects uncertainty about timing rather than direction. Notably, the steady retreat in oil prices has helped offset concerns about rising shipping costs and weak demand from China.

In August, US headline inflation declined to 2.5% year-over-year, slightly below expectations, while core inflation remained steady at 3.2%. Producer prices also fell, coming in below expectations. The US Fed cut the policy rate by 50 basis points, a more significant move than many had anticipated. The median forecast for the interest rate trajectory over the forecast period also declined, indicating more cuts are expected. Federal Reserve Chair Jerome Powell described the decision as a “recalibration” of policy.

Elections remain a key source of uncertainty. With the US heading to the polls in early November, the next update should provide a clearer sense of policy direction. Kamala Harris’s takeover of the Democratic nomination has shifted the probabilities of the election outcome but does not appear to materially affect policy risks as long as congressional chambers remain split. A Democratic or Republican sweep, however, would have significant consequences across most asset classes, with opposite implications for the USD and mixed results for equities. The presidential race remains a coin toss, but a split Congress is likely.

The fiscal-monetary policy mix will largely determine the slope of the yield curve. Assuming a soft landing and no near-term recession, we foresee the yield curve driven by macro fundamentals in most election scenarios. A Democratic sweep could be negative for equities due to more expansive regulation and potential tax increases for corporations and higher income earners.

In the eurozone, growth forecasts have fluctuated within a tight range since last December. The region is slowly emerging from the shock of the Ukraine war, but progress is hampered by poor performance in its largest economy. Easing inflation has allowed the European Central Bank (ECB) to cut interest rates by 25 basis points each in June and September. It remains to be seen whether the ECB will move again in October or wait until December. Inflation has notably decreased to 2.2% year-over-year in August but may tick up again due to base effects.

In South Africa, second-quarter GDP met expectations, growing by 0.4%. The absence of loadshedding and improvements in logistics supported production, while increased consumer spending boosted expenditure. The current account narrowed, supported by an improved goods trade surplus. Business and consumer confidence improved in the third quarter, influenced by cautious optimism around the government of national unity, lower inflation, and the prospect of lower interest rates. The South African Reserve Bank (SARB) cut its key lending rate by 25 basis points, the first cut in this cycle. Domestic assets delivered positive results in the third quarter, with the FTSE/JSE All Bond Index gaining 3.9% and the Rand appreciating against the US dollar by 3.1%. Local equity markets also strengthened, with the FTSE/JSE All Share gaining 4.0%, and the property sector continued its recovery, making it the best-performing asset class over this period.

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