ViewPoints

Autumn Edition - April 2021

At a glance – our asset class views

Please be aware that there are risks in simply implementing these views into a portfolio without carefully considering the dynamic nature of the environment, how changes impact each asset class and the unique needs of each client.

While our long-term real return assumptions are derived assuming that markets are in equilibrium, we do not believe that this is the case all the time. We therefore take views (tactically over/underweight) on relative asset class performance over three to twelve months, specifically ignoring shorter term noise, and not relying on long-term expectations i.e. we need to see the catalyst for the relative performance.

Domestic SA	Comment	–	o	+
Equities	Overweight – potential beneficiary of a risk on trade			+
Listed property	Underweight – weak economic fundamentals			+
Bonds	Overweight – attractive real yield opportunities			+
Income*	Overweight – defensive characteristics			+
Money market	Underweight – short-term rates are too low	–		

Global	Comment	–	o	+
Equities	Overweight – support from central banks			+
Bonds	Underweight – low yields	–		
Money market	Underweight – default asset class	–		

**Floating rate instruments of maturity longer than one year*

***Views expressed for each asset class are subjective and are for the asset class as a whole. All views are as at 31 March 2021*

Domestic asset classes

Equities

- We remain overweight local equities. The successful roll out of COVID-19 vaccines in the developed world, more specifically the US, is likely to keep sentiment positive as things gradually return to a 'new' normal. South Africa started vaccinating healthcare workers, albeit at a slow pace.
- Valuations are favouring equities. The sub-ten forward PE coupled with a 2.9% dividend yield makes the local market attractive. Moreover, we expect resource companies to continue benefiting from higher commodity prices, supported by the economic recovery in China. SA-sensitive assets are also cheap, despite the rally in recent months.

Listed property

- We increased exposure to property. While the asset class continues to face major headwinds, the expected recovery in South Africa's GDP (+3.5% in 2020) and the current low interest rate environment is supportive. In addition, smaller retail outlets and distribution centres have proven to be resilient to the pandemic.

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- Valuations continue to look attractive – the forward yield was 10.7% at the end of quarter and economic growth is expected to improve this year. In addition, stricter lock-down measures have been eased in most countries.

Bonds

- We have been overweight bonds for more than a year. The asset class had a good rally in 2020, driven largely by the shorter end of the curve. However, the yield curve remains steep and we believe there is a scope for it to flatten as inflation is likely to remain contained. In addition, the February budget was better than most investors expected.
- On valuations, the 10-year SA government bond sold-off in March to above 9.5%, in line with US treasuries, as investors became concerned that the US stimulus could be inflationary. The recent sell-off has made bonds even more attractive and as result, we remain overweight.

Income

- We remain overweight income. Over the past year, we liked income due to its defensive nature relative to long-dated bonds. Currently, however, we like it for different reasons, namely its attractiveness relative to cash.
- The recent sell-off in bond yields was also evident in income. Yields went from 4.75% six months ago, to more than 5.5%, providing a healthy 180 basis point pickup to cash.

Cash

- Default asset class – following the 300 basis point interest rate cut by the SARB in 2020, cash rates remain low. The underweight exposure to cash captures our preference for risk assets at this point.

Global asset classes

Equities

- We are marginally overweight global equities. The ease of lock-down restrictions in many countries, progress in distribution of vaccines and the commitment from central banks to keep supporting economies paints a positive picture for the asset class.
- However, we are concerned that valuations are stretched. The forward PE of 21.2x suggests that the market's earnings expectations are very high. For this reason, we are cautious on this asset class.

Bonds

- We are underweight global bonds. Although the recent sell-off in bonds yields – US treasuries at 1.74% – has made bonds less expensive, we have not added to them as yet. We are monitoring and discussing the market's expectation of higher inflation going forward, given the low velocity of money that we have seen in recent years.
- For now, our preference is to take our fixed income exposure via local assets where yields are higher.

Cash

- Default asset class. We use global cash to increase/decrease offshore exposure and we have reduced cash to our current underweight position as we believe SA assets are more attractive relative to global assets.

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