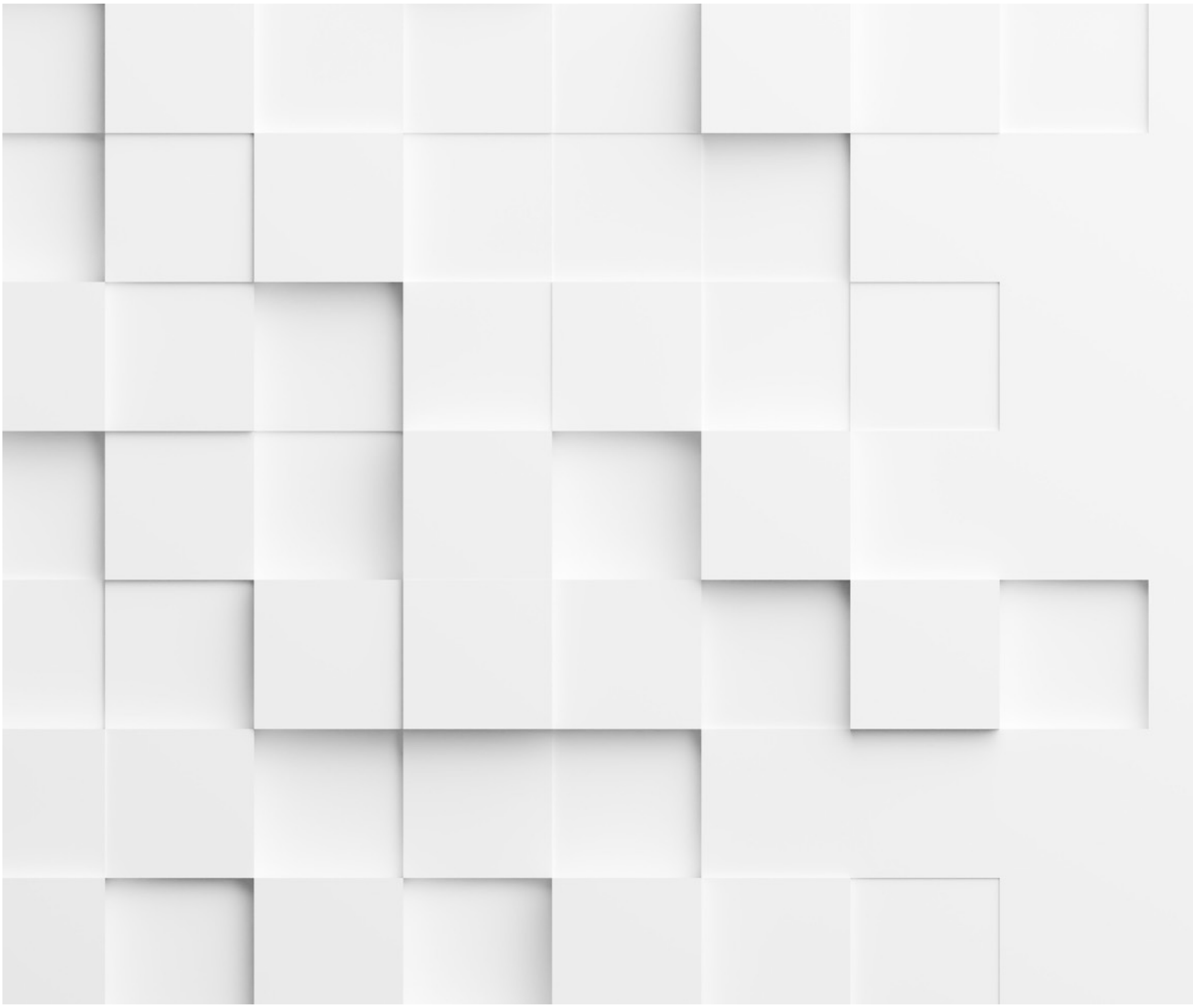


Interactive Portfolios

February Newsletter | 2024 Outlook

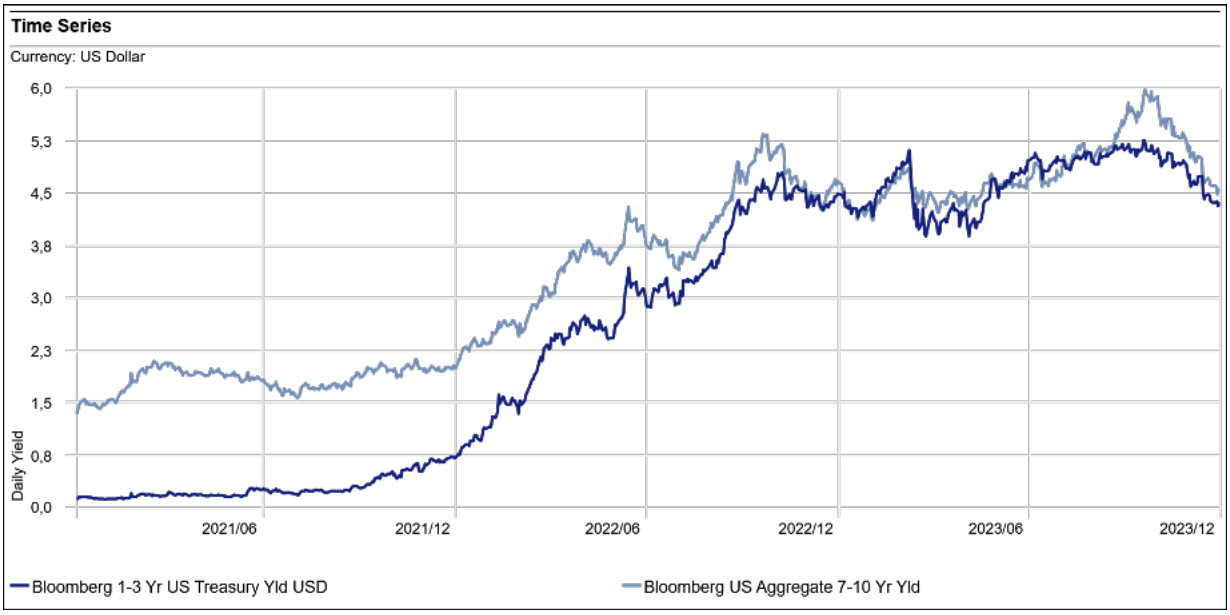
Intelligent Investing

Market Outlook for 2024

Global

Inflation and interest rates

There are now evident signs of diminishing inflation in the US, although it continues to persist at a noticeable level. Consequently, the Federal Reserve has extended the period of elevated interest rates into 2024. The market has reached a consensus that anticipates interest rate cuts in the current year, which is reflected by the recently lowered yield rates on the US 1-3 and 7-10 Treasury bonds. Despite this, there does not seem to be a rapid decrease in interest rates projected for the near future. Adhering to its 2% inflation target, the Federal Reserve may maintain higher baseline interest rates over the medium term. Between the second and third quarters of this year, interest rate reductions are expected, potentially invigorating the market by lowering borrowing costs, and could consequently bolster emerging currencies and markets.



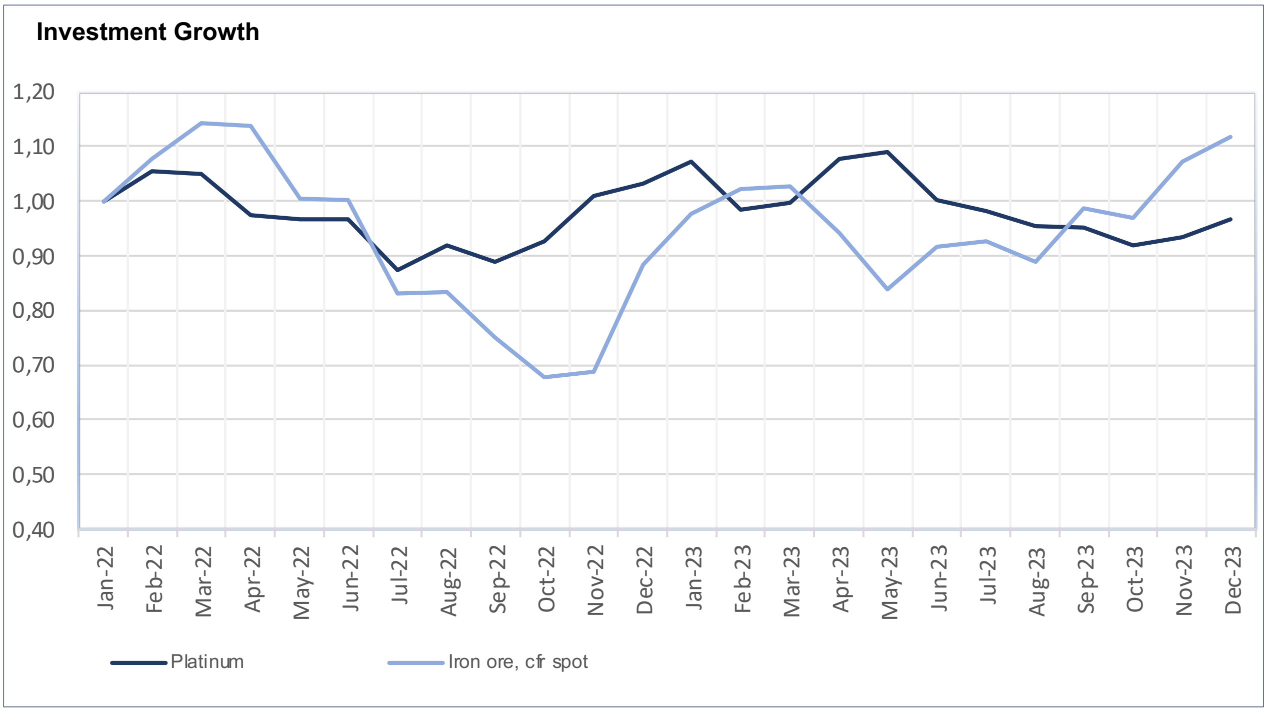
Source: Morningstar

Economic Growth

Throughout the year, we are likely to see global growth moderate, as high borrowing costs and geopolitical tensions contribute to persistent supply chain woes. These factors might precipitate a global technical recession, evidenced by potential declines in employment and production statistics. Nonetheless, the potential recession's scope remains ambiguous, while the US economy continues to demonstrate its resilience.

China

Post-COVID, China's anticipated rebound has not materialised as expected due to tightened regulatory measures and stringent lockdown constraints. Despite these setbacks, the Chinese government maintains a firm goal of achieving 5% GDP growth for 2024. The recent surge in demand for commodities such as iron ore and platinum, primarily driven by China, suggests that the Chinese government is steadfast in its efforts to reinvigorate its economy.



Source: Worldbank

South Africa

Inflation and Interest rates

SA inflation has shown signs of peaking and is beginning to display some signs of deflation. SA inflation has been largely driven by a weak rand and rising electricity prices. We anticipate the South African Reserve Bank will trail the US Federal Reserve regarding interest rate cuts, with expectations pointing to SA interest rate reductions in Q3-Q4. This should provide some much-needed relief to the SA consumer.

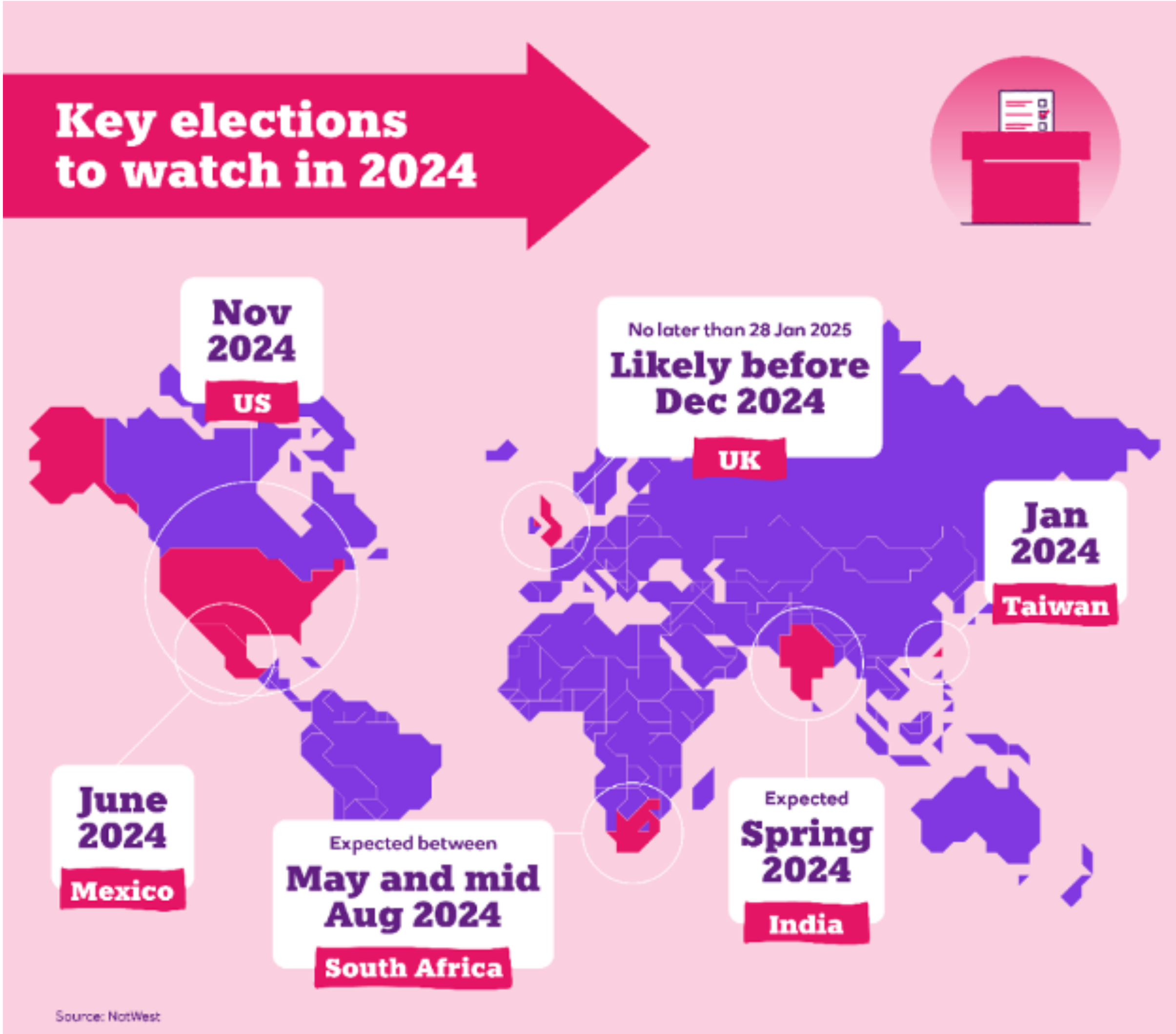
Economic Growth

With advancements in addressing load shedding issues and investment in local infrastructure, the SA economy is expected to exhibit signs of improved growth over the next year. Nonetheless, we are aware of the challenges the local economy faces, such as high interest rates, political uncertainty (elections), and a slowdown in global growth. A critical factor is that decreased global interest rates will bolster investment into emerging markets as investors search for yields. We may also see emerging currencies strengthen against the dollar, which would support economic growth and help alleviate some inflationary pressures.

Increased activity from China is set to provide a crucial boost to South Africa, as it will lead to heightened demand for SA commodities.

Elections

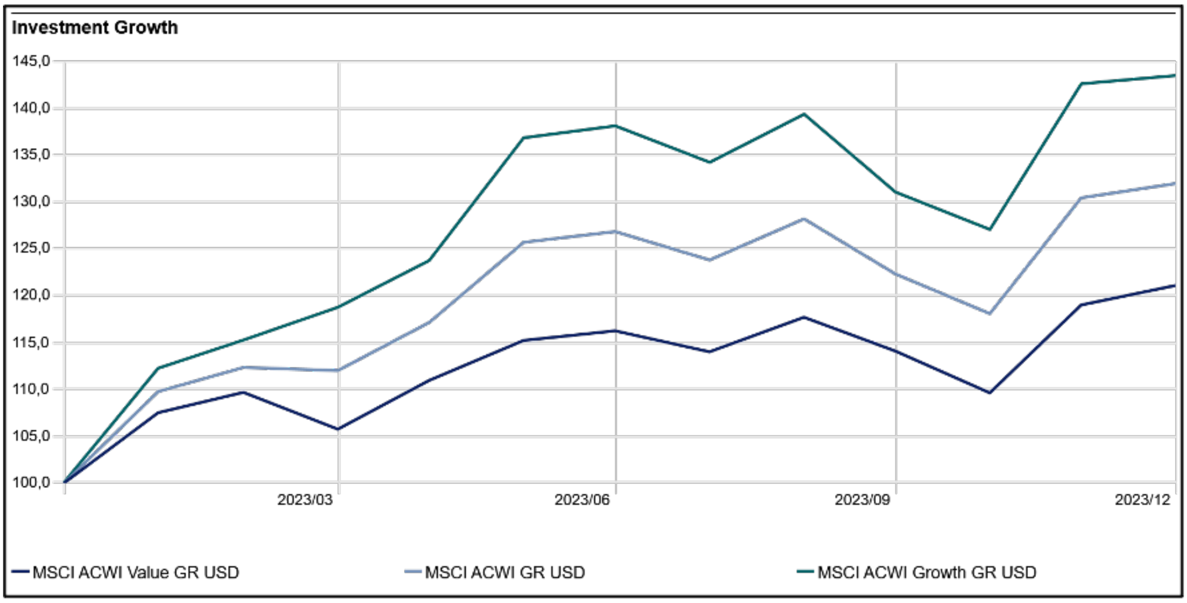
2024 has been dubbed the year of election, with 64 countries going to the polls. We expect some volatility in global markets as investors seek to understand and anticipate the potential impact of policy changes within key regions.



Asset Class Review

Global
Equities

In 2023, global equities showcased stellar performance, with the MSCI All Country World Index in USD delivering returns of 22.2% (coming off a low base), fuelled predominantly by tech and growth stocks.

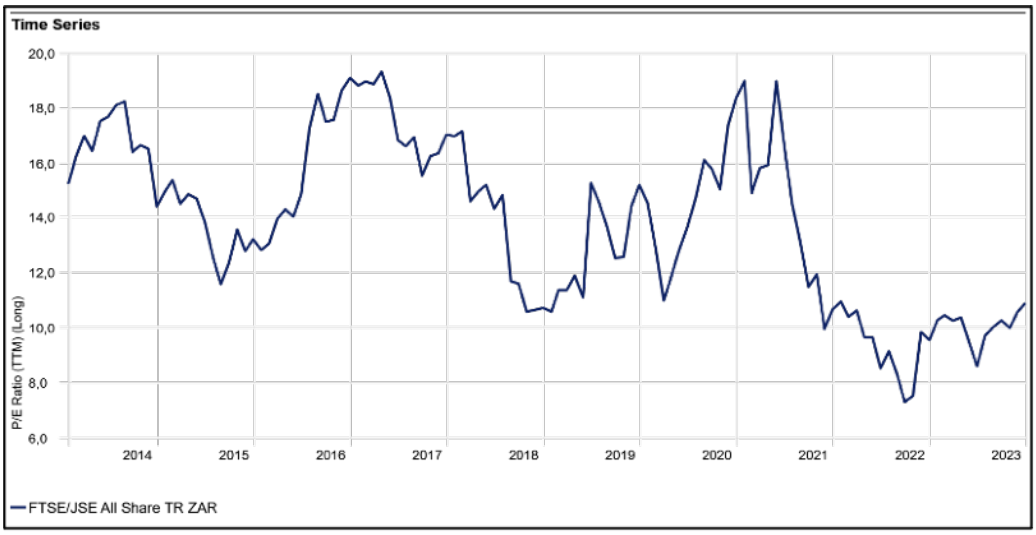


Source: Morningstar

Looking ahead, we anticipate global equities to maintain resilience in 2024, albeit with more tempered gains compared to the prior year amid changing economic conditions.

South Africa
Equities

South African equities posted a 9.3% gain as per the All-Share Index in ZAR. The market remains undervalued, suggesting significant potential when considering price-to-earnings ratios. With the prospect of interest rate reductions and a reviving Chinese economy potentially benefiting South Africa, we view SA equities as possessing an attractive safety margin.



Global
Bonds

Globally, developed market bonds experienced turbulence between 2022 and 2023 due to rising interest rates inversely impacting prices. Nonetheless, in 2023, they delivered a 2.9% return in USD. Bond yields have seen an uptick during this period, presenting appealing yields of 3.9% in the US and 3.5% in the UK for 10-year government bonds. As the likelihood of rate cuts increases, bonds are gaining traction for their price appreciation potential and yield.

South Africa
Bonds

SA Bond market produced a 9.7% return for 2023. This is largely due to the attractive Bond yield of 11.1% on SA 10-year bonds. The SA Bond market also did not see the same volatility as global bond markets and, as such, was the second-best performing asset class of 2023.

Bonds continue to remain an attractive asset class with high yields. The potential for capital appreciation remains at the forefront of investors' minds as the potential for rate cuts this year increases. However, caution must be taken in SA due to the impact of social, economic, infrastructural, and political uncertainty.

Global
Property

Developed market property delivered a 10.9% return to investors in dollar terms. This performance can be partly attributed to the sector recovering from a low point and a rise in demand for workspace as economic reopening persisted post-COVID-19. Important to note for 2024 is the prospective impact of interest rate cuts in developed markets, which could improve access to capital and reduce financial burden on consumers. Lower global interest rates may lay the groundwork for enhanced property returns.

South Africa
Property

South African property provided a 10.7% return to investors in rand terms. Similar to global markets, the SA property sector is rebounding from a low base. Anticipated interest rate cuts in 2024 are likely to offer some respite to the SA market through cheaper borrowing costs and increased money supply. Yet, infrastructural challenges, particularly load shedding, pose significant obstacles for the SA property industry.

Commodities

	Brent crude oil	Gold	Platinum	Copper	Iron ore
2023	-10.7%	13.1%	-7.7%	2.1%	21.7%
2022	6.7%	-0.3%	10.9%	-14.6%	25.3%
2021	55.0%	-3.4%	-9.5%	26.8%	-36.6%
2020	-20.5%	24.4%	9.9%	25.8%	55.3%
2019	34.5%	18.8%	22.5%	6.3%	28.6%
2018	-24.8%	-1.6%	-14.3%	-20.3%	10.8%
2017	12.5%	13.5%	2.8%	31.7%	-25.2%
2016	45.0%	8.0%	1.1%	17.4%	81.1%
2015	-30.5%	-10.6%	-26.5%	-24.4%	-32.2%
2014	-45.9%	-1.4%	-11.4%	-16.8%	-42.3%

Source: Bloomberg to 31 December 2023

Gold:

Gold was among the top-performing commodities, producing 13.1% for investors, largely due to its ability to protect wealth in times of volatility and uncertainty.

Iron Ore:

Emerged as the top performing commodity amongst our tracked commodities, providing 21.7% price return in 2023. This is largely due to increased demand in the Chinese manufacturing and infrastructure sector, stimulated by the Chinese government's attempts to restart their economy. China is the largest importer of Iron Ore globally, consuming 2/3 of the world's Iron Ore. Expectations are for continued growth in demand into 2024.

Brent Crude Oil:

was the biggest loser amongst our tracked commodities, largely due to sluggish demand in the US and China. A near-record supply from the US into the global markets suggests that the market is oversupplied.

Platinum:

Was a net loser in 2023. The result is a reduced demand for the precious metal globally, along with the supply constraints of platinum production in SA. Platinum demand is also facing a demand headwind as the automotive sector moves to more electric-powered vehicles and, as such, moves away from the potential demand on PGM's in the production of catalytic converters. This has a large impact on the SA market as the largest producer of platinum globally.

Final take-aways

The year ahead is shaping up to be another volatile one. With rising geopolitical tensions, a subdued Chinese economy, and the US political system deeply divided, we remain committed to adhering to our investment fundamentals:

1. Ensure diversification across major asset classes and instruments that offer negative correlation.
2. Select quality investment instruments with proven resilience over time.
3. Maintain focus on core investment principles and ignore extraneous disturbances.

Aligned with these principles, we have structured our investment portfolios with a preference for value. We believe that should interest rate cuts occur and money becomes more accessible, these quality investments, acquired at good value, are well-positioned to rally and yield superior returns.

Disclaimer

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result thereof, there may be limitations as to the appropriateness of any information given. It is therefore recommended that the reader first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the reader prior to acting upon information. Interactive endeavours to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. Interactive does not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only.