

REZCO

Global and Local Markets 2024 Outlook

Webinar Starting Shortly

REZCO



Global and Local Markets 2023 Review, 2024 Outlook

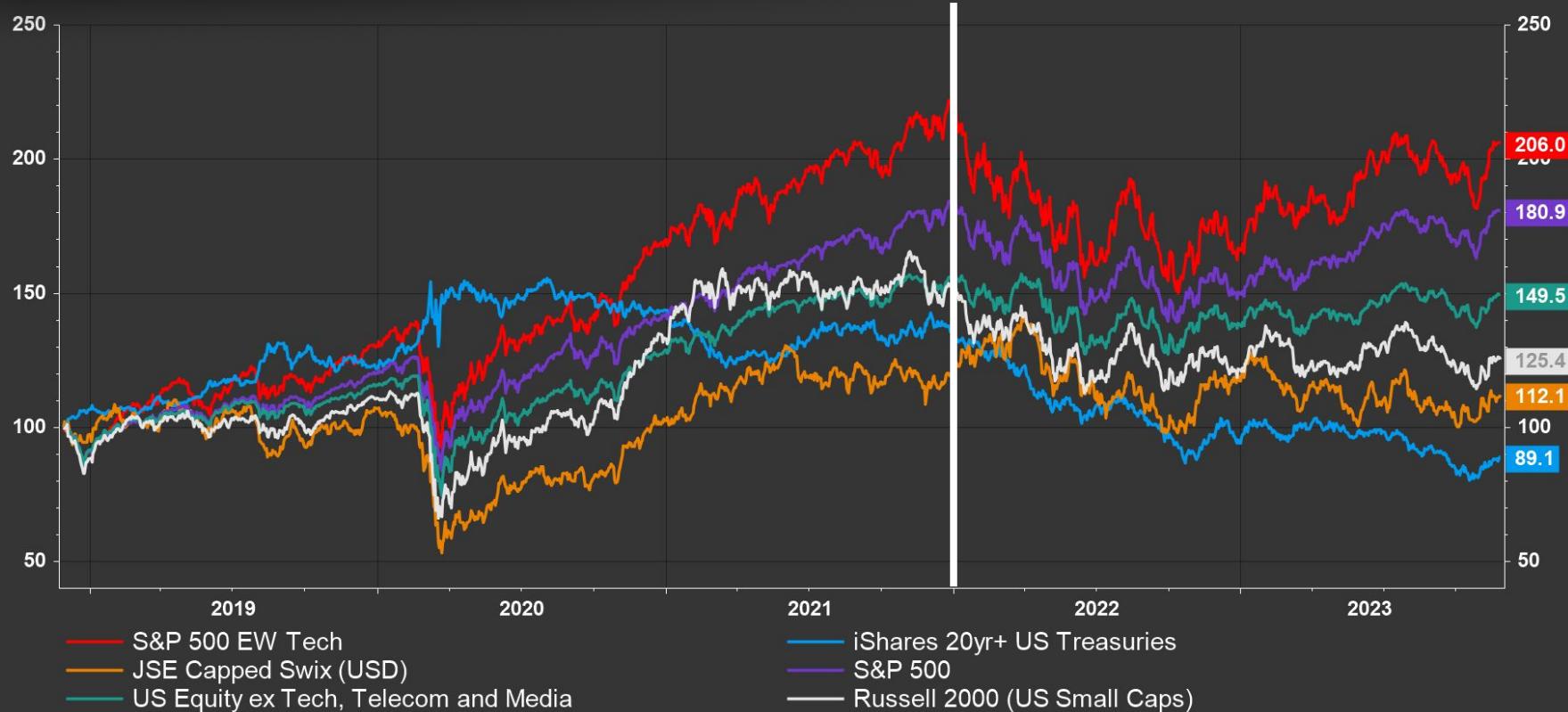
November 2023

Rob Spanjaard CIO
Simon Sylvester CEO, Portfolio Manager



Nowhere To Hide Since 1 Jan 2022

USD Total Return Index Over 5 Years



Source: LSEG Datastream / Rezco

What Happened? The Fed Pivot



ECONOMY | U.S. ECONOMY

Fed Minutes Point to Possible Rate Increase in March

Officials also are considering an earlier timetable for shrinking their \$8.76 trillion bond portfolio

By [Nick Timiraos](#)

Updated Jan. 5, 2022 5:38 pm ET | [WSJ PRO](#)

311 [Gift unlocked article](#)

[Listen \(7 min\)](#)



Federal Reserve Chairman Jerome Powell has signaled greater concern about inflation in recent weeks.
PHOTO: MICHAEL BROCHSTEIN/ZUMA PRESS

Long Bonds More Volatile Than Equity



Source: Bloomberg

Bloomberg Opinion

How has Rezco Been Performing In This New Regime?

Time Period: 01/01/2022 to 31/10/2023

Currency: South African Rand Source Data: Total Return



Source: Morningstar Direct

Rezco Value Trend - Seven Years

A Good Time to be Thinking About Macro

Time Period: 01/11/2016 to 31/10/2023

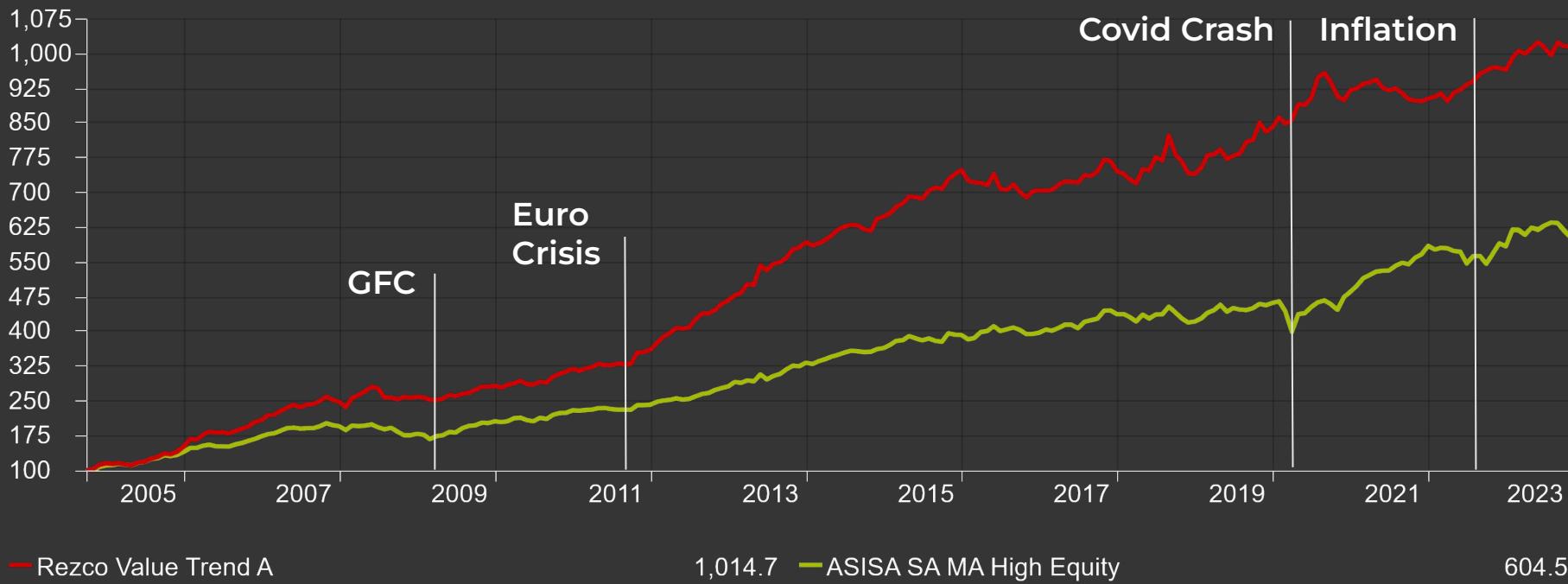
Currency: South African Rand Source Data: Total Return



Long Term: Managing the Risks

Time Period: Since Common Inception (01/10/2004) to 31/10/2023

Currency: South African Rand Source Data: Total Return

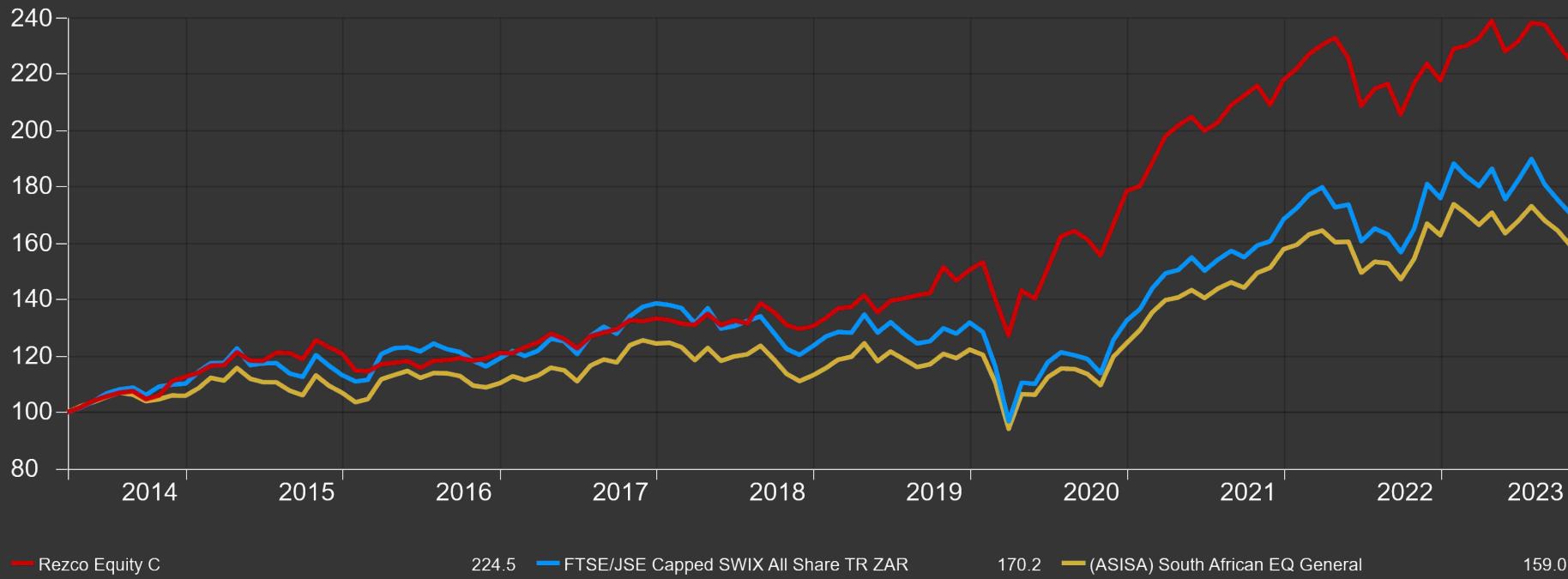


Source: Morningstar Direct

Rezco Equity Fund (RSA Only)

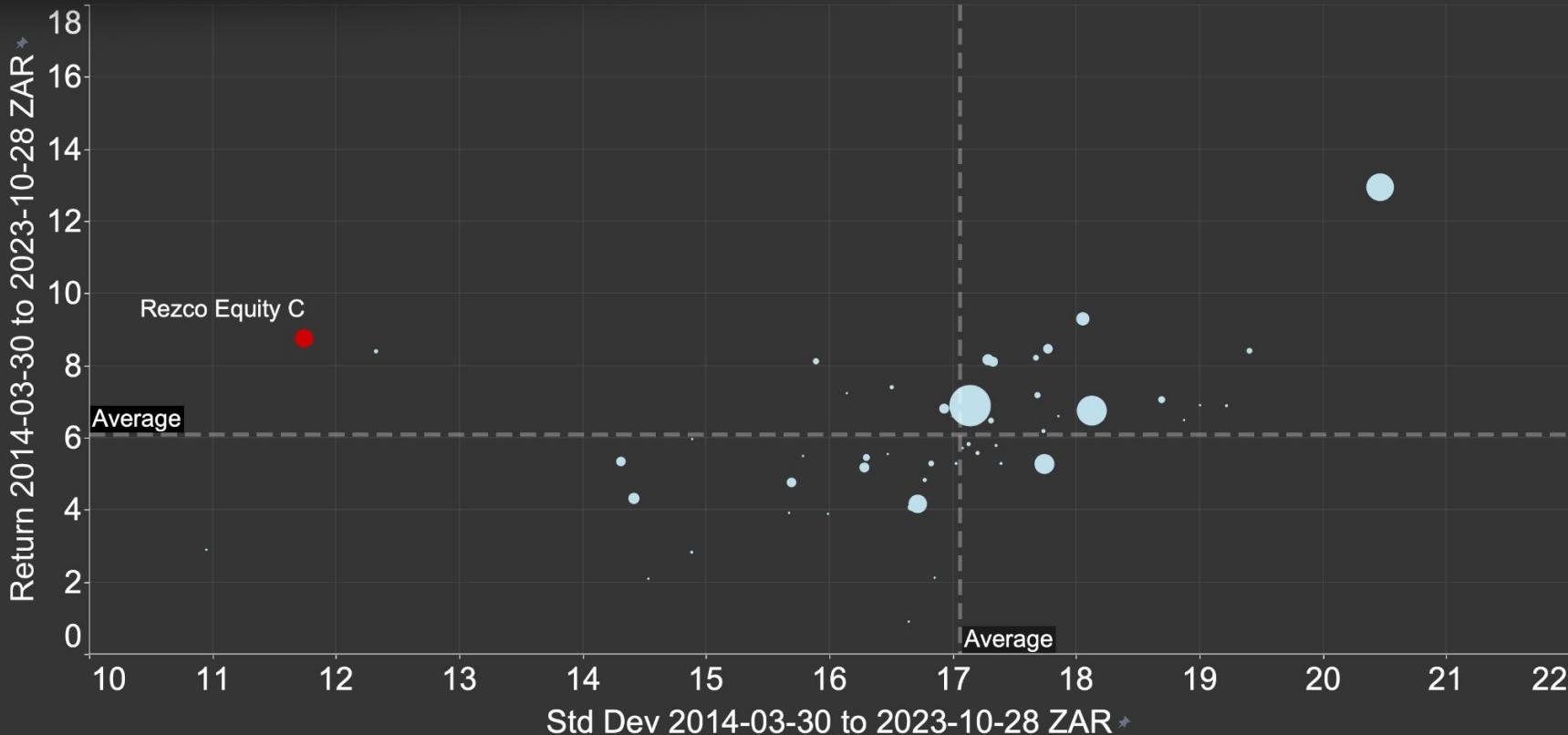
Time Period: Since Common Inception (4/1/2014) to 10/31/2023

Currency: South African Rand Source Data: Total Return



Rezco Equity Fund

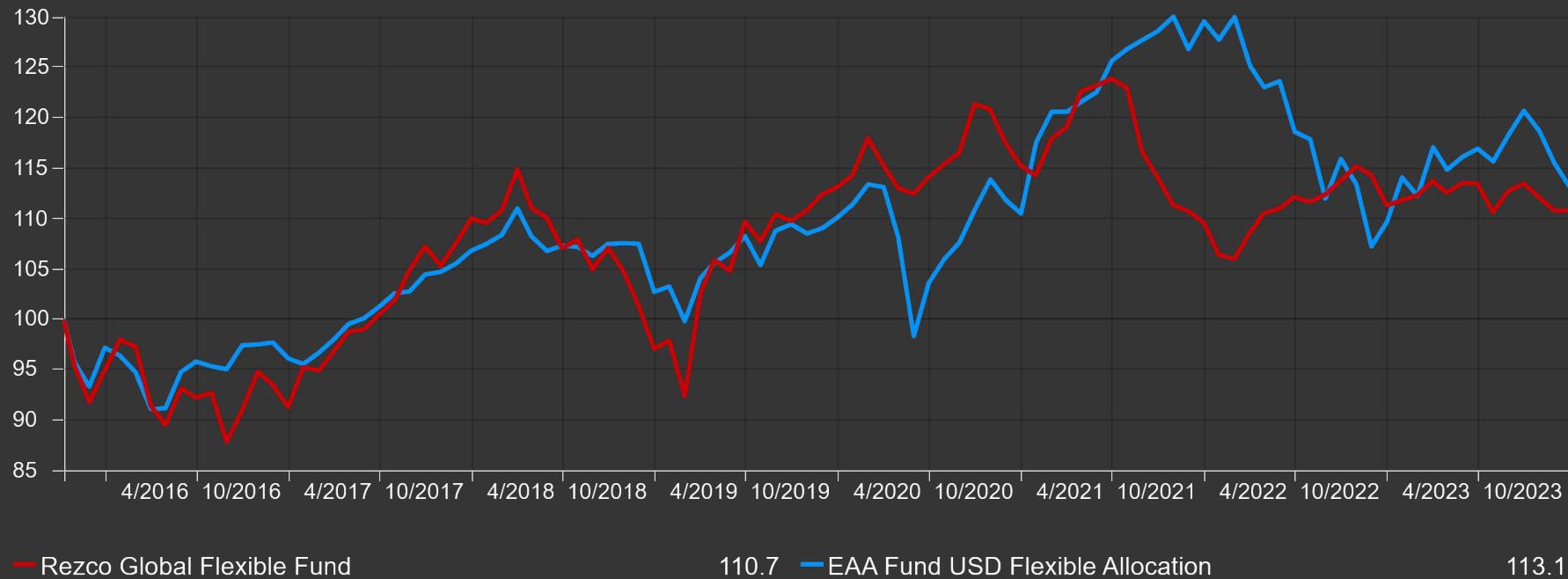
SA General Equity (SA Only)



Rezco Global Flexible Fund

Time Period: Since Common Inception (8/11/2015) to 10/31/2023

Currency: US Dollar Source Data: Total Return



Source: Morningstar Direct

110.7 EAA Fund USD Flexible Allocation

113.1

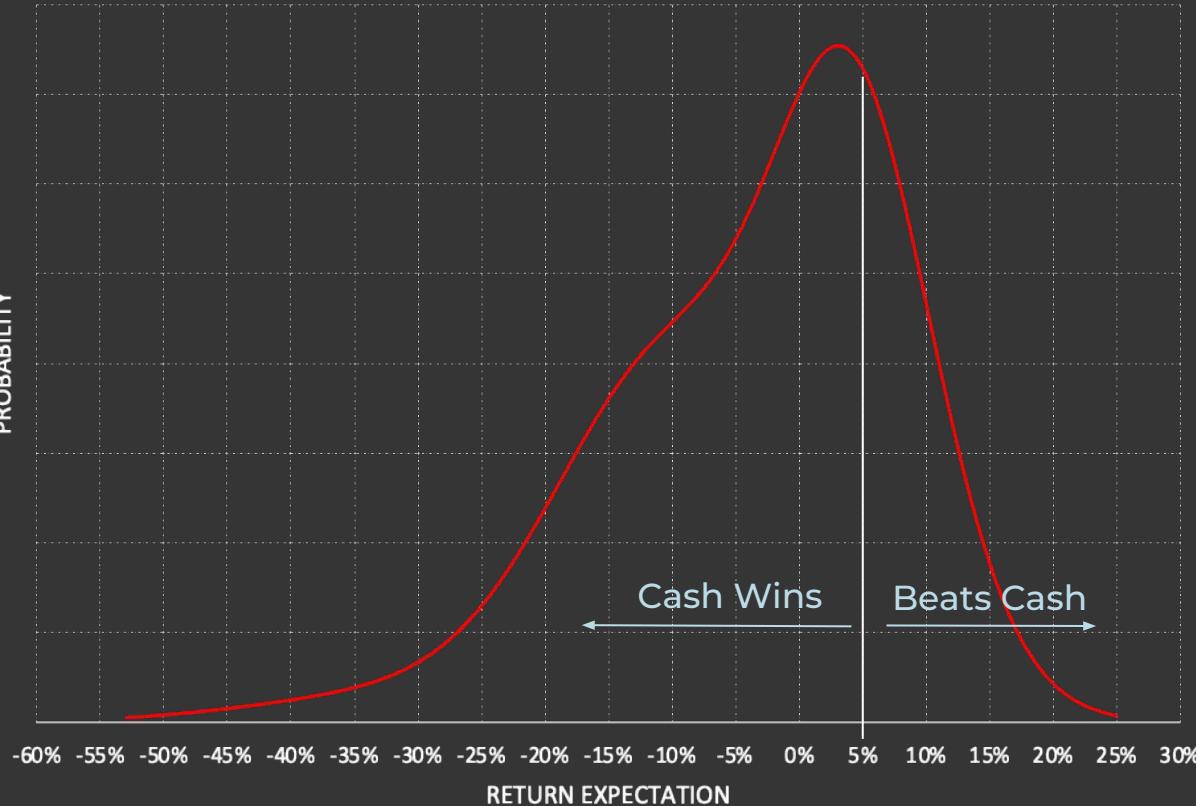
What Is Rezco Positioned For?

Scenario	No Landing	Soft Landing	Normal Recession	Hard Landing
	What is Priced in			Something Breaks
Probability	10%	40%	45%	5%
Earnings Impact	5%-15%	0% to 5%	-10% to -20%	-25% to -45%
Description	The Fed /CB has done enough to cool inflation, the market is pricing that the economy can operate with steep negative sloping yield curve, strong economic data, strong consumers and corporate earnings, high wage inflation, but declining inflation..	Inflation falls to target while wages decelerate, corporates tighten up but profits are stable and balance sheets strengthened.	The Fed/ CB's need a recession to break inflation, unemployment rises to curb wage increases, services super-core inflation is stickier and requires a recession to cool demand.	Something breaks due to: 1) impact of rapidly increased interest rates; or 2) geopolitical shock eg Taiwan/Ukraine/Israel/Iran and nuclear tensions; or 3) inflation remains sticky - Fed hasn't done enough 4) Bond rates blowout.

How Does it all add up?

		NO LANDING	SOFT LANDING	SOFT RECESSION	HARD RECESSION	WEIGHTED RETURN
PROBABILITY		10%	40%	45%	5%	
GDP		2%	0 - 1%	-1%	-3%	
EARNINGS	FY1	8%	4%	-10%	-30%	
	FY2	8%	8%	5%	10%	
ASSUMING MARKET RATING STAYS CONSTANT						
MSCI WORLD	FY1	8%	4%	-10%	-30%	-3,6%
	FY2	8%	8%	5%	10%	6,8%

Equity Probability Skewed to the Downside



	Probability	Outcome	Equities vs Cash
Beats Cash	24.3%	10.3%	5.3%
Cash Wins	75.5%	-8.0%	-13.0%

Funds Positioned for Managing Risk

	Managed Plus	Value Trend	Stable	SA Equity	Global Flexible
SA Equity	23%	10%	13%	95%-97%	
Global Equity	22%	8%	6%		29%
Total Equity	45%	18%	19%		29%
SA Gov Bonds (R186)	20%	29%	29%		
SA Floating Rate Notes & MM	9%	17%	20%		
Global Short Duration	26%	36%	32%		71%
Direct Offshore	49%	45%	39%		

The Big Debate

R

The Big Debate on Company Earnings

Top Down vs Bottom Up: In January 2023

Chart 7: BofA Global EPS model remains v negative...

BofA Global EPS Growth Model

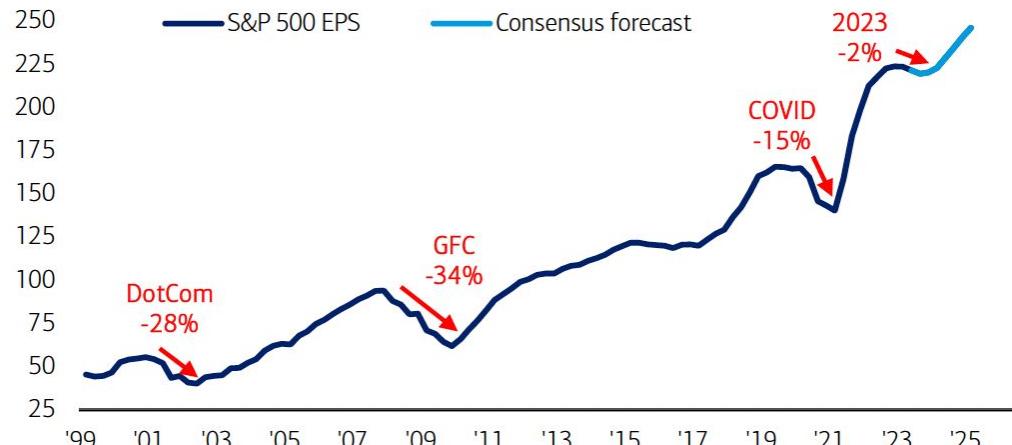


Source: BofA Global Investment Strategy, Bloomberg, Refinitiv Datastream, Haver

BofA GLOBAL RESEARCH

Chart 8: Where did my EPS recession go?

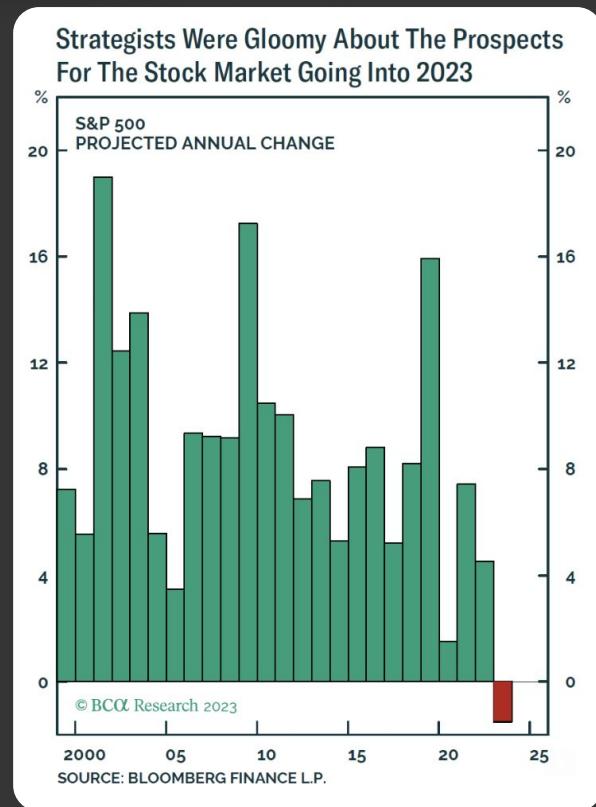
S&P 500 EPS and consensus forecast



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

So far the Top Down Strategists Have Been Wrong



The Case for a New Bull Market



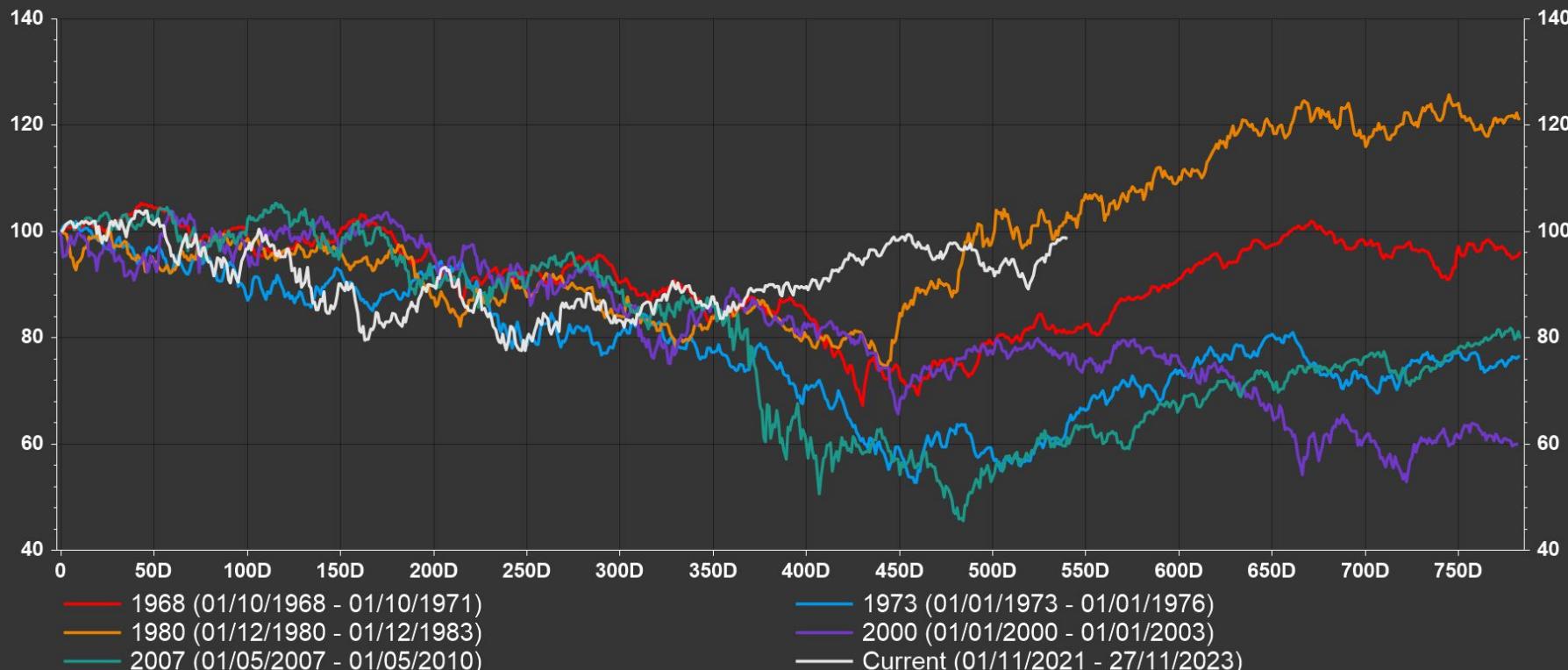
Summary of the Bull

- Cumulative global stimulus in the system
- A repeat of 1995 hiking cycle
- Consumers are in great shape
- Bottom up earnings forecasts have troughed and increase strongly from here
- The Magnificent 7 have bulletproof growth & have tailwinds from AI
- The REST OF THE WORLD EQUITIES have already fallen a lot,
- Inflation is beaten
- There is an expiry date on the bear market

Bear Markets Have an Expiry Date

S&P Through Recessions (Rebased)

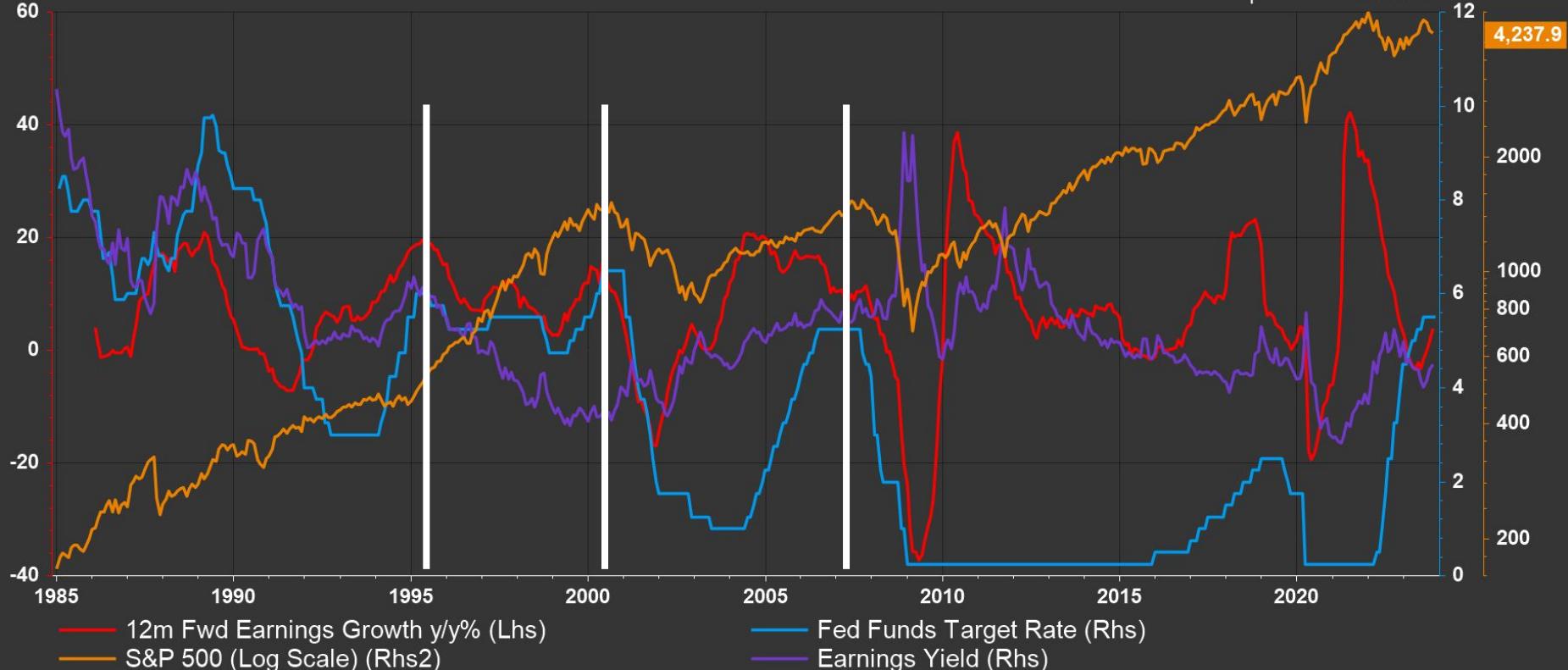
S&P THROUGH RECESSIONS (REBASED)



Hiking and no Earnings Pain (Like 1995)

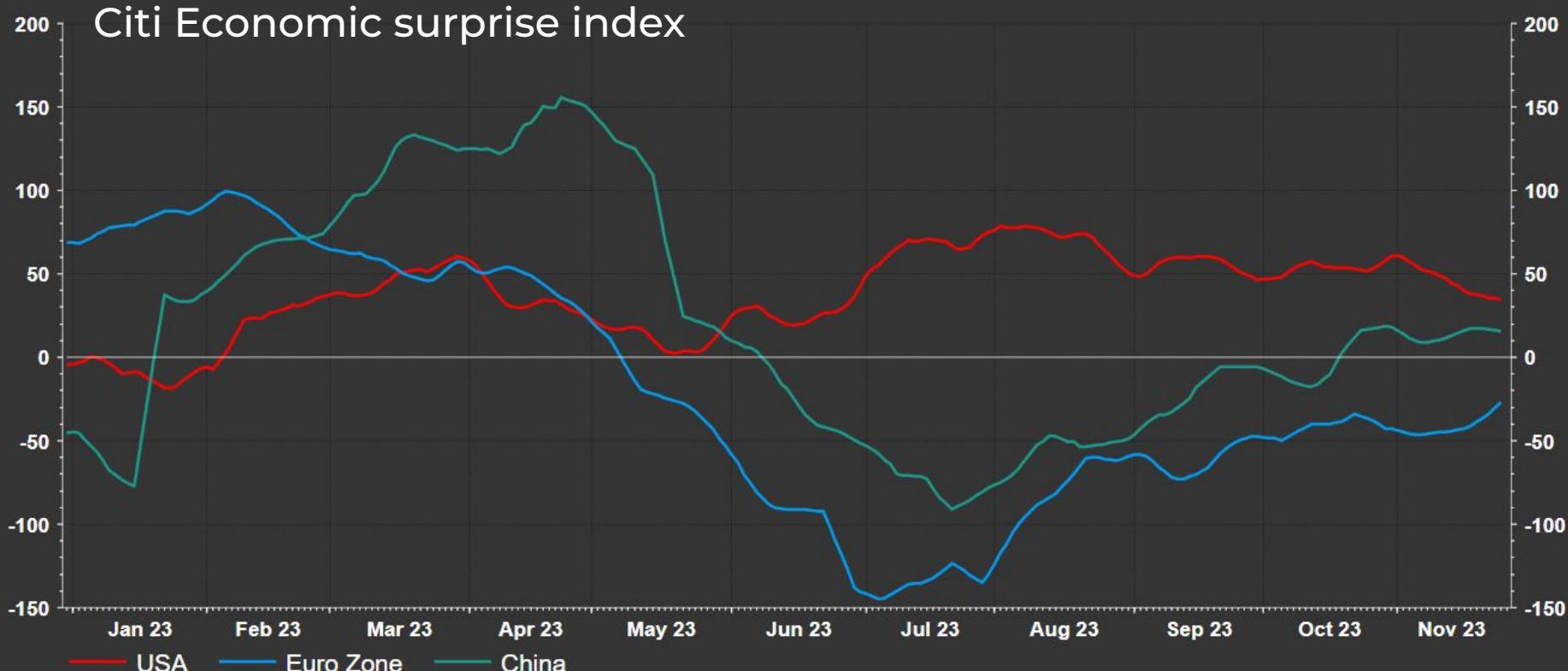
US MARKET

Updated: 28/11/2023



Source: LSEG Datastream / Rezco

Global Economic Growth



Source: LSEG Datastream / Rezco

Higher Interest Rates: Not a Problem

Lowest net interest expense since the 1970s!



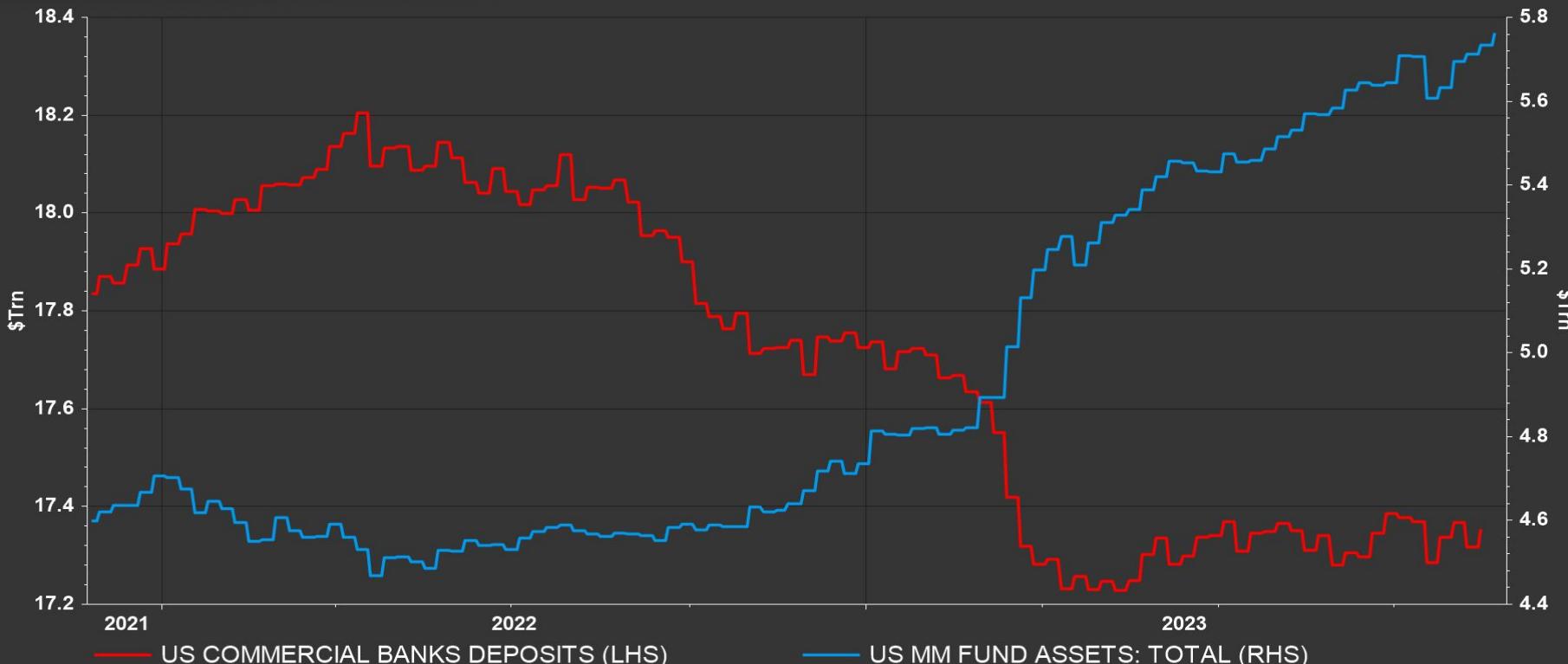
Same story for US consumer



Source: Deutsche Bank research / Bloomberg Finance

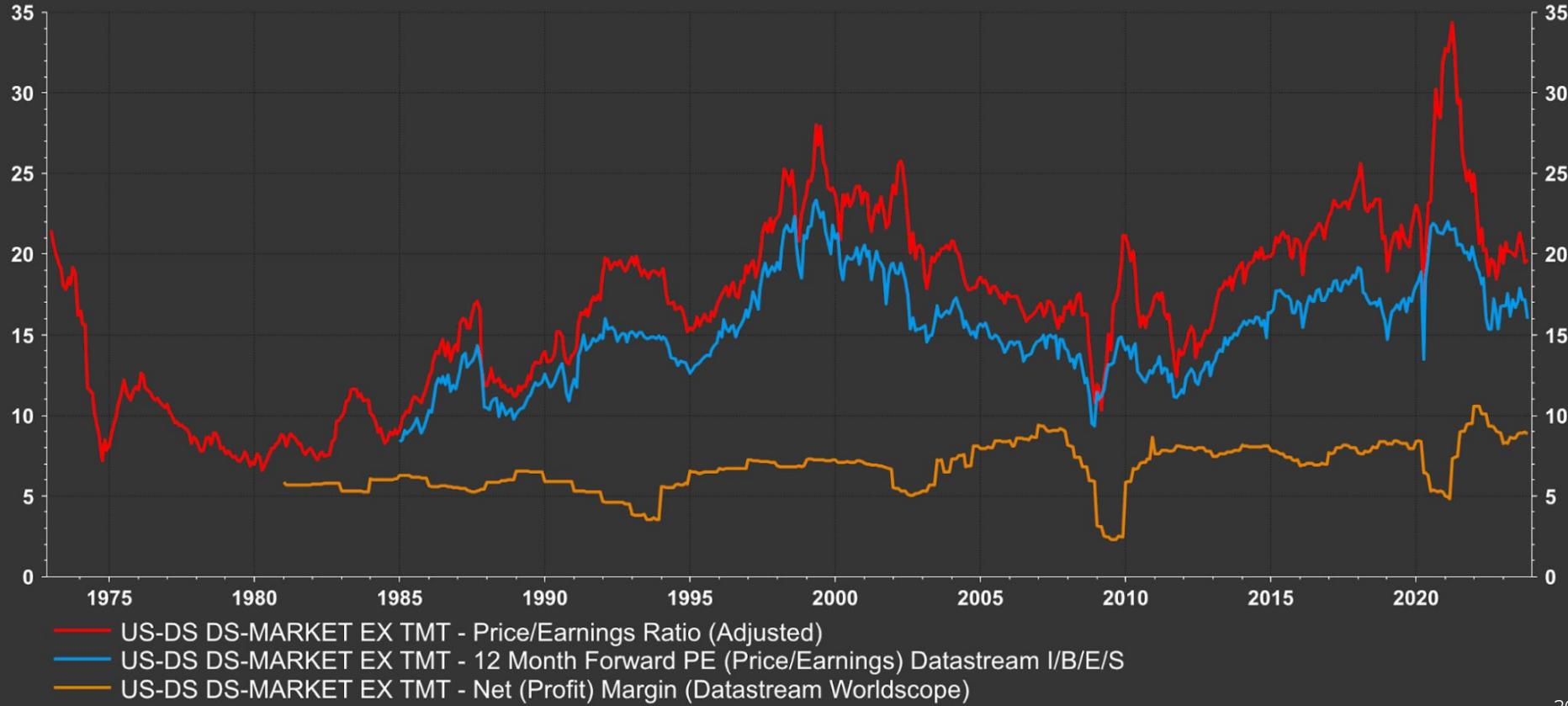
There is Record Cash on the Sidelines

(Maybe not?)



Source: LSEG Datastream / Rezco

Excluding Tech: Market is Fair Value



Inflation is Beaten

US INFLATION & PPI: FINAL DEMAND



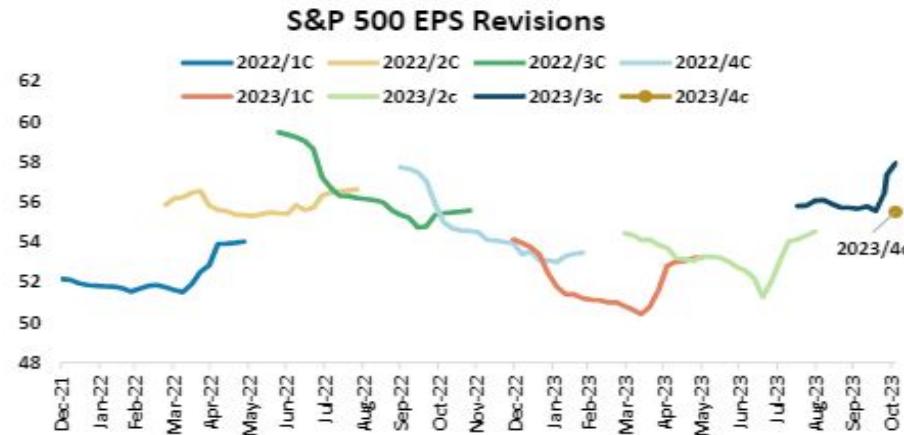
AI Causes a Massive Boost in Productivity



ChatGPT

Consensus Earnings Expected to Increase From Here

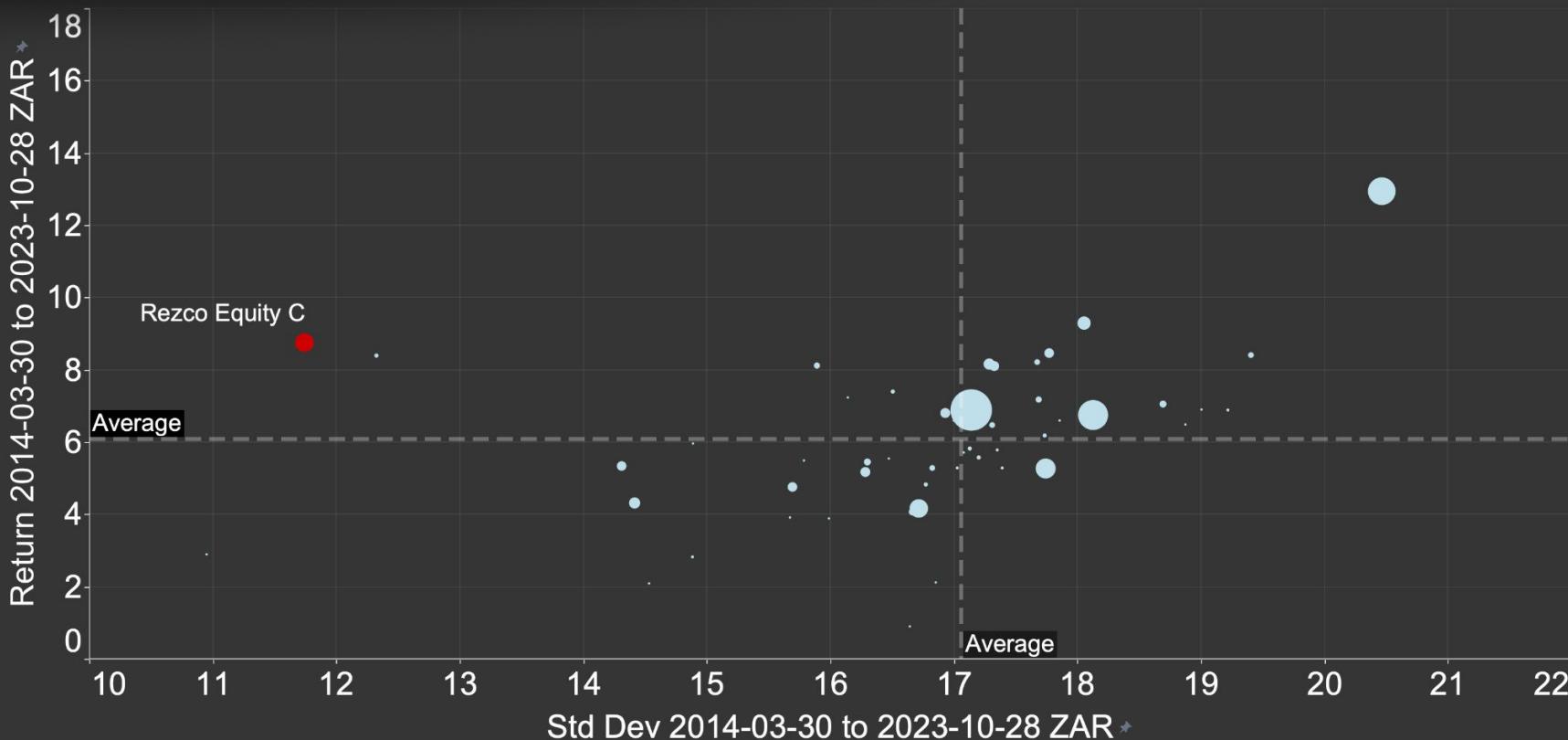
Exhibit 21: S&P 500 EPS Revisions by Quarter



Source: FactSet, Morgan Stanley Research

Rezco Equity Fund

SA General Equity (SA Only)



Market Headwind Case

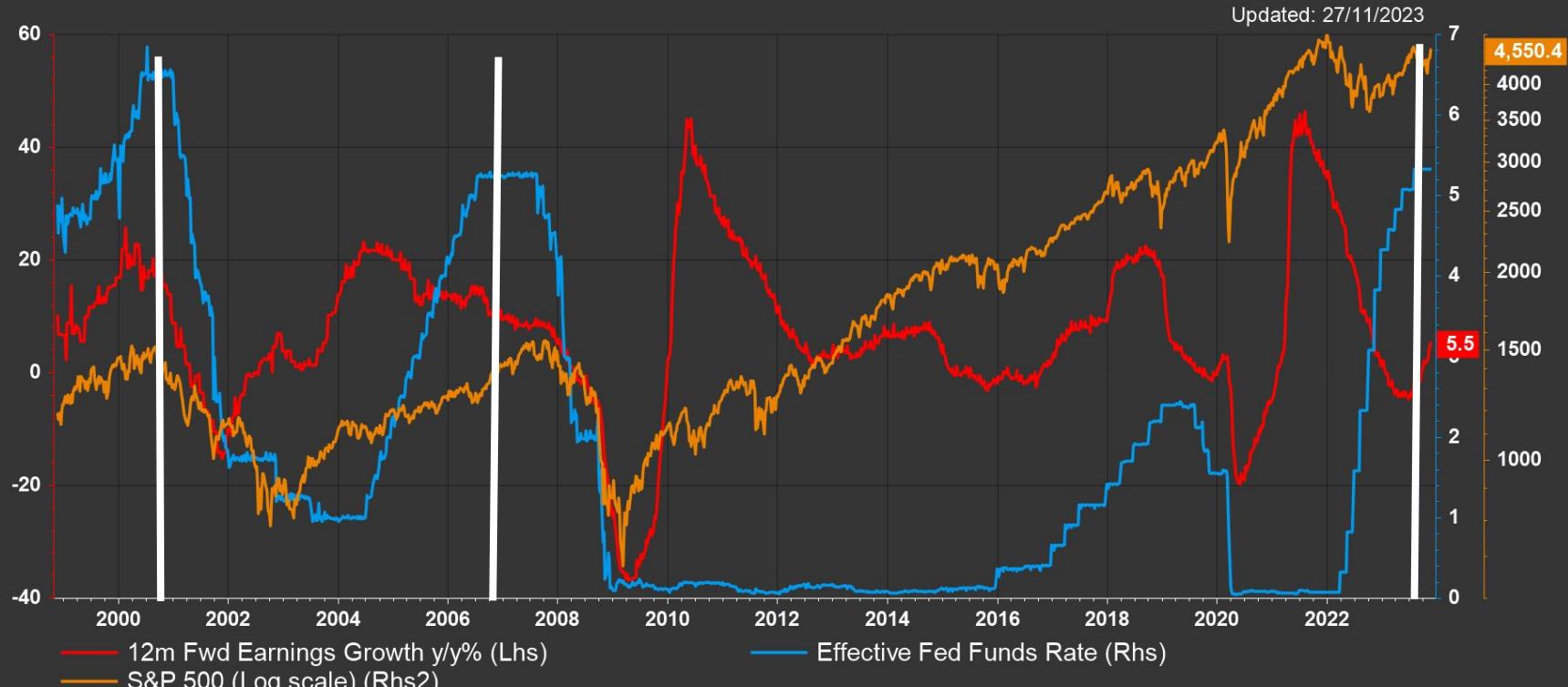


Summary of the Headwinds

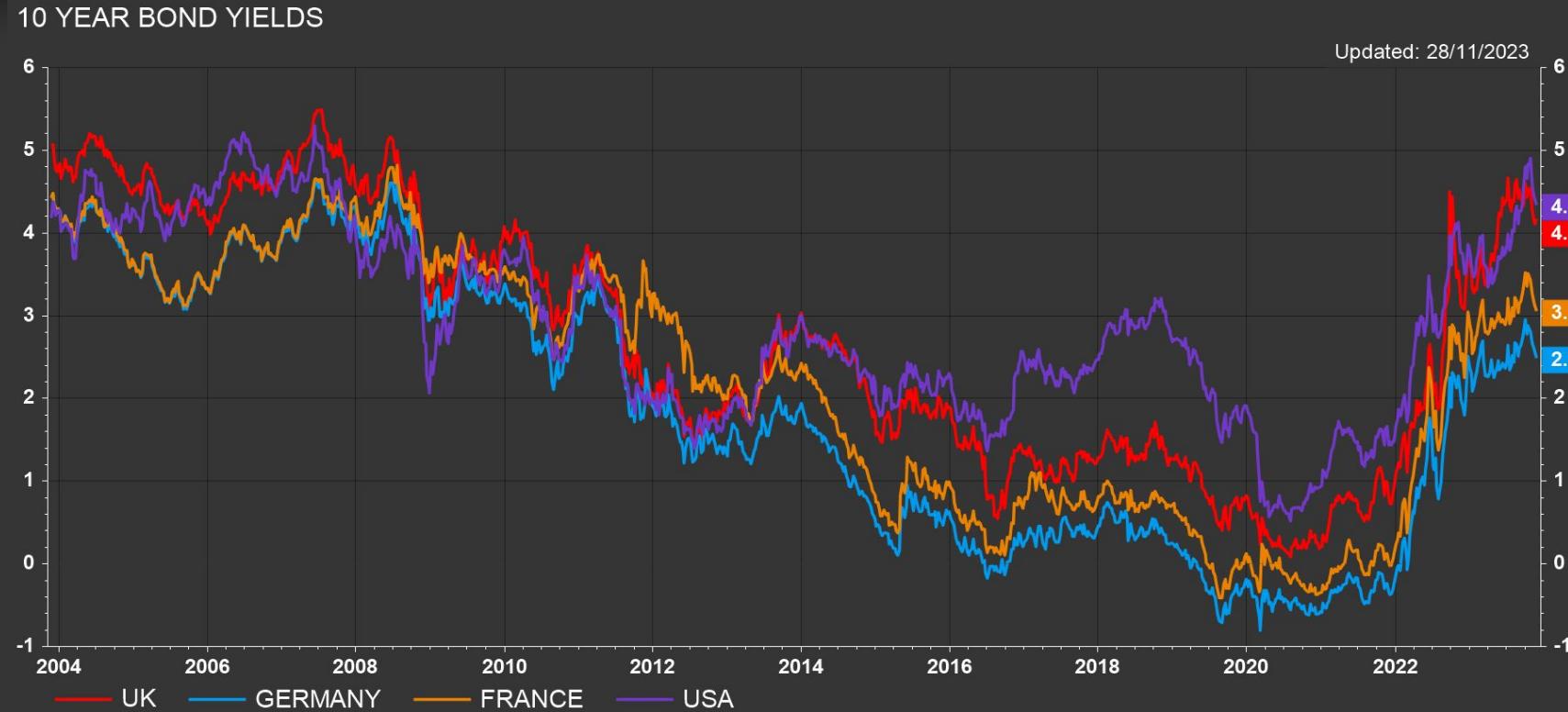
- Slowdown normally only starts after the FED & CB's stop hiking
- Fed / CB's: Not debating cuts yet
- Global Fiscal and Monetary Policy contraction
- Markets are expensive relative to interest rates
- USA PMI's have turned down again
- France / Germany / UK PMI's are recessionary
- Earnings revisions have turned down with poor visibility
- Rising rates due to budget deficits being too high
- China
- Something breaks

The Bear/Recession Only Starts After Rates Pause

US MARKET

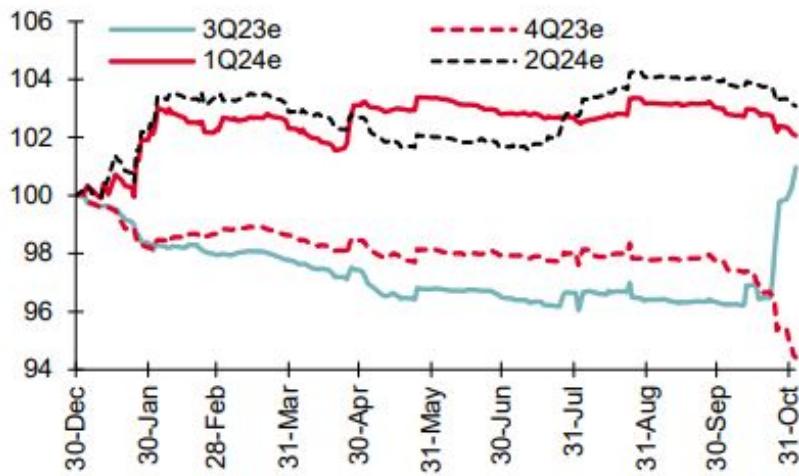


Rate Increases are Massive and Global: End of the QE Experiment

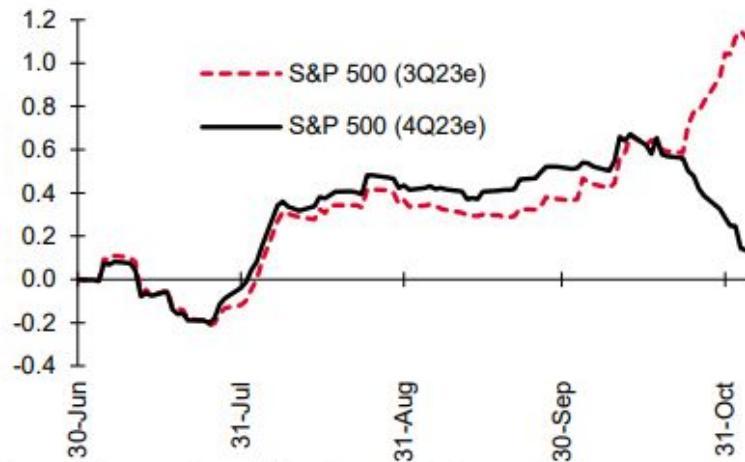


Company Earnings are Turning Down

S&P 500 3Q 2023 earnings have come in above consensus, however, this has been accompanied by 4Q23 downgrading



Sales still surprising on the upside: S&P 500 has seen 3Q sales rise, while 4Q figures have recently been cut

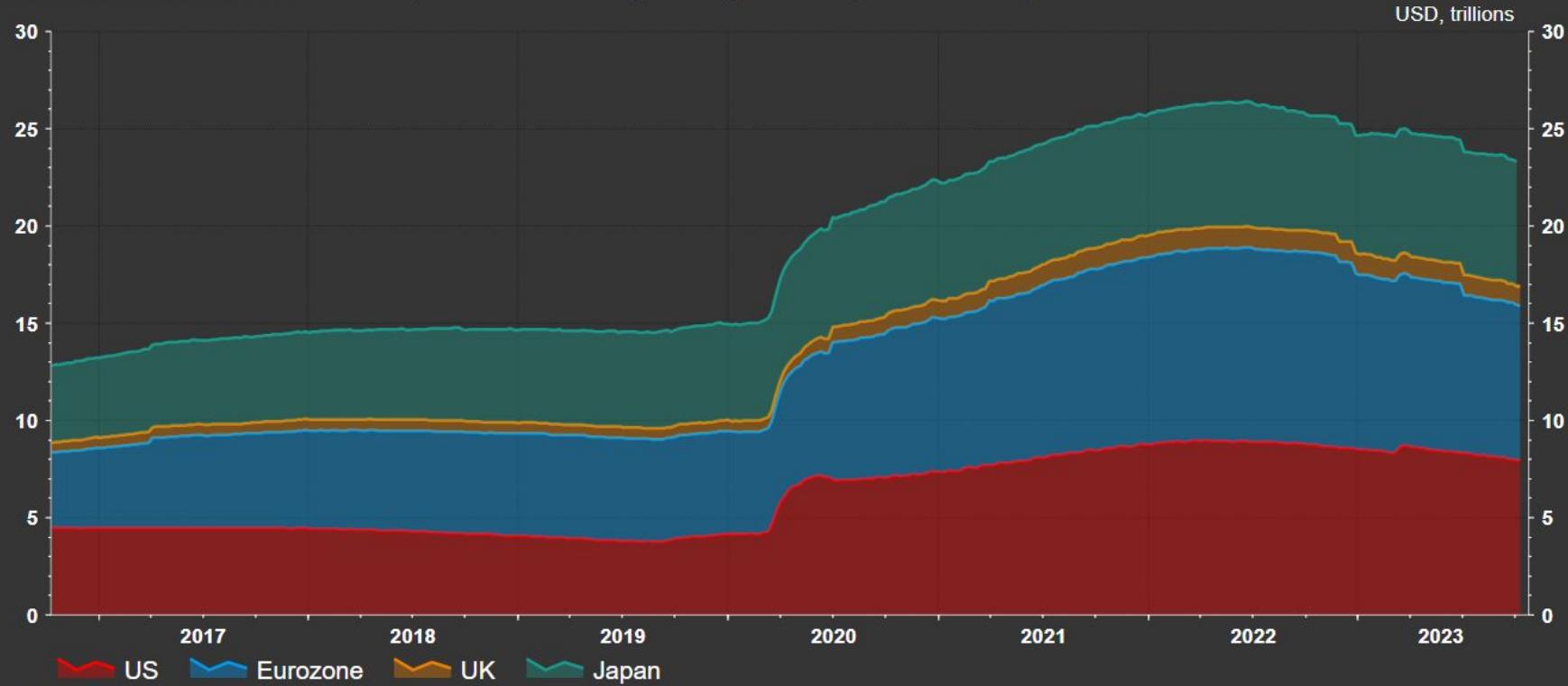


Source: SG Cross Asset Research/Quant Research, FactSet , Ken French

Monetary Policy

Central Banks are Doing QT now

US Central Bank Balance Sheet, Total Assets Using average exchange rate over 7 years



Source: LSEG Datastream / Rezco

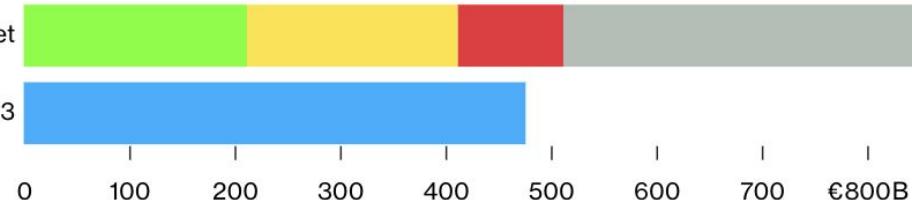
Fiscal Policy: From Stimulus to Contraction

Germany's Special Funds Exceed Regular Budget

Climate funds (KTF) Energy subsidies (WSF) Military upgrade Other funds

Off-Budget

Budget 2023

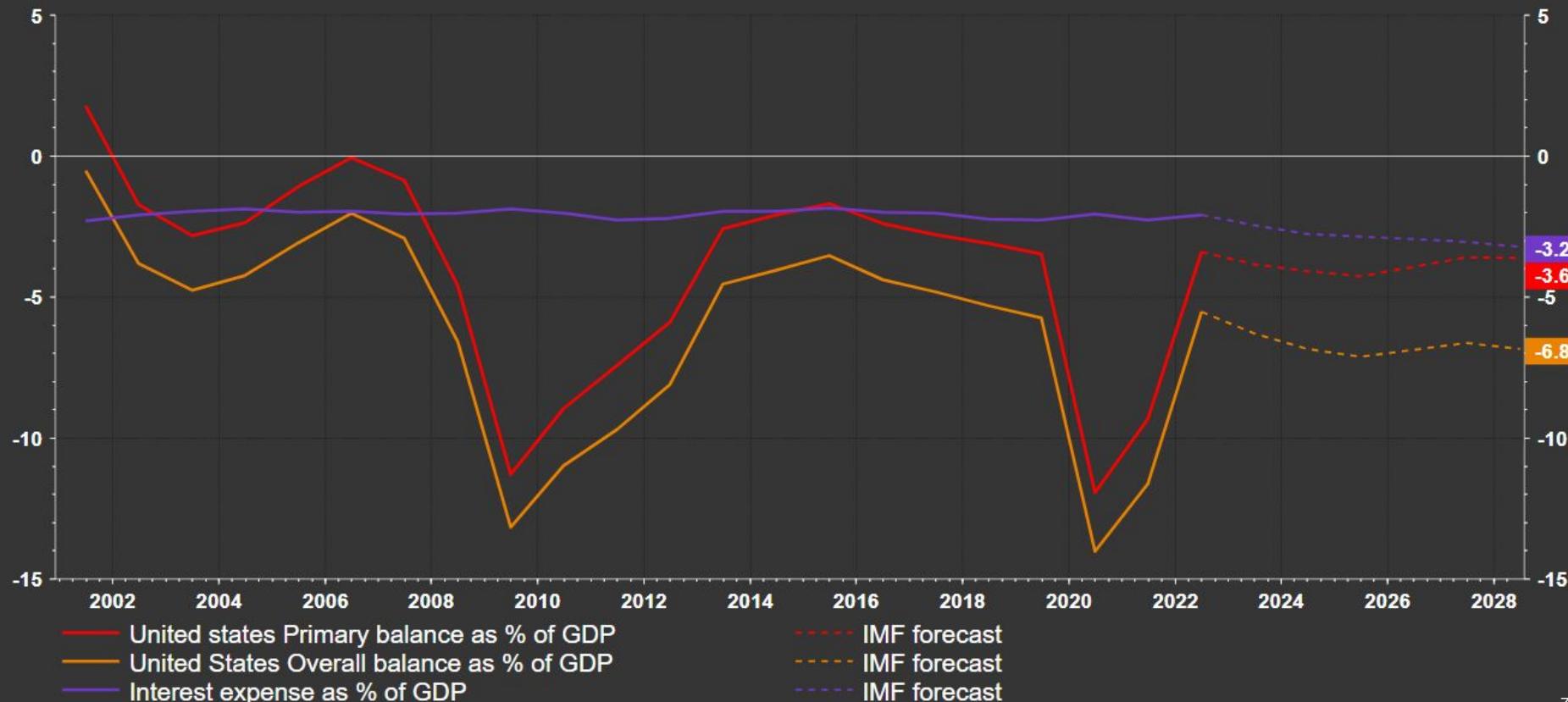


Sources: German Finance Ministry, Federal Court of Audit

Germany Battles 'House in Flames' After Budget Ruling Surprise

- Scholz deeply involved in near non-stop talks after ruling
- Judgment casts doubt over use of special funds outside budget

USA Budget Deficit



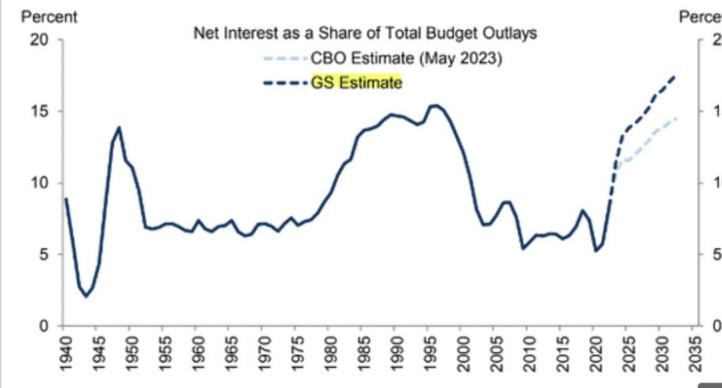
Govt Deficits Matter Again

CAPITAL ACCOUNT | GREG IP

Rising Interest Rates Mean Deficits Finally Matter

Investors ignored deficits when inflation was low. Now they are paying attention and getting worried.  [Read](#)

Exhibit 4: We Estimate Interest Costs as a Share of Total Spending Will Reach a New Peak by 2029



Source: Congressional Budget Office, Goldman Sachs Global Investment Research

FINANCE | INVESTING

Wall Street Isn't Sure It Can Handle All of Washington's Bonds

Investors long shrugged off U.S. deficits, but a torrent of Treasurys is testing the bond market

By [Eric Wallerstein](#) [Follow](#)

Updated Oct. 8, 2023 12:02 am ET

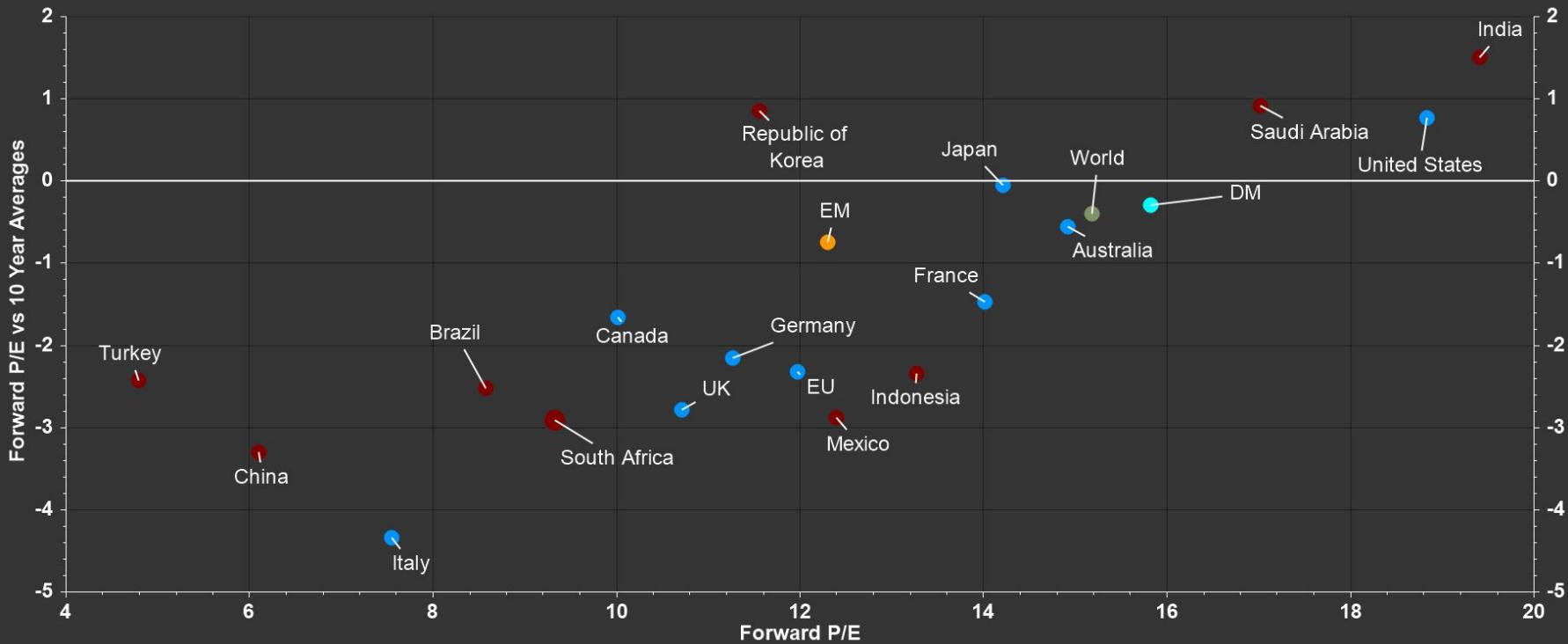
Market is Expensive Relative to Interest Rates

MSCI World 12m fwd P/E vs. 5-year US real yield inverted



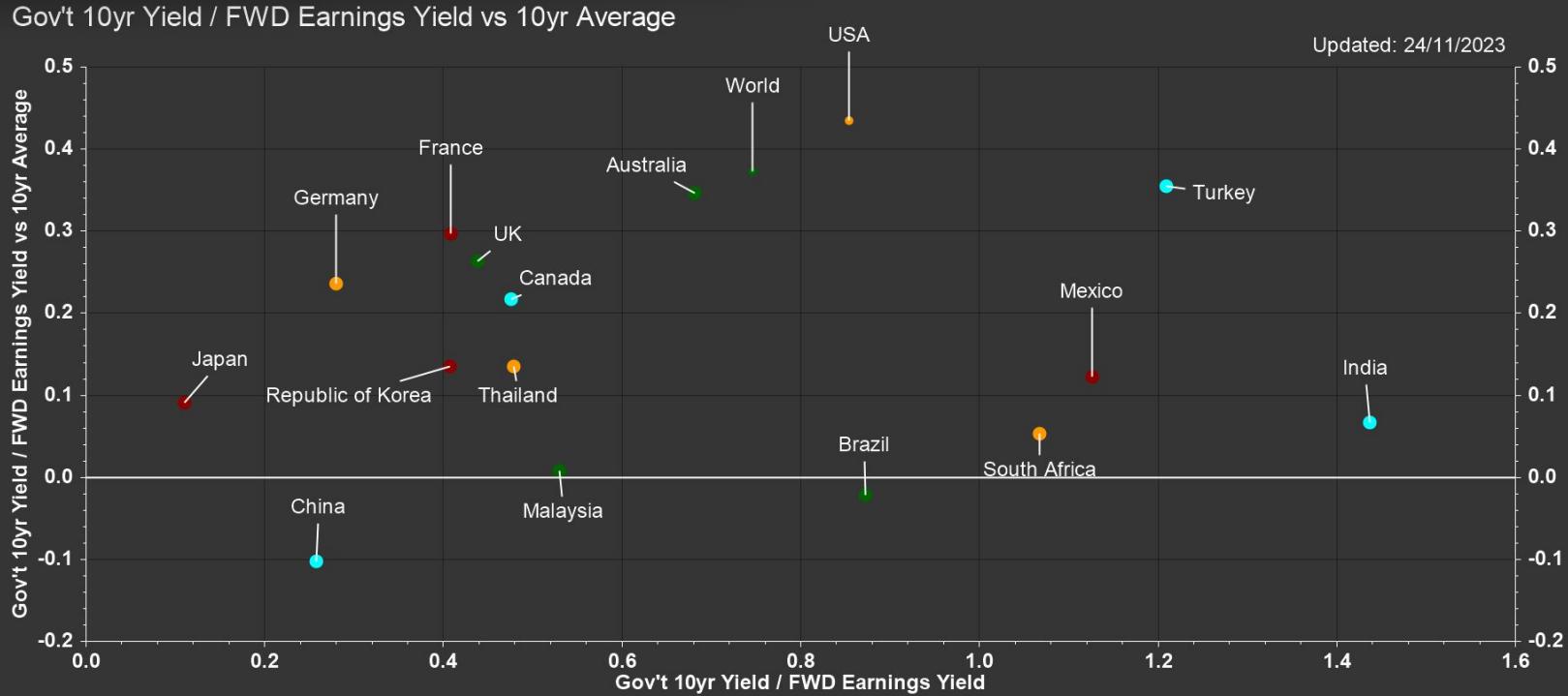
Global Equities are Cheap vs Average P/E's

Forward P/E ratio & Forward P/E 10 Year Averages



But Expensive Relative to Interest Rates

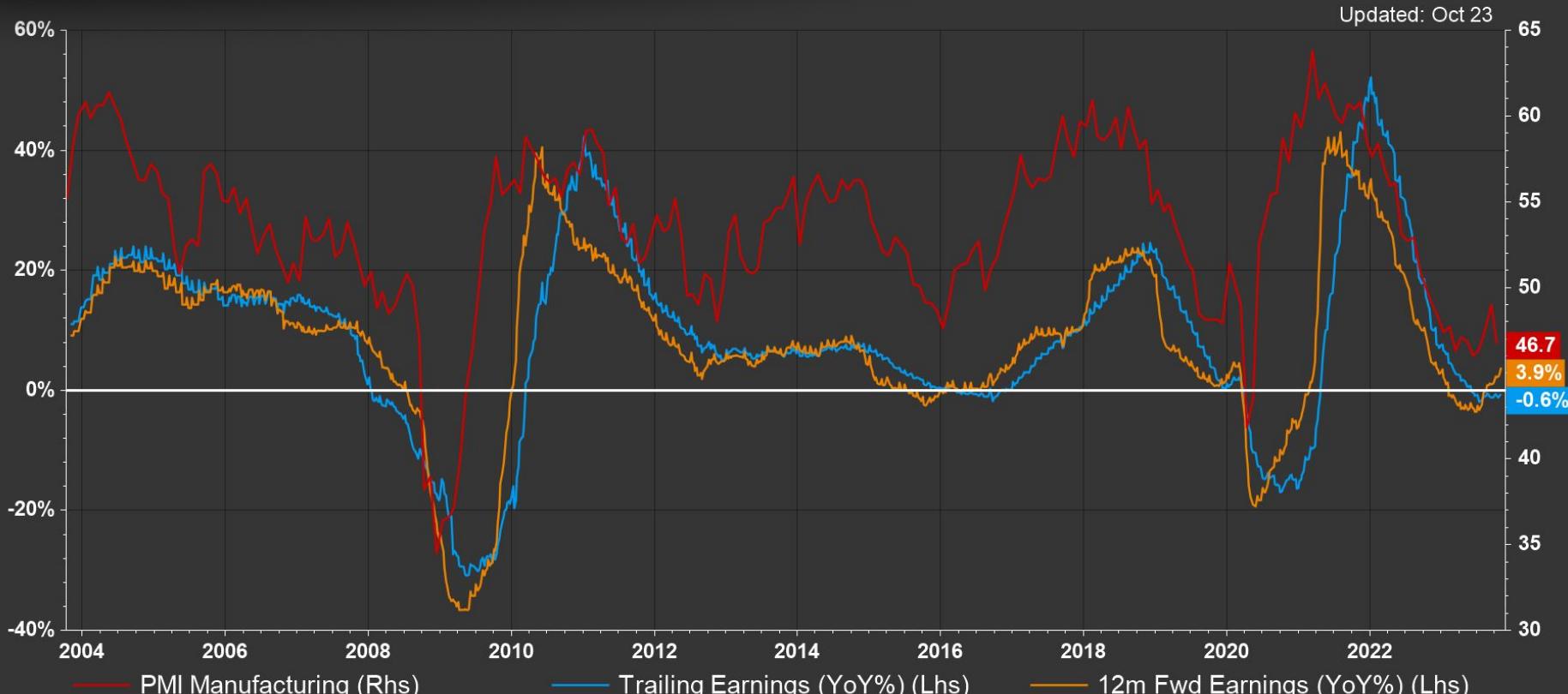
Equities vs 10 Year Government Bonds



Source: LSEG Datastream / Rezco

SHARES EXPENSIVE

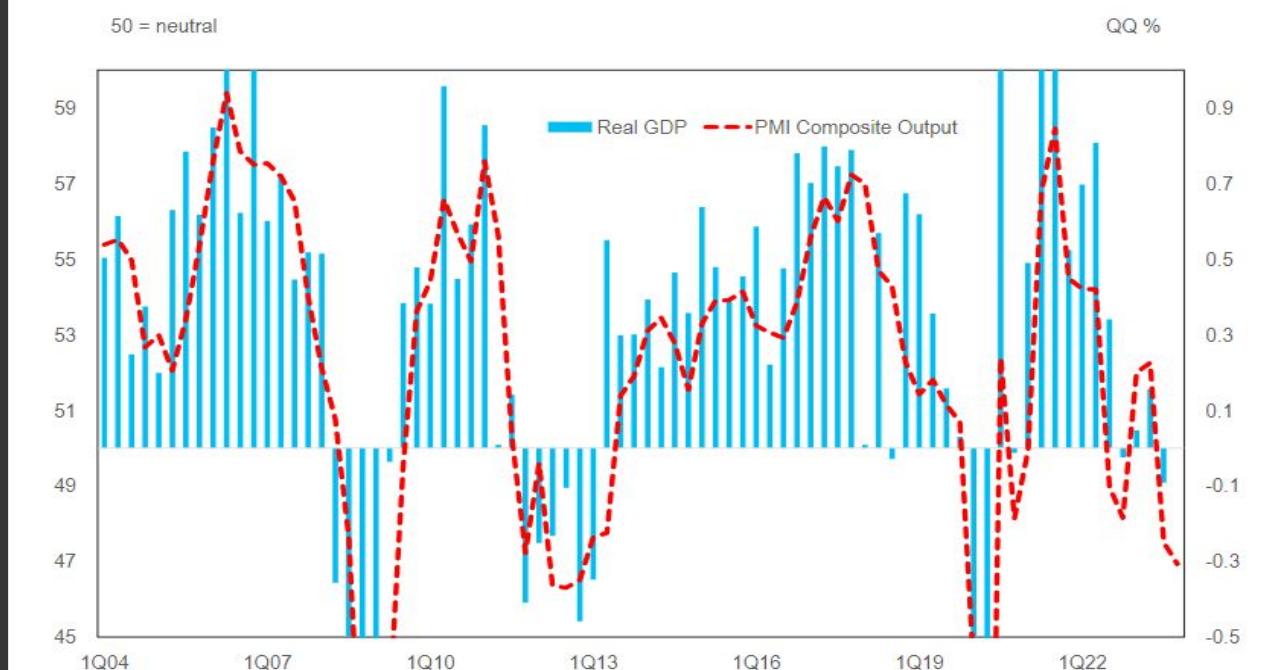
USA Earnings and PMI's: Signs of coming weakness



Euro Area: Heading to Recession

PMI's and GDP

Figure 1. Euro Area: PMIs and Real GDP (% QQ)

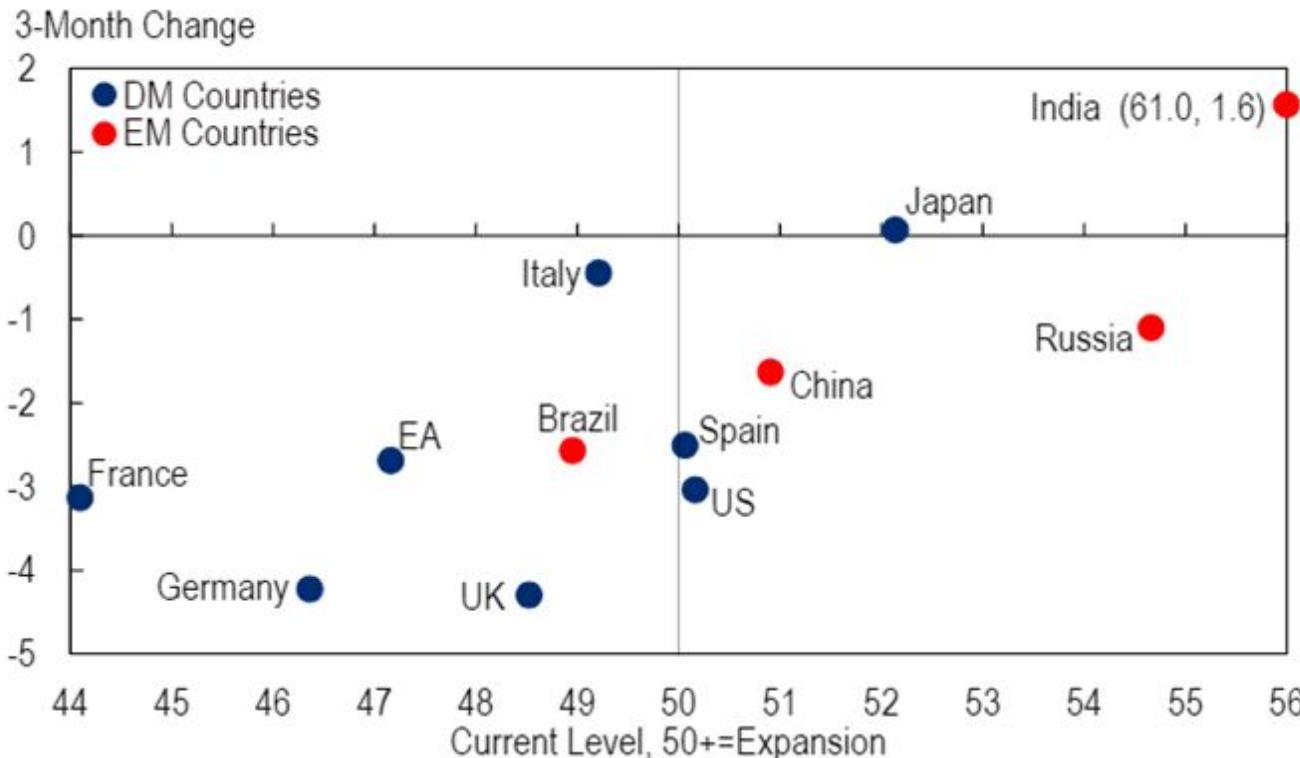


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Source: Citi Research, Haver Analytics

Global Economy: Fading Fast

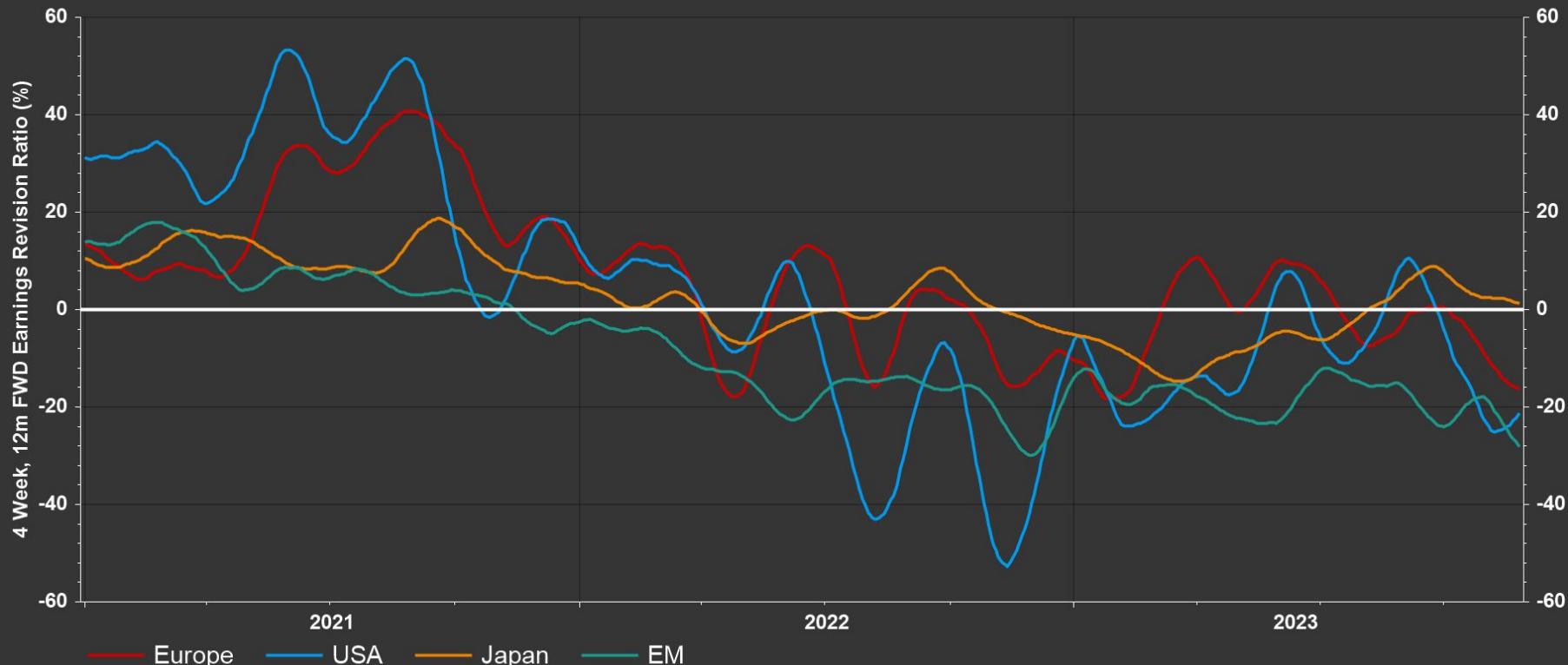
Figure 2. Global Composite PMI: Country-Level Detail



Earnings are Being Revised Down

Global Earnings Revision Ratio

Updated: 27/11/2023

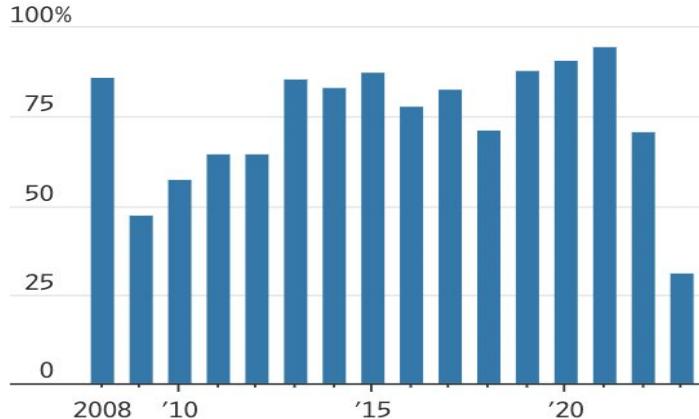


Source: LSEG Datastream / Rezco

Messy Things (Examples)

USA: Commercial Property & Unrealised Bank Losses?

Share of maturing office commercial mortgage-backed securities loans that got paid off by September of each year



Note: The numbers include only loans maturing in the first nine months of each year and exclude loans with extension options.

Source: Moody's Analytics

Renewed interest in banks' rate issues

Unrealised losses on lenders' balance sheet (\$bn)

Held-to-maturity Available-for-sale

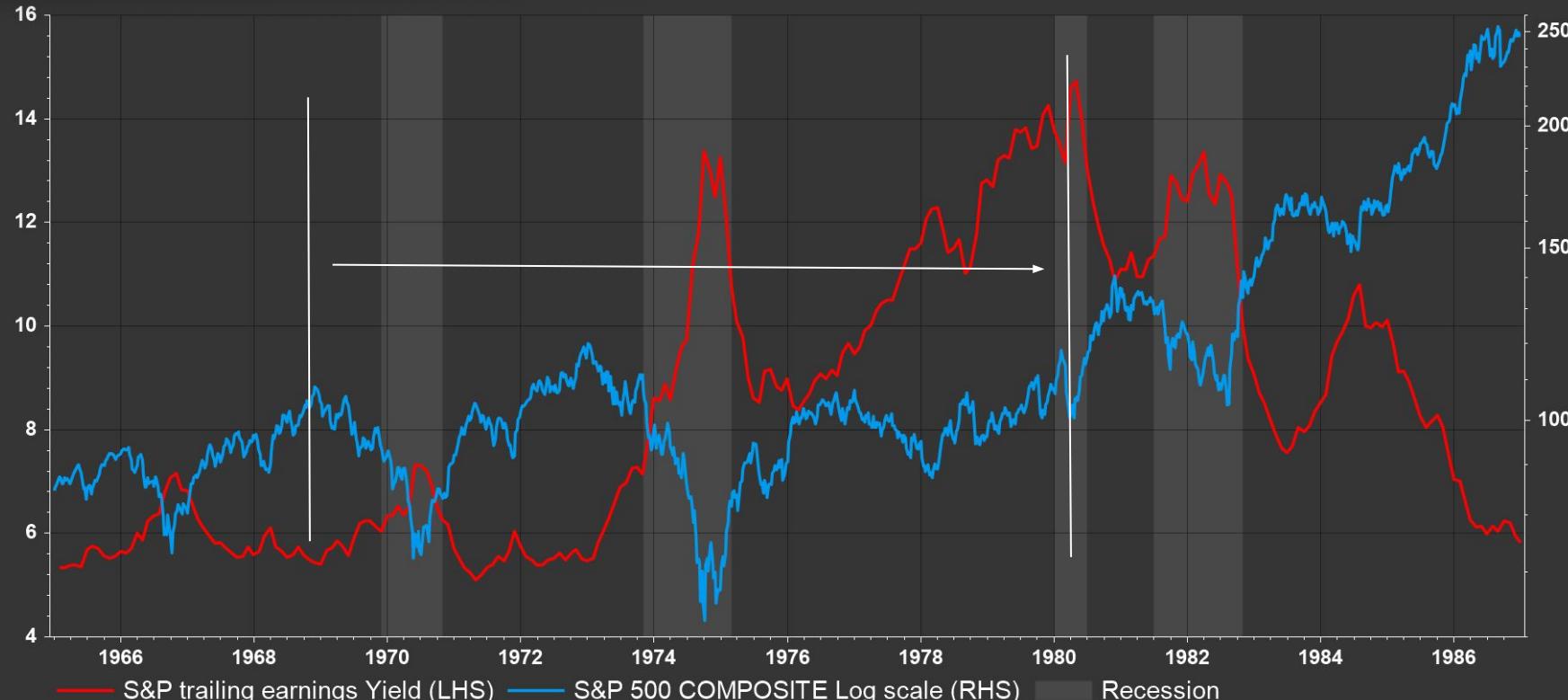


FINANCIAL TIMES

Sources: FDIC; Trepp

Old & Thematic Bull Markets

1968 - 1980 After the Nifty Fifty Bull Market



Source: LSEG Datastream / Rezco

Old & Thematic Bull Markets

2000 - 2013 After the Dot-Comm Bull Market



Source: LSEG Datastream / Rezco

South Africa

R

Economy

Stuck in low growth due to mismanagement

Eskom, Spoornet, Portnet

Currency

Current account and portfolio flows negative

Turkey similarities

Risk Events

2024 Elections : Government = ANC + WHO

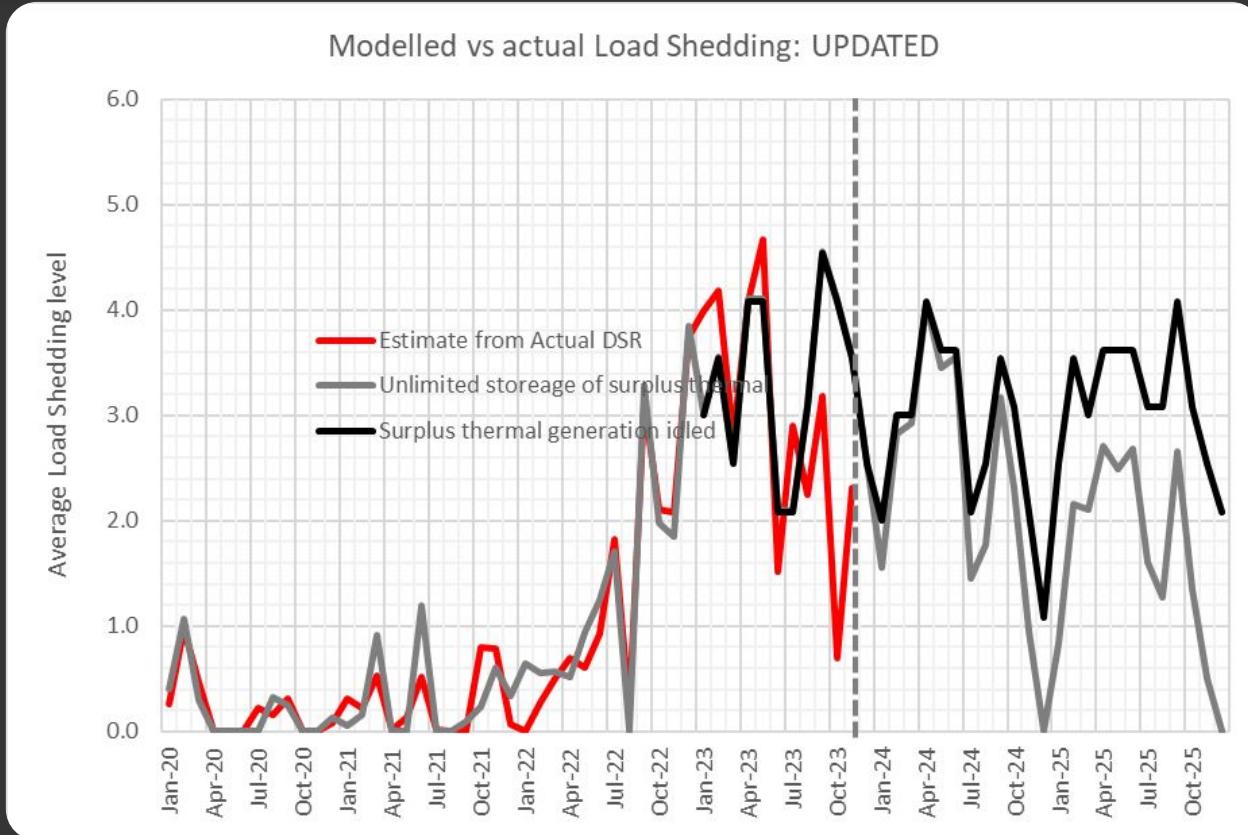
South Africa GDP and Electricity

Updated: Nov 23



Source: LSEG Datastream / Rezco

Load-Shedding will come and go



RSA: Interest Rates, Inflation and Bonds

SOUTH AFRICAN RATES



Treasury in talks with Reserve Bank over gold and forex reserve account

Head of Treasury's budget office concedes the R27bn contingency reserve in MTBPS is insufficient



ECONOMY

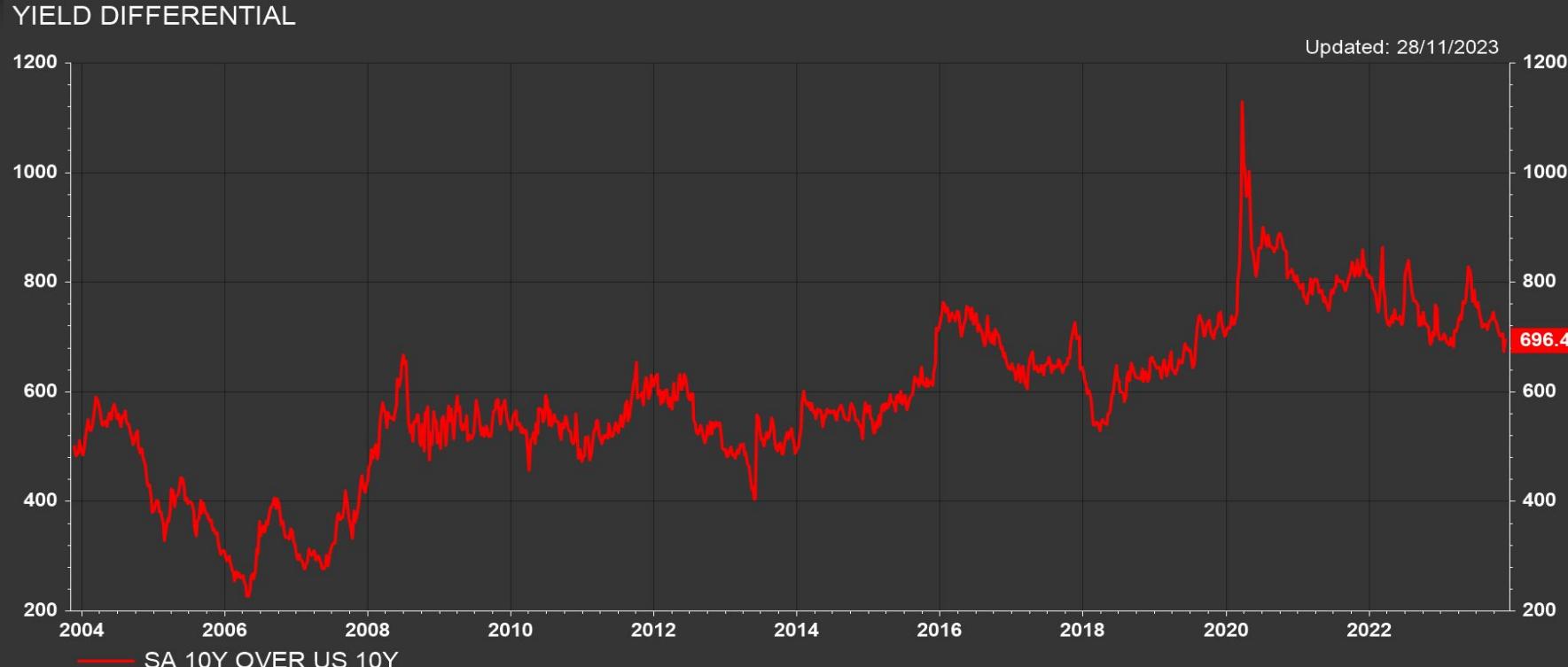


BL PREMIUM

RSA Fixed Income



RSA Bonds not yet Reflecting Increased Risks



Source: LSEG Datastream / Rezco

Floating Rate Notes: A Good Option for our Balanced Funds

JIBAR RATES



RSA: Another Emerging Market

R186 x R2030 YIELDS vs EM BOND INDEX YIELD

Updated: 27/11/2023



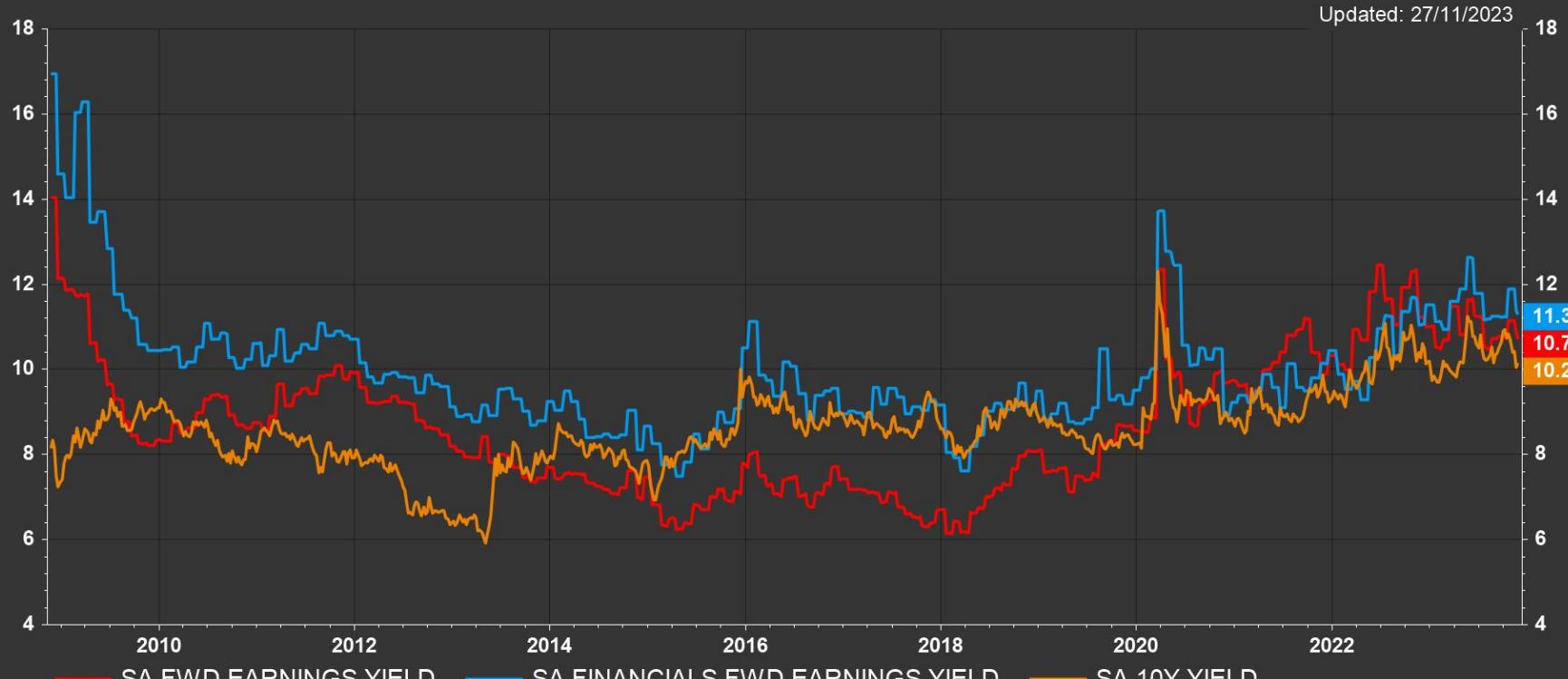
RSA Equities



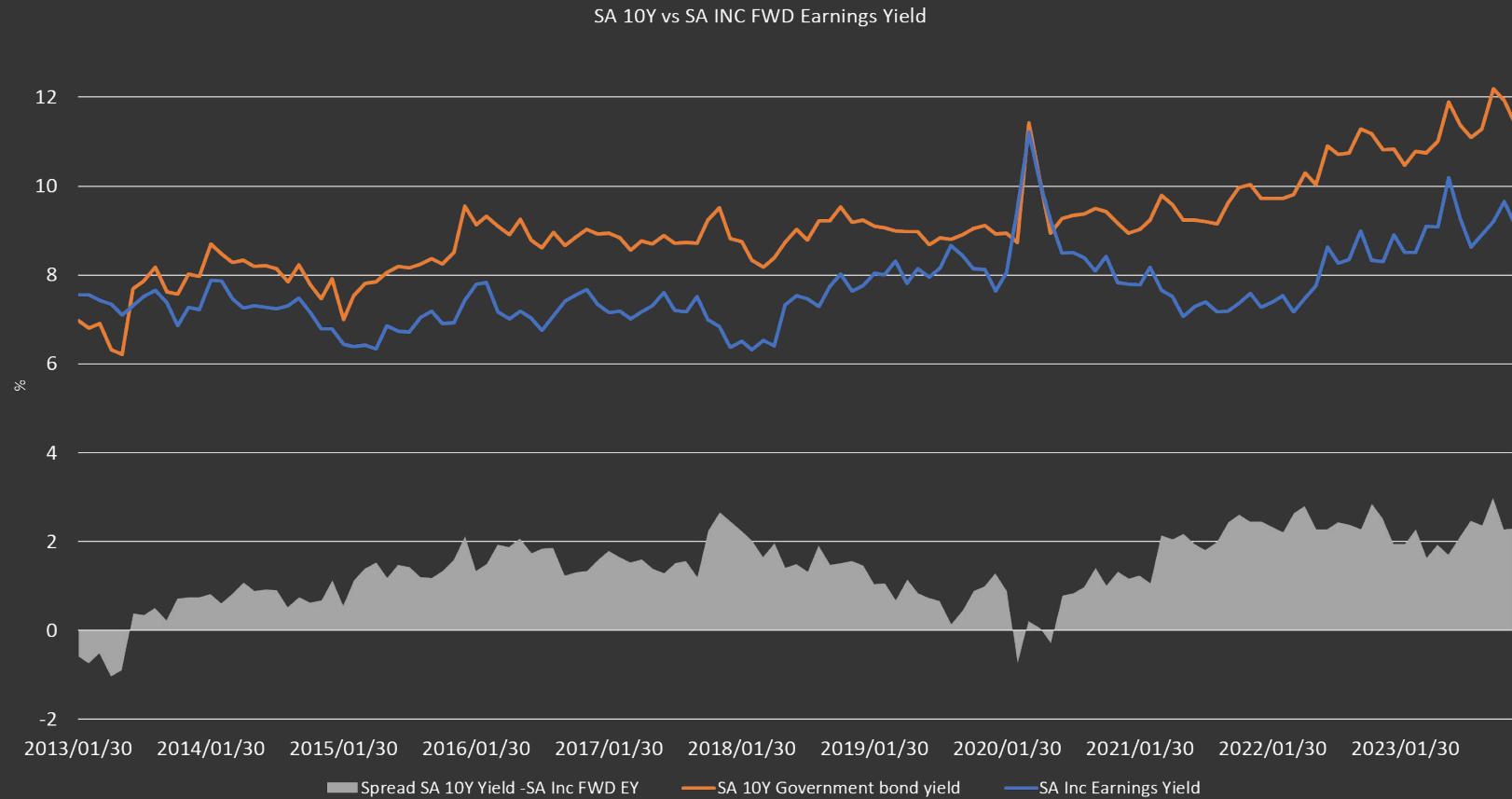
RSA not Cheap

Given Low Growth and Alternative

SA MARKET VALUATION



SA Inc - Not Cheap Relative to Bonds



The 1995 US Soft Landing

EM Crisis as Rates Held High and US Equities Rallied



Source: LSEG Datastream / Rezco

Rand Exchange Rate Scenario

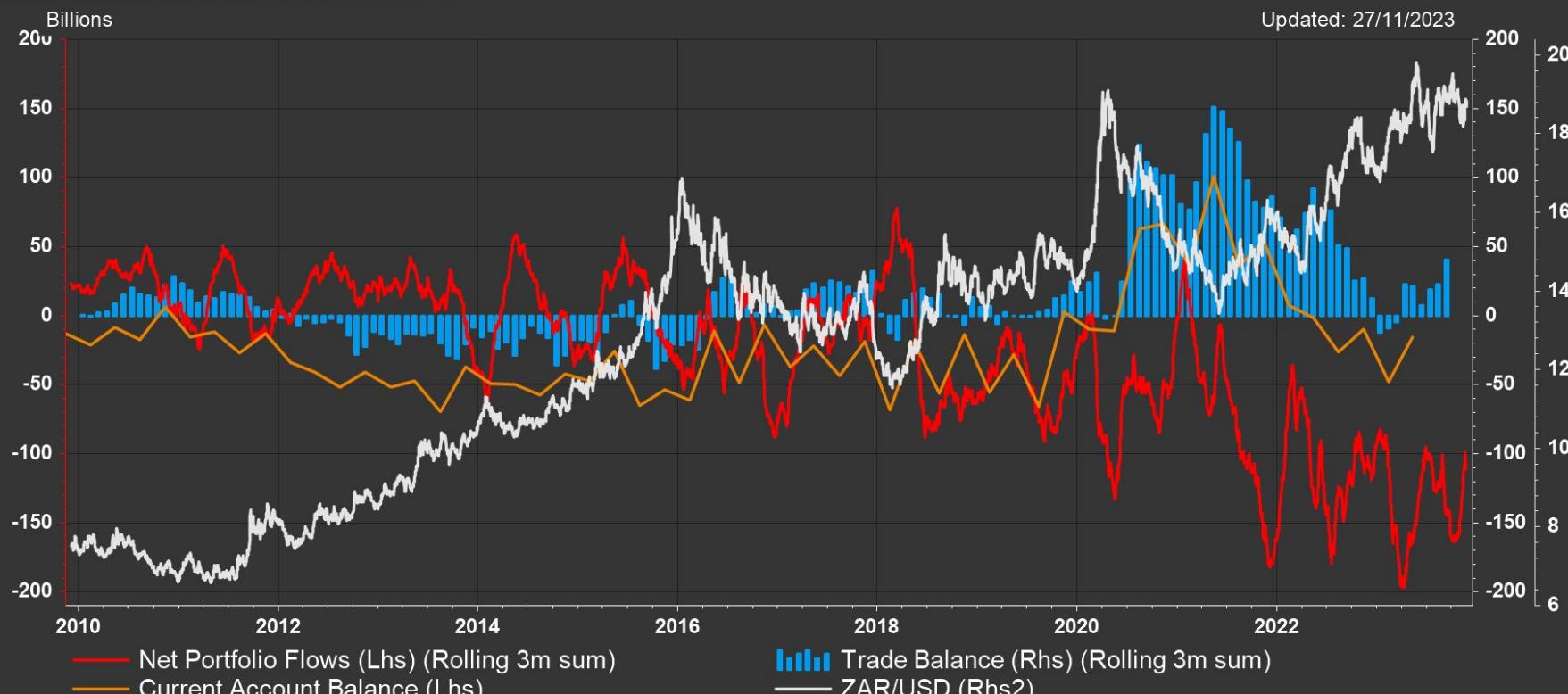
(Three to Ten Year)



RSA Fundamentals Point to a Weaker ZAR

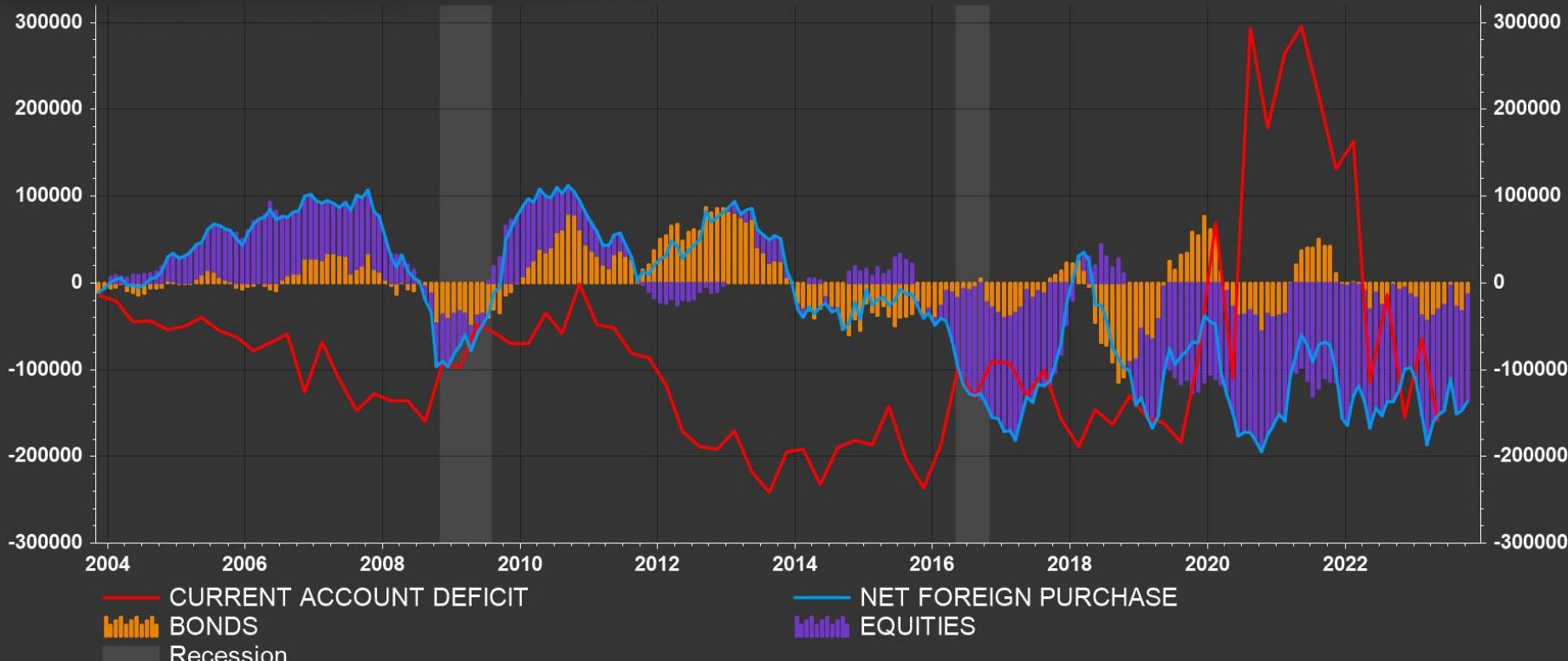
The Trade Surplus was Temporary

SA TRADE BALANCE

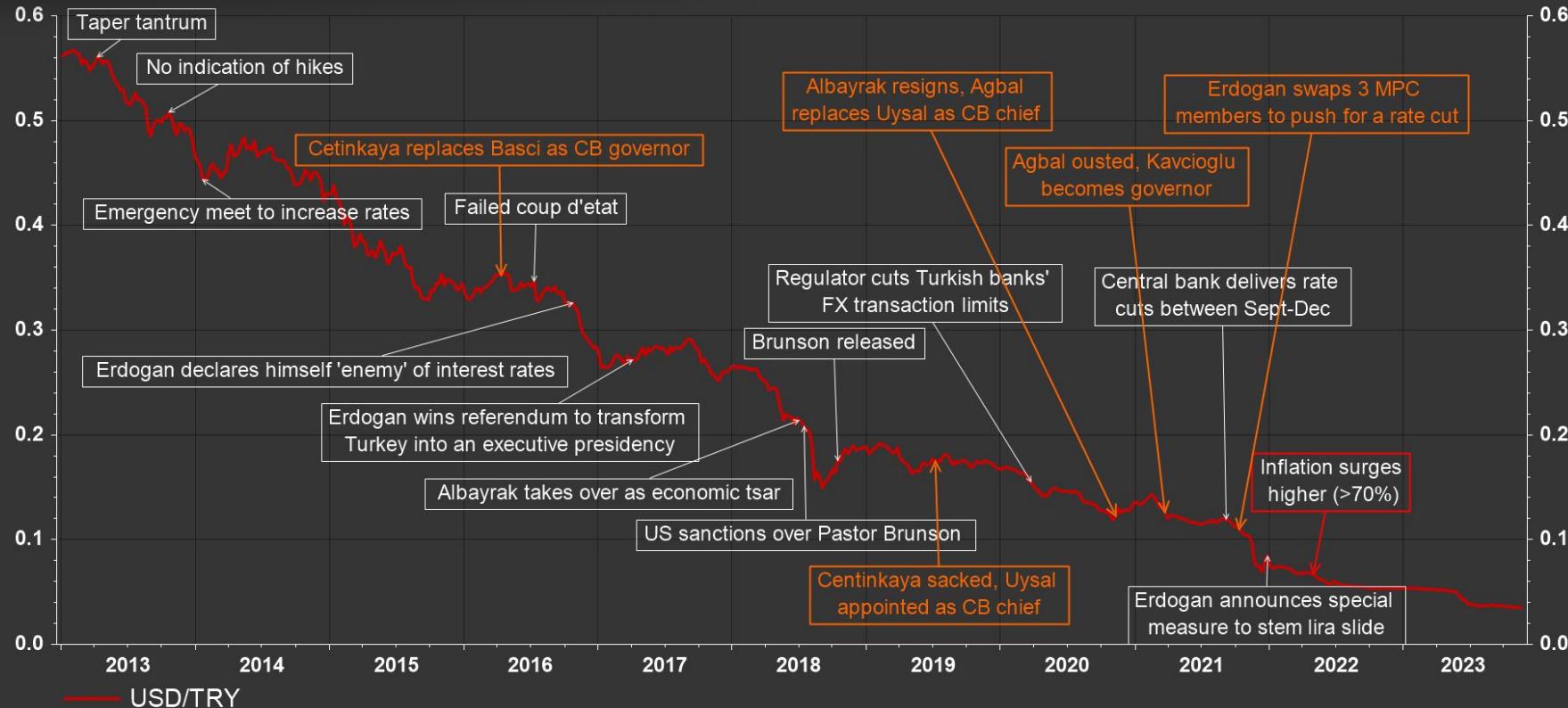


C/A Deficit Needs to be Funded by Portfolio Flows

Updated: 28/11/2023



Turkey: Populist Economics & Doing Dumb Things Builds Over Time



ANC - Doing Lots of Dumb Things

Backing Russia in Ukraine war

BRICS Summit

Naval exercises with Russia Lady R selling arms to Russia



Instantaneously backing Hamas after terror attack

Starting the road to non-orthodox policy

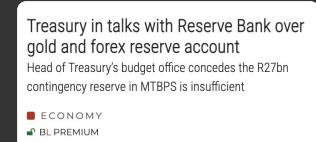
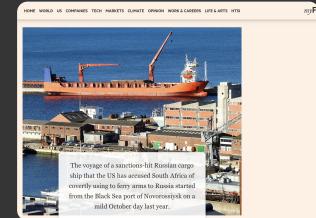
Dipping into Forex reserves

Uncontrolled budget deficits

Broken SOE's _ no real plan to fix them.

Portnet, Spoornet, Eskom, SAPS, NPA

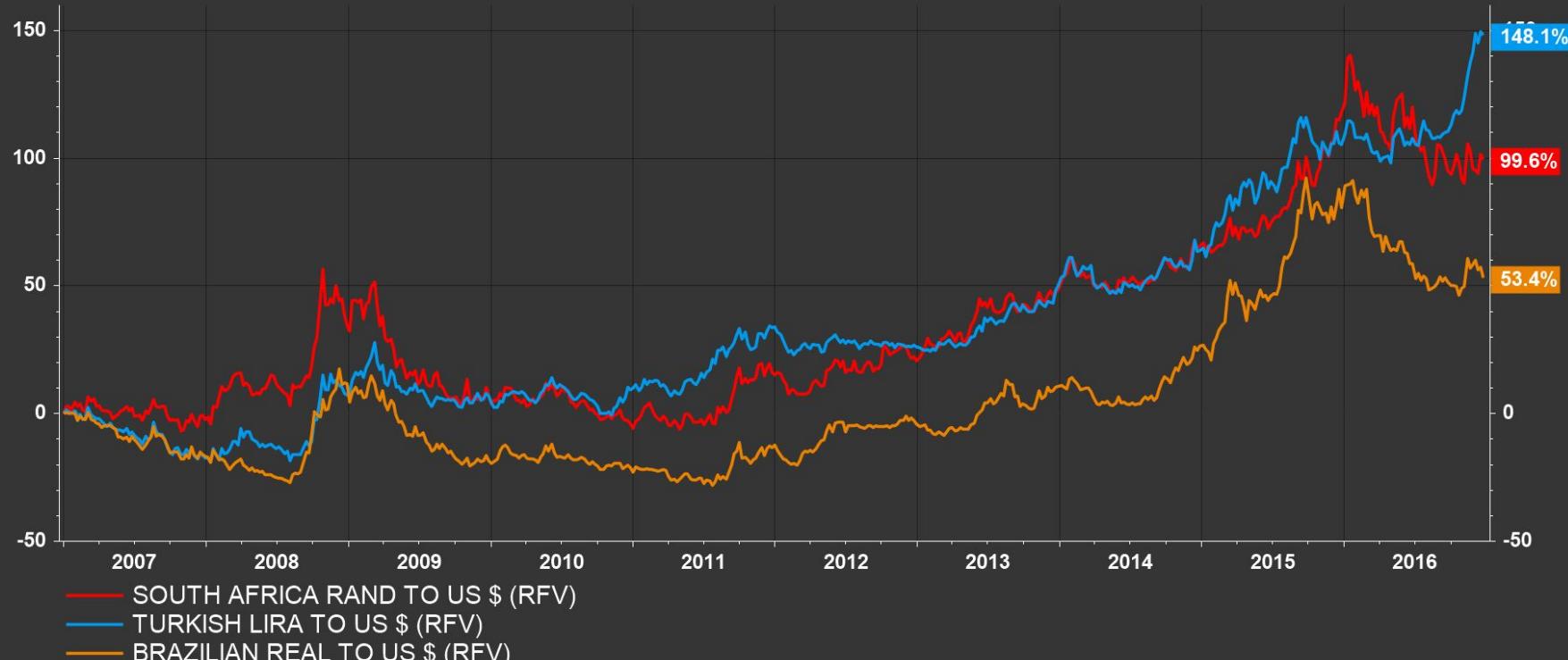
Weigh on economic growth.



South Africa, Brazil & Turkey - 3 Sibling EM's

2007 - 2017

EM Currencies vs USD [2007 - 2017]

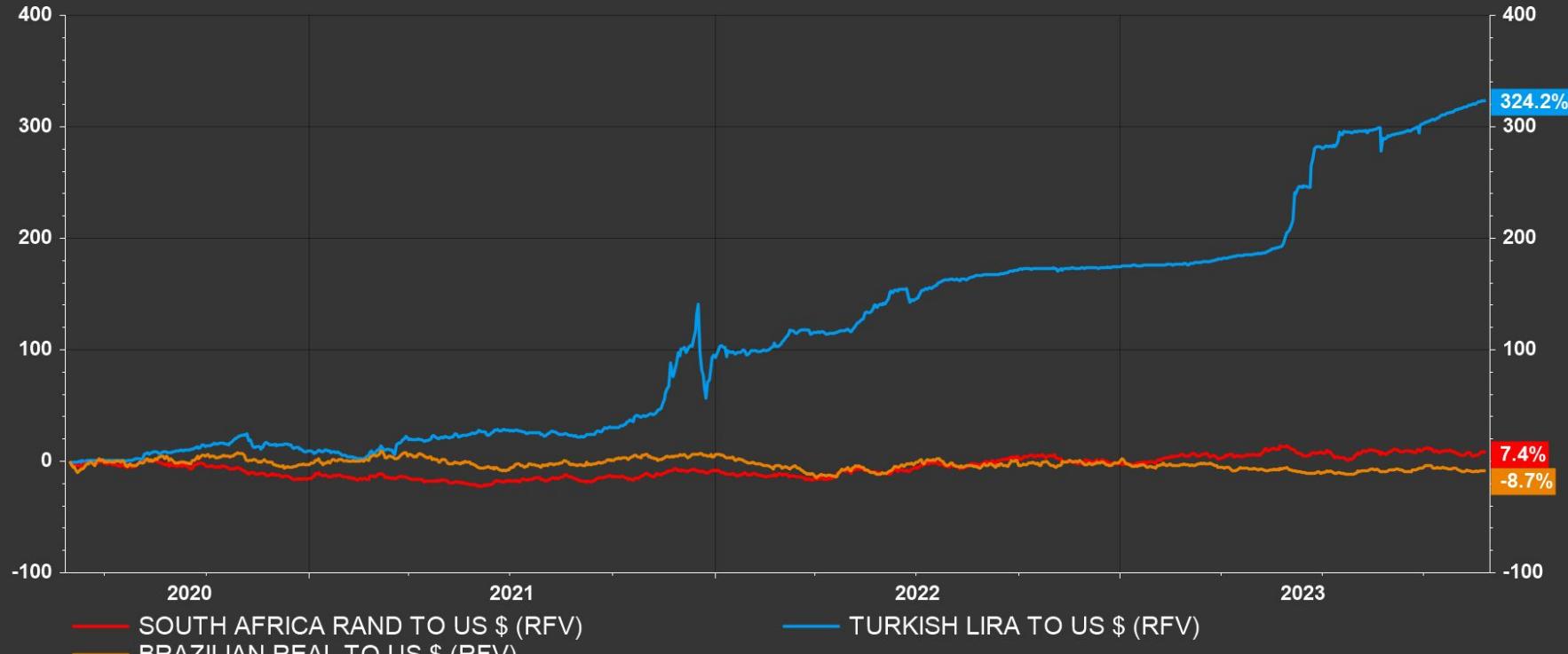


South Africa, Brazil & Turkey

Bad Policy has Consequences

EM Currencies vs USD (Short-term)

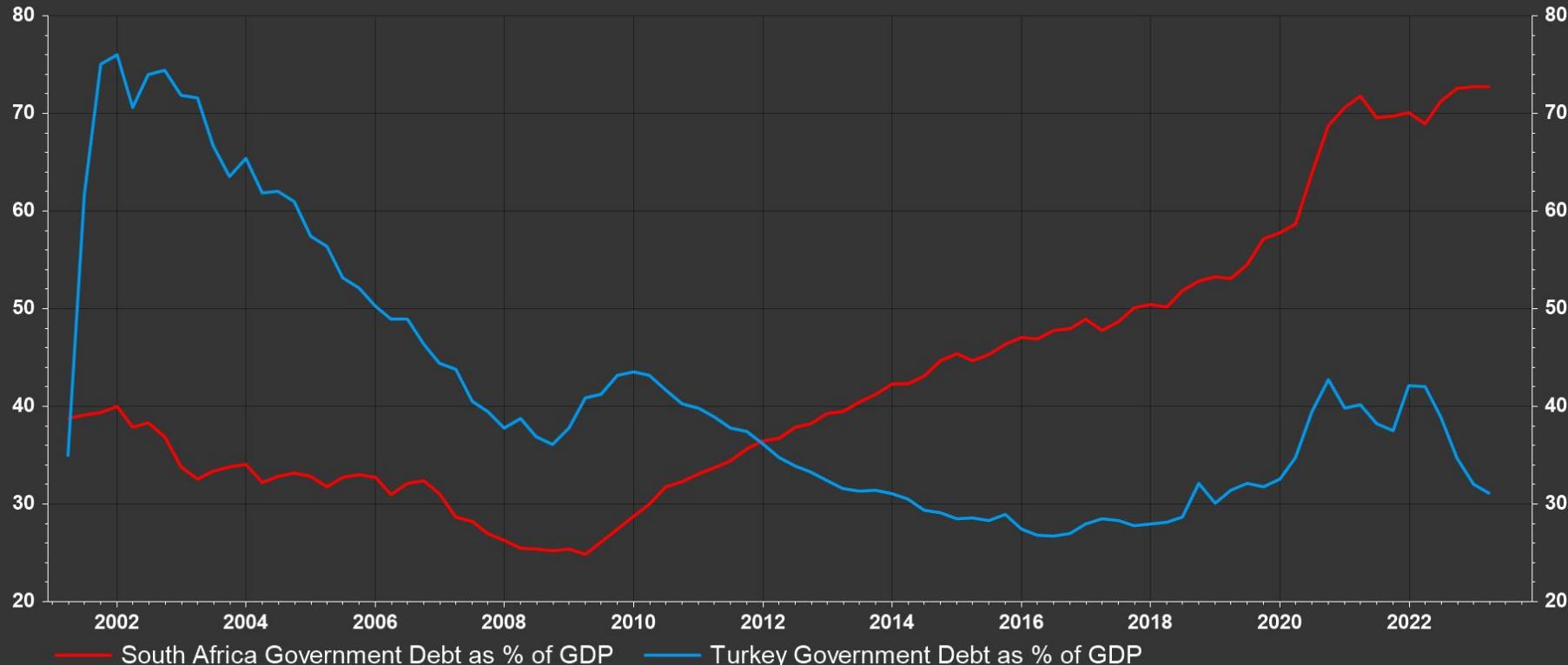
Updated: 27/11/2023



South Africa & Turkey: Debt to GDP

Government Debt to GDP (Quarterly)

Updated: Q4 23



Source: LSEG Datastream / Rezco

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Summing it up



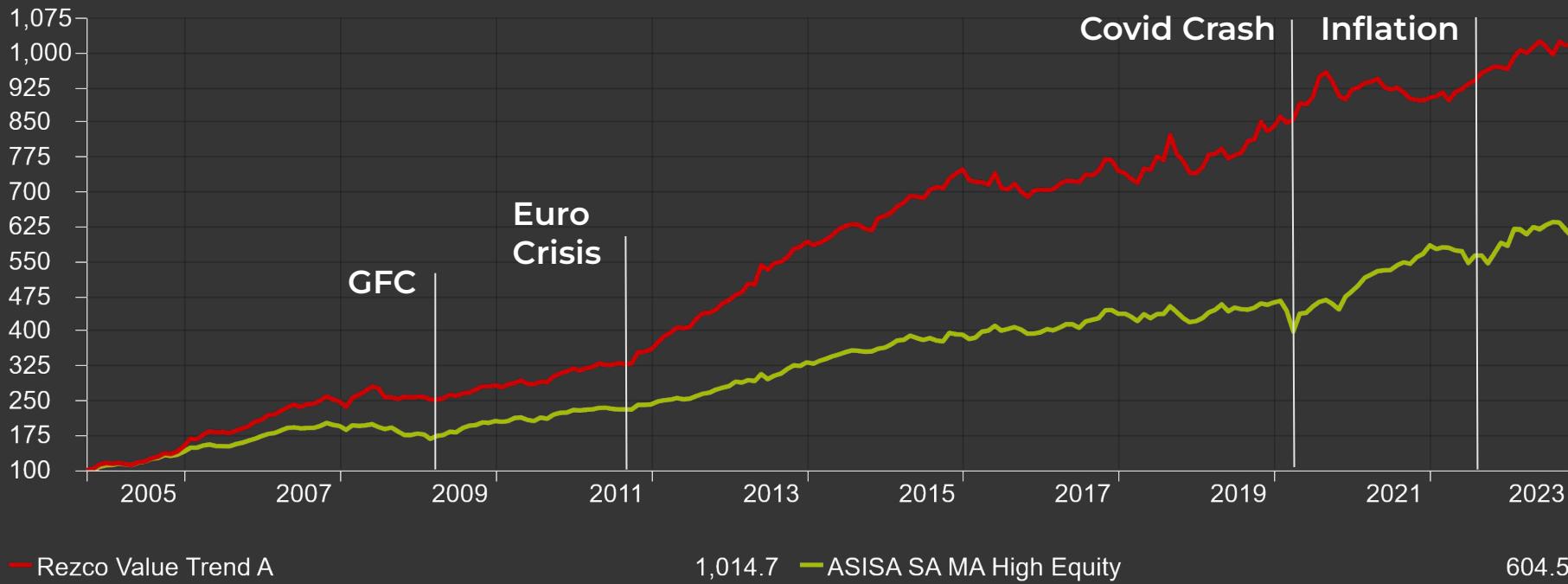
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Long Term: Managing the Risks

Time Period: Since Common Inception (01/10/2004) to 31/10/2023

Currency: South African Rand Source Data: Total Return



Source: Morningstar Direct

Disclaimer

Preserving Capital* & Creating Wealth.

*While the portfolio manager will attempt to minimise risk, it is possible that the investor could incur losses, including the loss of principal invested.

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REZCO



Thank You

