

iM feature: investors' guide to 2024

Investors will have options in 2024

Bonds remain an attractive choice, portfolio managers say, writes **Pedro van Gaalen**

While global growth forecasts remain subdued due to the complexity of the geopolitical risk landscape, Goldman Sachs Research expects several tailwinds to emerge in 2024 that could support investment returns.

Its Macro Outlook 2024 report identifies strong real household income growth, a smaller drag from monetary and fiscal tightening, a recovery in manufacturing activity and an increased willingness from central banks to deliver interest rate cuts if growth slows.

"We are cautious going into 2024," says Jason Swartz, portfolio manager at Old Mutual Investment Group (OMIG). "But while the headwinds experienced in 2023 are still prevalent and the near-term risk skew remains to the downside, the latter part of the year could be good for investors."

Given the higher cost of capital and tighter lending and input cost pressures, Swartz expects a squeeze on corporate earnings and margins.

"Based on these drivers, we are wary about earnings risk. We are underweight equities and have instead allocated more capital to global bonds, which have been a favoured asset for the past year as yields became more attractive, rising from 3% to about 5%."

Even without a global

recession, Swartz expects that yields will compress, offering investors better real yields and a good diversifier from the earnings risk in equities.

"We also remain positive on South African nominal bonds. While this may be a controversial view as markets are pricing in higher structural deficits, government bonds are offering 12% on 10-year yields, compensating investors for the long-term fiscal risks."

Swartz says OMIG is also bullish on oil and emerging markets, especially Southeast Asia, as many central banks in emerging markets are ahead of the inflation curve.

"Early interventions contained inflation better, which means certain emerging-market economies may cut interest rates before the Fed," he says.

From an equities perspective, Swartz is hawkish on resources and



Jason Swartz ... bullish on oil.

telecoms, while trimming banking stocks, and is overweight global defensives.

"We are embracing secular and long-term growth themes in equity portfolios, preparing for some recovery with positions in clothing retailers and certain long-term growth areas such as construction."

Allan Gray portfolio manager Tim Acker believes the outlook for returns from local assets is quite good.

"When you compare stock market performance over numerous decades, the JSE is still one of the best-performing stock markets in the world. However, the local market, like many other emerging markets, has underperformed the world index over the past decade, though this has begun to turn over the past two years."

Acker suggests there are diversification benefits to holding both well-priced South Africa Inc shares to benefit from the very low valuations if the economy recovers, and well-priced rand hedge shares of companies that operate offshore and benefit from a weaker rand.

Sandile Malinga, co-head of multi-asset at M&G Investments, also indicates a preference for South African equities and bonds.

"These assets offer excellent value for the risks associated with holding them, pricing in excessive pessimism around South

African prospects."

To add downside protection, Malinga recommends that investors make considered choices across various higher-quality stocks with strong cash flows, balance sheets and pricing power, which offer better chances of success in the current conditions.

"Further diversification is also advisable through selective global equity exposure such as Chinese and Japanese equities offering good value, and long-dated global bonds such as US treasuries, UK gilts and German bunds at attractive yields."

In the hunt for diversification, Malinga adds that recent fund flows data from the Association for Savings & Investment South Africa indicates a preference for multi-asset portfolios.

"Coupled with attractive asset valuations, this is a tried-and-tested solution to generate above-market returns and protect savings over time. Valuations are key, though."

Michael Field, GM of investments at Fedgroup, echoes the need for diversification amid the uncertainty. "Local investors are holding their cash closer to their chest, looking for lower-risk investment options," says Field.

"The uncertainty in South Africa and the challenges the country faces have prompted a shift towards investments that offer more stability and security, with fixed and notice deposits growing by 16.45% over the 18-month period from January 2022 to June 2023."

This trend noted by the Reserve Bank reflects in Fedgroup's business, with a 33.5% increase in its five-year, fixed-rate secured investment product.

Field says local investors are also turning to alternative asset classes in response to the low performance and dwindling pool of traditional investment vehicles. ●



Tim Acker ... diversification benefits.