STANLIB
MULTI-MANAGER

ViewPoints

Autumn Edition - April 2022

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 12 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	–	°	+
Equities	Overweight – better value relative to fixed income			+
Listed property	Overweight – lockdown restrictions are being lifted			+
Bonds	Overweight – the steeper yield curve is attractive			+
Income*	Neutral – the SARB is on a rate hiking cycle		°	
Money market	Underweight – short-term rates are too low	–		

Global	Comment	–	°	+
Equities	Overweight – valuations are starting to look attractive			+
Bonds	Underweight – the US Fed is on a rate hiking cycle	–		
Money market	Overweight – shorter-dated instruments have repriced			+

**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 2022.*

Domestic asset classes

Equities

- South African equities showed remarkable resilience in the first quarter, with the FTSE/JSE Capped SWIX Index returning 6.7%. Resources returned 19.1%, financials were up 18.8%, and telecoms gained 11.9%. Industrials fell 13.1% for the quarter as negative news on Tencent weighed heavy on Naspers, which lost 32.7%.
- For most of 2021, we had a strong preference for growth assets for several reasons. Firstly, valuations were attractive as the market had taken a beating in 2020. Secondly, we expected a better economic environment in 2021. And thirdly, vaccines were being rolled and lockdown restrictions relaxed. Our view proved correct as equities rallied last year.
- Although we have reduced our equity position in 2022, we remain overweight. We do not expect equities to perform as well as they did in 2021 but we believe they have the potential to hold up better than most of the other asset classes. The war in Ukraine, stubbornly high inflation and higher interest rates globally are a risk to our overweight position but valuations remain attractive and there are also tailwinds from higher commodity prices.

Listed property

- Listed property shares fell 1.6% in Q1. Notwithstanding this return, the property sector recovered significantly in March, gaining 4.4% as many companies started reporting robust operational updates.
- Risks for property appear balanced in our view. On the one hand, vacancies remain high especially in the office space as 'working from home' is the new norm. Rental reversions for offices are negative for most companies – rents for Growthpoint and Redefine are 18.9% and 15.9% lower respectively – and vacancies are on the rise. On the other hand, company balance sheets have improved, and lockdown restrictions have been significantly reduced, which has led to higher foot traffic in retail centers.

Bonds

- Domestic bonds lagged SA equities in Q1 but still produced a respectable return of 1.9%. The long end of the curve continued to dominate returns as the 12+ area of the curve returned 2.8% for the quarter.
- We continue to prefer SA bonds due to the attractiveness of the long end of the curve.
- Although the SA yield curve remains steep as investors are concerned about government finances, we believe the 9.6% yield on the R2030 compensates investors for these risks.
- The recent budget presented by National Treasury provided comfort that government is committed to fiscal discipline.

Income

- Short-dated bonds gained 1.3% in Q1, behind longer-dated bonds but ahead of cash.
- We reduced our overweight exposure to a neutral position in Q1. While we prefer the spread to cash, which is 264 basis points at this point, we are concerned that short-dated bonds could sell-off as the SARB continues to hike interest rates.
- Inflation expectations in the short term have also increased to more than 6%.

Money market

- This is our default asset class. The SARB rhetoric has changed in recent months and has become more hawkish. Since November 2021, it has hiked rates by 75 basis points and market expectations have changed from a 25 to a 50-basis points interest rate hike in May. We will look to reduce our underweight cash position when rates have increased to an attractive level.

Global asset classes

Equities

- The MSCI World Index lost 5.1% in US dollar terms for the quarter. Emerging market (EM) equities were hit the hardest, losing 7% of their value. China comprises approximately 31% of the EM Index and the sell-off in Chinese companies hurt the Index.
- The sell-off in equities was initially sparked by concerns that higher inflation was forcing the US Fed's hand to increase interest rates at an accelerated pace. While the Fed raised rates by 25 basis points in its March meeting, the market had moved on by then to focus on the war in Ukraine. Growth companies bore the blunt of the unrest.
- We are marginally overweight equities as the recent sell-off reduced frothiness in the market. The forward price-to-earnings of 17x is lower than the 20x we saw in 2021, but not low enough for us to start buying aggressively.

Bonds

- Bonds lost 6.1% in US dollar terms for the quarter. US 10-year Treasury yields continued rising – as high as 2.3% over the quarter – as inflation expectations heated up and short-term rates, as measured by US 2-year bonds, rose by more. Until recently, the yield curve was inverted.
- We are underweight global bonds as we see more value in domestic bonds. At this point, we are happy to wait up until global bonds offer decent yields before we can change our position.

Money market

- This is our default asset class and is used to increase/decrease our offshore exposure. We reduced global equity exposure last year in favour of cash in money market. We stand ready to deploy this cash when equities become more attractive.

STANLIB Multi-Manager Investment Team
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